

Mrs Lynn Hunt
Audit Commission
Nickalls House
Metro Centre
Gateshead
Tyne and Wear
NE11 9NH

Date: 29th September 2009
Our ref: CFA/DDN
Your ref:

Dear Lynn,

ANNUAL ACCOUNTS 2008/2009 – LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officers of Sunderland City Council (the Council), the following representations given to you in connection with your audit of our financial statements for the year ended 31 March 2009 are accurate.

Statutory Responsibilities and Supporting records

We acknowledge, as the designated member and officers, our responsibility for ensuring the preparation of financial statements which present fairly the position of the Council and for making accurate representations to you. To the best of our knowledge, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the financial records. To the best of our knowledge all other records and related information, including minutes of all committees and management meetings have been made available to you.

Law and Regulations

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by parliament and the financial transactions conform to the authorities which govern them. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Going Concern

We confirm that we are satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Irregularities

We acknowledge our responsibilities for the design and implementation of internal control systems to prevent fraud and error. There have been no:

- Irregularities involving management or employees who have significant roles in the system of internal accounting control;
- Irregularities involving employees that could have a material effect on the financial statements; or
- Communications from regulatory bodies concerning non-compliance with, or deficiencies in, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- Any knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Compensating arrangements

There are no formal compensating balancing arrangements with any cash and investment accounts except where disclosed in the financial statements.

Fair Values

We can confirm that the significant assumptions within the financial statements are reasonable and that in relation to the assertions made in the financial statements, in respect of fixed assets and long term investments including the Council's shareholding in Newcastle Airport, these are set out as follows:

- that an appropriate measurement method and basis of valuation was used;
- that the basis used by management to overcome the presumption under the financial reporting framework was appropriate;
- that the financial reporting framework was complete and appropriate; and
- that all subsequent events relevant to the fair value measurement was fully considered.

Group entities

We can confirm that we are satisfied that group accounts are not required.

Amendments to the Statement of Accounts 2008/2009

We acknowledge that the audit has required some amendments to the Statement of Accounts 2008/2009 (subject to audit) and that these have been agreed and amended as necessary for presentation to members of the Audit and Governance Committee in order that they can approve the amended accounts.

The detailed changes are set out in Appendix A to this letter.

Uncorrected misstatements

We can confirm that we are satisfied that the prior period adjustment in respect of FRS17 liabilities, although not required by CIPFA 'Statement of Recommended Practice', should remain in the financial statements as it provides the reader with a more complete picture of the impact of the new requirements.

We can also confirm that there are no other identified errors in the financial statements which remain uncorrected.

Accounting estimates

We acknowledge our responsibilities for making accounting estimates included in the financial statements. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are based on our assumptions about conditions that we expect to exist and courses of action we expect to take. In that regard, the financial statements present fairly the financial position of the Council. We have complied with all aspects of contractual agreements that would require adjustments to, or disclosure in, the financial statements.

Specific representations

We confirm that we are satisfied that the shared costs, and loans and investments administered by the council on behalf of Tyne and Wear Fire and Rescue Authority and the North of England Open Air Museum Joint Committee have been correctly allocated in the three sets of financial information.

ASSETS

We can confirm that the following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Fixed Assets

1. The net book values at which the fixed assets are stated in the balance sheet are arrived at:
 - (a) after providing for depreciation on bases and at rates calculated to reduce the cost of each asset to its estimated residual value by the end of its estimated useful life, the Council has fully depreciated all assets in accordance with the SORP;
 - (b) after taking into account all capital expenditure in additions thereto, but no expenditure properly chargeable to revenue.

All assets continue to be re-valued under our five year rolling programme.

None of the following occurrences have arisen during the year:

- agreements and options to buy back assets previously sold;
- assets pledged as collateral.

Capital Expenditure

2. At 31 March 2009 there were no outstanding authorisations for the purchase of fixed assets.

Long Term Investments

3. We confirm that all long term investments disclosed in the balance sheet have been correctly valued with regard to market quotations and other information (at fair value). We confirm that we have no plans to dispose of these assets in the foreseeable future.

Current Assets

4. Current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made for all amounts owing to the Authority, which are known to be irrecoverable.

General

5. All liabilities have been taken up in the accounting records, including the liability for the purchases to which title had passed prior to the stated date, and for all items included in stocks.

COMMITMENTS

6. Other than already disclosed in the financial statements and set out below, we are not aware of any pending or threatened claims or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements.

There were no purchase commitments in excess of normal requirements with the exception of the impact of two PFI schemes one of which commenced in 2002/2003 (Sandhill View School) and the other (Street Lighting and Highway Signs) which commenced in 2003/2004, which I detail below:

- The Council entered into a contract on 17th August 2001 for the replacement of Sandhill View School plus a range of community and educational support facilities. The impact of this scheme is included in the accounts in Note 14 to the Income and Expenditure Account (I&E) which provides the necessary details of the contract and the extent of the commitments for the Authority into future years.
- The Council also entered into a PFI contract with Balfour Beatty Power Networks Ltd on 12th August 2003 for the replacement and provision of Street Lighting and Highway Signs which commenced on 1st September 2003. The accounting entries have been fully incorporated into the accounts within Note 14 to the Income and Expenditure Account (I&E) which provides details of the contract and the extent of the commitments for the Authority into future years.

It should be noted that PFI credits were originally ongoing and were to be received after the duration of the contract, which meant that Revenue Support Grant would continue to be received after the life of the contract although this benefit could not be quantified. This position has, however, been reviewed by the government and a revised allocation of PFI credits was introduced from 1st April 2005 which has impacted upon the PFI schemes of the Council.

It is thus important to note that the Authority took the opportunity offered as part of these reforms of the Local Authority PFI Grant announced by DCLG to move to the annuity method of calculation of grant entitlement. This change continues to be fully reflected within Note 14 to the Income and Expenditure Account.

CONTINGENT LIABILITIES

7. Other than already disclosed in the financial statements (Note 54) and set out below, we are not aware of any material commitments or contractual issues which require contingent gains/losses to be disclosed or accrued in the accounts.

Like most other local authorities there are a number of part-time pension cases which have been pending for some time. A number of test cases have now been decided and the process of applying the principles determined in the test cases to the claims commenced against the Council is now underway. Potential payments are anticipated not to exceed £0.250m.

During 1992/1993 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. The Council has a number of outstanding claims with MMI and arrangements are in place to try and ensure an orderly settlement of the sums due. Potential losses on insurance settlements are estimated at £0.656m (which represents 10% of the paid and outstanding claims currently being dealt with by MMI). The position with MMI and the level of claims is reviewed annually by the council and as a result no provision or reserve is considered necessary at this point as a solvent run off of MMI claims is anticipated.

The City Council, together with the other Tyne and Wear Districts, 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.

The City Council acts as a guarantor for No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees.

In June 2005, the Council via Government Office North East (GONE), received a European Court of Auditors (ECA) report which indicated some technical issues had been found in respect of the Sunderland ARC feasibility study project grant claim. The Council responded to these issues and has had confirmation that the maximum possible loss of grant will now not exceed £107,000. The Council is in discussions with GONE and has provided more detailed information in respect of the dispute and although there is the prospect of reducing the loss further the outcome is uncertain at this point in time. The Council has also responded by putting in place corrective action so as to prevent a re-occurrence of the issues raised by ECA and is currently awaiting a final decision from GONE on the grant.

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.

The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to the Sunderland Housing Group, (now known as 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.

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 already sought advice from Queens's counsel on this matter. The Council is reasonably confident Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts in case the Council loses the action. A claim was received from Mowlem PLC, now known as Carillion, of approximately £1.000m in respect of the Queen Alexandra Bridge works which were completed in October 2006. This dispute has already been considered and rejected by an adjudicator and Carillion has served notice of their intention to refer the dispute for arbitration. Resolution of the final account for the contract is on-going however the contractor recently indicated to the council in early September 2009 that it is seeking a payment in the order of £0.600m. The council continues to reject the claim on the basis that the works were required to meet the contracted standard.

Both of these claims continue to be resisted and in the light of the position with each dispute and the Council's best estimate of the assessed combined potential liability, should the Council lose these actions, is considered to be £0.800m plus potential costs.

The Council has a number of outstanding equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The Council has settled a large number of claims by making compensation payments, and has also made compensation payments to non claimants who have the same circumstances as those claimants to whom compensation payments have been made. The Council is currently engaged in proceedings in relation to other claims made but not yet settled and has therefore set up a reserve to meet or assist in meeting these future potential liabilities. The Council continues to strenuously resist the claims made and has taken advice from leading Counsel. However, if the Council were to lose cases there could be a significant financial impact on the Council. These claims can not be assessed or quantified at this time.

The Council as the accountable body for URBAN II grant funding is responsible for all grant claims and as such must repay any ineligible grant as a consequence of this responsibility. As part of its role, therefore, it carries out Article 4 visits to ensure grant funding is being properly spent by those awarded this grant, on eligible schemes. These visits have now been fully completed and they have uncovered a range of technical issues which have been found in respect of URBAN II grant claims, which could result in a potential loss of grant funding of up to £0.132m (the worst case position at this point in time). There are, however, a number of factors that still could affect the final position and these issues and actions are currently being considered by the Council in order to reduce the final outcome. It is thus very difficult to assess the precise outcome at this stage as a number of other factors could still change the final position and the above figure can only represent the best estimate available.

We can also confirm that we are satisfied that the position with respect to equal pay and single status has been properly reflected in the accounts.

GENERAL

8. We consider that there is adequate insurance cover for all major risks, this is further supported by the recent independent actuarial review of the insurance provision as at 31st March 2009.
9. We consider that the Authority will have sufficient cash resources available to finance its operation at least for the following twelve months.
10. Related Party Transactions

Authority Members interests, present or future, in any contract with the Authority during the year ended 31st March 2009, have been disclosed.

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) Regulations (SI 1992/618) laid under section 19 of the Local Government and Housing Act 1989. In addition, the awarding of any contracts by the Authority to individual companies is governed by the Authority's Contract Procedure Rules as approved by the Council. The relevant members must therefore declare an interest (which is minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Council Members

In respect of 2008/2009 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 Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £4.087m made by the Authority in 2008/2009 (£5.545m in 2007/2008), of which £0.430m (£0.979m for 2007/2008) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £2.430m (£2.618m for 2007/2008) payments to companies and £1.227m (£1.948m for 2007/2008) to voluntary organisations.

Chief Officers

In respect of the 2008/2009 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 Authority.

Save as disclosed to you above, the Council has not had, or entered into, at any time during the period, any arrangement, transaction, or agreement, to provide credit facilities (including loans, quasi loans or credit transactions) for councillors and officers or any person connected to them, to guarantee or provide security for such matters. To the best of our knowledge there are no other material transactions between related parties other than those which have been properly recorded and disclosed in line with FRS 8 above. We therefore confirm that we have disclosed to you all the information of which we are aware.

11. Airport Loan Notes

The third and final tranche of receipts relating to the sale of 49% of the shares in Newcastle Airport took the form of a repayment of £25 million worth of loan notes over a 10 year period. As agreed with Copenhagen Airports Limited the repayment of these loan notes, to the constituent authorities, commenced in 2003/2004 and the amount of principal repaid to date totals £2,731,068 for this Authority. This amount is included in Capital Receipts. The interest earned on the remaining loans outstanding was accounted for in the Income and Expenditure Account. This accounting treatment will continue until the loan notes have been fully repaid. See Note 29 to the Balance Sheet.

12. FRS17

The Council continues to fully comply with the requirements of Financial Reporting Standard 17 (Accounting for Retirement Benefits) and the Statement of Accounts fully discloses all of the necessary accounting entries required. The accounting policies reflect the necessary details and disclosure notes to the Statement of Accounts for 2008/2009. The Accounting Policies are set out in Section 12, pages 26 and 27 of the Statement of Accounts and Notes 8c to the I&E Account and Note 41 to the Balance Sheet show disclosures in compliance with the SORP. The I&E Account fully incorporates the FRS17 accounting entry requirements.

It must be stressed, however, that the figures included within the accounts for pensions assets and liabilities have been provided by Hewitt Associates Limited, actuaries to the Local Government Pension Fund (administered by South Tyneside Council) using information provided by the scheme and assumptions determined by

the Council in conjunction with the Actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

13. Pooled Budgets

The Statement of Accounts incorporated the accounting requirements in respect of Pooled budget arrangements for the first time in 2003/2004. Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service (NHS) bodies, local authorities and other agencies in order to improve and co-ordinate services. The aim of the partnerships 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 now three such partnership schemes, with the Sunderland Teaching Primary Care Trust (STPCT). Note 15 to the I&E Account provides further details of the three pooled arrangements the Council is involved in with the STPCT.

14. Audit Costs

The Council continues to include a note to the I&E Account which provides details of the Audit fees incurred in respect of the various professional audit activities carried out on behalf of the Council. Note 17 to the I&E Account gives more details of the costs involved in accordance with the SORP.

15. The Housing Revenue Account – closure

The Council received the consent from the Secretary of State to close the Housing Revenue Account because of our Large Scale Voluntary Transfer which took place on 26th March 2001 which meant that Council Housing is no longer provided by the Council. This is the reason the Housing Revenue Account is not included in the financial statements.

16. SORP 2008 and the Requirements for the 2008/2009 Accounts

The Council's financial statements have been provided in accordance with all applicable accounting standards and CIPFA's Code of Audit Practice on Local Authority Accounting (Statement of Recommended Practice).

Note 1 to the financial statements provides details of a prior year adjustment which reflects the change in the valuation method used by the Actuary in accordance with revised requirements to value quoted securities at mid market value rather than at the previously used bid price, when providing FRS17 information for the accounts in 2008/2009, along with a number of other presentational changes.

The Statement of Accounts and Accounting Policies of the Authority for 2008/2009 comply with the Statement of Recommended Practice 2008 and all departures from the SORP are fully documented below with reasons for the departure where appropriate.

FRS17

The changes for FRS17 are fully set out in the accounts (please see page 46) and came into force in 2008/2009. The SORP 2008 states that prior year comparators

need not be restated for these changes and that simply adjusting the 2008/2009 accounts would suffice if the amounts were regarded as not material. The Council, however, has departed from this recommendation as it felt that by restating the comparative figures (£2.2m in value) would provide for a more comprehensive Statement of Accounts and would also aid the reader's understanding of the Accounts. It has thus restated the 2007/2008 position so that the reader can make true comparisons with the equivalent 2008/2009 figures. Note 1 to the Statement of Accounts, sets out details of the prior year adjustment and confirms that the necessary changes have been made to the Statement of Accounts for 2007/2008.

In summary, the Council takes the view that the accounting treatment adopted in the financial statements adds value to the Statement of Accounts by providing the reader with clarity of the impact of these changes and also provides them with comparable year on year accounts which would otherwise not have been made available which it felt was important bearing in mind the public's interest in public sector pay and pensions.

Group Accounts

The Council has carried out fully the processes as recommended by the SORP in determining whether group accounts need to be prepared and the Council has found that it does not have any material financial relationships where the requirements of Group Accounts applies. Group Accounts have therefore not been produced for 2008/2009.

Cash Flow

The council has adopted the indirect method of presenting the cash flow statement in 2008/2009 and amended the previous year's statement for 2007/2008 to make year on year comparisons possible.

17. Tyne and Wear Fire and Rescue Authority

The Council acts as the lead authority to the Tyne and Wear Fire and Rescue Authority and as such provides most of the central support services such as finance, legal, personnel, and democratic and exchequer services. The costs associated with these services are separately identified and fully recharged to the Tyne and Wear Fire and Rescue Authority.

The Council, in its finance role, provides a treasury management services to the Tyne and Wear Fire and Rescue Authority, which involves the Council investing funds on their behalf. Any borrowings are undertaken in the Council's name and then fully recharged via the consolidated advances and borrowing pool to the Tyne and Wear Fire and Rescue Authority.

All transactions in relation to the Tyne and Wear Fire and Rescue Authority are accounted for in line with best practice and conform to SORP 2008 and the Prudential Code.

INCOME AND EXPENDITURE ACCOUNT

18. Except as disclosed in the accounts, the results for the period were not materially affected by:

- (a) any change in the basis of accounting;
- (b) circumstances of an exceptional or non-recurrent nature;
- (c) charges or credits relating to prior years.

EVENTS SUBSEQUENT TO THE DATE OF THE BALANCE SHEET

19. All events taking place between 25th June 2009 (the issuing date) and the date of this letter which has assisted in accurately determining the Authority's position at 31st March 2009, and its results for the year ended on that date, have been duly taken into account. Since the date of the Balance Sheet, the following additional post balance sheet events have been reported:

We can confirm that there have been two events since the balance sheet date

Four new secondary schools (Academy 360, Castle View Enterprise Academy, Red House Academy and Washington School) are included at £56.809m in the Balance Sheet as at 31st March 2009 under Non Operational Assets - Assets Under Construction. The schools have now been completed and they opened to pupils for the autumn term beginning in September 2009. The schools will transfer to Operational Assets – Land and Buildings in 2009/2010.

Since the accounts were prepared the council has become aware of a significant increase in both the number of insolvencies and those companies likely to become insolvent because of the economic climate. This, together with the fact that the council has also reviewed the methodology and processes used to assess bad debts for business rates as at 31st March 2009 has required the bad debts provision to be increased for 2008/2009 by £0.558m to an amended total of £0.636m in the accounts. This amount will, however, be reclaimed from central government in accordance with the financial arrangements for business rates operated by the government.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, other than those already disclosed in the financial statements.

Should you have any queries about anything contained in this letter, please do not hesitate to contact Dennis Napier on 0191 561 1841 or email dennis.napier@sunderland.gov.uk

Yours sincerely,
Signed on behalf of Sunderland City Council

Councillor Paul Watson, Leader of the council

David Smith, Chief Executive

Bob Rayner, Chief Solicitor

Keith Beardmore, Director of Financial Resources

