

## Income and Expenditure Account for the Year Ended 31 March 2010

Cost of Services	Note	2009/2010			Restated 2008/2009 Net Expenditure £
		Gross Expenditure £	Gross Income £	Net Expenditure £	
<b>Continuing Services</b>					
Central Services					
Corporate and Democratic Core		10,912,412	1,946,699	8,965,713	5,094,095
Central Services to the Public		35,509,655	30,968,850	4,540,805	5,339,391
Other Operating Income and Expenditure		4,722,379	4,810,413	(88,034)	(60,516)
Court Services		603,958	13,664	590,294	706,297
Cultural, Environment and Planning Services				0	
Cultural and Related Services		41,974,264	12,301,163	29,673,101	33,154,822
Environmental Services		30,727,937	6,224,764	24,503,173	21,456,115
Planning and Development Services		47,019,781	18,871,932	28,147,849	14,169,126
Children's and Education Services				0	
Education Services		328,157,359	253,657,196	74,500,163	45,757,472
Children's Social Care		39,630,375	6,891,439	32,738,936	31,783,236
Highways, Roads and Transport Services		33,061,693	13,676,623	19,385,070	19,067,832
Housing Services		134,564,207	129,533,116	5,031,091	4,800,491
Adult Social Care		118,895,673	49,425,341	69,470,332	68,139,082
Non Distributed Costs		5,429,397	8,121,768	(2,692,371)	9,767,327
<b>Net Cost of Continuing Services</b>		<b>831,209,090</b>	<b>536,442,968</b>	<b>294,766,122</b>	<b>259,174,770</b>
Loss/(Gain) on the Disposal of Fixed Assets		165,729	0	165,729	301,558
Impairment of Landfill Allowances	32	0	0	0	227,520
Parish Council Precepts		51,455	0	51,455	50,268
Levies		18,410,940	0	18,410,940	18,109,925
(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services	2	26,802	663,309	(636,507)	(512,939)
Interest Payable and Similar Charges		9,056,029	0	9,056,029	11,932,274
Contribution of Housing Capital Receipts to Government Pool		24,905	0	24,905	53,517
Interest and Investment Income		0	3,558,380	(3,558,380)	(11,380,448)
Pension Interest Cost and Expected Return on Pension Fund Assets	6c	30,320,000	0	30,320,000	15,190,000
<b>Net Operating Expenditure</b>		<b>889,264,950</b>	<b>540,664,657</b>	<b>348,600,293</b>	<b>293,146,445</b>
Council Tax Income		0	95,269,313	(95,269,313)	(90,936,092)
General Government Grants	13	0	58,303,349	(58,303,349)	(44,162,322)
Non-Domestic Rates Redistribution		0	125,643,033	(125,643,033)	(132,944,980)
<b>(Surplus) / Deficit for the year</b>		<b>889,264,950</b>	<b>819,880,352</b>	<b>69,384,598</b>	<b>25,103,051</b>

## Statement of Movement on the General Fund Balance for the Year Ended 31 March 2010

The General Fund balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The Income and Expenditure Account however shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. The SORP requires the authority to reconcile the Income and Expenditure Account with the Movement on General Fund Balance, (which is based on a different accounting basis). The main accounting differences are:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from usable capital receipts rather than Council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The reconciliation statement therefore summarises the differences between the outturn (Surplus of Deficit) the Income and Expenditure Account and the General Fund Balance.

	Notes	2009/2010 £	Restated 2008/2009 £
Deficit / (Surplus) for the year on the Income and Expenditure Account		<b>69,384,598</b>	25,103,051
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	17	<b>(74,301,448)</b>	(24,818,312)
Reduction / (Increase) in General Fund balance in the year		<b>(4,916,850)</b>	284,739
General Fund balance brought forward		<b>(17,324,206)</b>	(17,608,945)
<b>General Fund balance carried forward</b>		<b>(22,241,056)</b>	(17,324,206)
Amount of General Fund balances held by schools under local management schemes	3	<b>7,492,493</b>	5,770,795
Amount of General Fund balances generally available for new expenditure	44	<b>14,748,563</b>	11,553,411
		<b>22,241,056</b>	17,324,206

## Statement of Total Recognised (Gains) and Losses (STRGL) for the Year Ended 31 March 2010

	Notes	2009/2010 £	Restated 2008/2009 £
Deficit for the year on the Income and Expenditure Account		<b>69,384,598</b>	25,103,051
Actuarial (gains) / losses on pension fund asset and liabilities	18b	<b>130,200,000</b>	185,460,000
(Surplus) / Loss arising on revaluation of fixed assets	19	<b>(42,095,046)</b>	60,114,816
Other (gains) / losses required to be included in the STRGL	20	<b>708,043</b>	11,105,562
<b>Total recognised losses for the year</b>		<b>158,197,595</b>	281,783,429
Note - Prior Period Adjustment - PFI			952,846

## Balance Sheet as at 31 March 2010

	Notes	31 March 2010		Restated 31 March 2009	
		£	£	£	£
<b>Tangible Fixed Assets</b>					
<b>Operational Assets</b>	21				
Land and Buildings		756,572,678		706,904,221	
Infrastructure		217,783,378		217,371,548	
Vehicles, Plant, Furniture and Equipment		37,454,052		30,736,206	
Community Assets		0		0	
<b>Non Operational Assets</b>	21				
Investment Properties		42,214,868		40,141,372	
Assets Under Construction		34,834,726		80,285,576	
Assets Held For Disposal		82,067,000	1,170,926,702	87,828,000	1,163,266,923
<b>Intangible Assets</b>	23		1,390,665		1,319,956
<b>Total Fixed Assets</b>			1,172,317,367		1,164,586,879
Long Term Investments	24a		816,509		31,524,554
Long Term Debtors	25 to 29		21,366,360		21,467,774
<b>Total Long Term Assets</b>			1,194,500,236		1,217,579,207
<b>Current Assets</b>					
Short Term Investments	24b	172,246,835		135,109,765	
Stocks and Stores	30	1,129,917		970,087	
Work In Progress		418,006		1,123,681	
Debtors	31	40,953,770		35,144,725	
Landfill Usage Allowance	32	69,114		3,651,084	
Cash - School Bank Accounts		1,318,905		1,063,569	
Cash in Hand - Imprests		841,197	216,977,744	785,205	177,848,116
<b>Current Liabilities</b>					
Short Term Borrowing		(32,463,642)		(32,241,271)	
Creditors	33	(84,488,953)		(84,021,920)	
Liability to DEFRA - Landfill Usage	32	(69,114)		(3,651,084)	
Cash Overdrawn	34	(8,133,153)	(125,154,862)	(11,426,983)	(131,341,258)
<b>Net Current Assets</b>			91,822,882		46,506,858
<b>Total Assets Less Current Liabilities</b>			1,286,323,118		1,264,086,065
<b>Long Term Liabilities</b>					
Long Term Borrowing	35	(148,063,884)		(139,092,938)	
Long Term Liability - PFI		(34,796,201)		(35,894,198)	
Grants and Contributions Deferred Account	36	(252,812,369)		(223,957,728)	
Liability Relating to defined Pension Scheme	37	(574,120,000)		(428,930,000)	
Insurance Provision	38	(3,272,967)		(3,268,480)	
Other Provisions	39	(3,552,829)	(1,016,618,250)	(5,040,258)	(836,183,602)
<b>Total Assets Less Liabilities</b>			269,704,868		427,902,463
<b>Reserves</b>					
Revaluation Reserve	40	160,084,517		139,357,102	
Available-for-Sale Financial Instruments Reserve		0		0	
Capital Adjustment Account	41	520,857,405		560,015,134	
Deferred Credits	42	2,164,442		2,685,450	
Usable Capital Receipts Reserve	43	5,351,936		6,424,538	
Available for Sale Reserve (Newcastle Airport)	24a	795,123		1,503,168	
Pensions Reserve	37	(574,120,000)		(428,930,000)	
Insurance Reserve		5,199,783		5,384,156	
General Fund Balance - LMS Schools Reserve	44	7,492,493		5,770,795	
General Fund Balance - General Reserve	44	14,748,563		11,553,411	
Delegated Budgets Reserve	45	10,352,714		11,499,435	
Financial Instruments Adjustment Account	47	(515,682)		(441,571)	
Capital Reserves	48	25,143,244		25,234,973	
Revenue Reserves	48	91,142,391		87,699,493	
Collection Fund Account	64	1,007,939		146,379	
<b>Total Net Worth</b>			269,704,868		427,902,463

## Cash Flow Statement for the Year Ended 31 March 2010

	Notes	2009/2010		Restated 2008/2009	
		£	£	£	£
<b>Net Cash Flows from Revenue Activities</b>	54		<b>(30,038,604)</b>		(24,174,153)
<b>Dividends from Joint Ventures and Associates</b>					
Cash Inflows					
Dividends Received			<b>(201,603)</b>		(204,208)
<b>Return on Investments and Servicing of Finance</b>					
Cash Outflows					
Interest Paid		<b>9,056,029</b>		11,932,274	
Cash Inflows					
Interest Received		<b>(3,356,777)</b>	<b>5,699,252</b>	<b>(11,176,168)</b>	756,106
<b>Capital Activities</b>					
Cash Outflows					
Purchase of Fixed Assets		<b>67,346,527</b>		98,843,197	
Purchase of Long Term Investments		<b>0</b>		30,000,000	
Other Capital Cash Payments		<b>1,247,150</b>	<b>68,593,677</b>	<b>53,517</b>	128,896,714
Cash Inflows					
Sale of Fixed Assets		<b>(949,272)</b>		(1,174,442)	
Capital Grants Received		<b>(50,213,421)</b>		(84,280,671)	
Other Capital Cash Receipts		<b>(30,868,480)</b>	<b>(82,031,173)</b>	<b>(5,844,379)</b>	(91,299,492)
<b>Acquisition and Disposals</b>					
Cash Inflows					
Receipts on Long Term Loan Notes			<b>(455,178)</b>		(455,178)
<b>Net Cash (Inflows) / Outflows before Financing</b>	58		<b>(38,433,629)</b>		13,519,789
<b>Management of Liquid Resources</b>					
Net Increase / (Decrease) in Short Term Deposits	56	<b>37,137,070</b>		(54,296,586)	
Net Increase / (Decrease) in Other Liquid Deposits	56	<b>6,884,717</b>	<b>44,021,787</b>	<b>2,740,769</b>	(51,555,817)
<b>Financing</b>					
Cash Outflows					
Repayment of Amounts Borrowed	57	<b>25,741,535</b>		58,341,552	
Cash Inflows					
New Loans Raised	57	<b>(33,001,600)</b>		(2,680)	
New Short Term Loans	57	<b>(1,933,251)</b>	<b>(9,193,316)</b>	<b>(25,390,215)</b>	32,948,657
<b>Increase / (Decrease) in Cash</b>	55		<b>(3,605,158)</b>		(5,087,371)

## Notes to the Core Financial Statements

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Council Tax Income

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect council tax and national non-domestic rates (NNDR). The funds key features relevant to accounting for council tax in the core financial statements are:

- (a) In its capacity as a billing authority an authority acts as an agent: it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- (b) While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their General Funds). The amount credited to the General Fund under statute is an authority's precept or demand for the year plus the authority's share of the surplus on the Collection Fund for the previous year or less its share of the deficit on the Collection Fund for the previous year; and this amount may be more or less than the accrued income for the year in accordance with UK GAAP.

From the year commencing 1st April 2009, the Council Tax income included in the Income and Expenditure Account for the year will be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

The collection of Council Tax is in substance an agency arrangement, the cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor which needs to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers.

If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from Council Tax debtors/creditors in the year the billing authority will recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor will recognise a credit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from Council Tax debtors/creditors the billing authority will recognise a credit adjustment for the amount underpaid to the major preceptor in the year and the major preceptor will recognise a debit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year.

The Cash Flow Statement of the billing authority shall include in 'Revenue activities' cash flows only its own share of Council Tax net cash collected from Council Tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from Council Tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund will be included as a net increase/decrease in other liquid resources.

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

The Cash Flow Statement of a major preceptor shall include the net Council Tax cash received from the Collection Fund in the year (i.e. precept for the year plus share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the major preceptor's share of cash collected from Council Tax debtors by the billing authority in the year shall be included as a net increase/decrease in other liquid resources.

The full required prior period adjustment in respect of council tax is set out on [pages 56 to 60](#).

#### National Non Domestic Rates

Billing authorities in collect NNDR under what is in substance an agency arrangement with the Government. It therefore follows that:

- (a) NNDR income is not the income of the billing authority and shall not be included in its Income and Expenditure Account. The cost of collection allowance received by billing authorities is the billing authority's income and shall be included in the Income and Expenditure Account.
- (b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's Balance Sheet.
- (c) Cash collected from NNDR taxpayers by billing authorities belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers the excess shall be included in the Balance Sheet as a debtor.
- (d) Cash collected from NNDR taxpayers by a billing authority is collected for the Government and is therefore not a revenue activity of the billing authority and shall not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and shall not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool shall be included in management of liquid resources as a net increase/decrease in other liquid resources.
- (e) Amounts are sometimes billed to NNDR taxpayers over and above the NNDR due, usually to recover the billing authority's costs of pursuing unpaid NNDR debts. Any amounts charged to NNDR taxpayers in respect of amounts that the authority is not required to account for to the Government are income of the billing authority.

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

Billing authorities will normally need to make prior year adjustment to their 2008/09 Balance Sheets and cash flow statements since the 2009 SORP requirements are different from the accounting policies usually followed by billing authorities. Billing authorities will usually have included in their Balance Sheet:

- NNDR taxpayers' debtor and creditor balances and an impairment allowance for doubtful debts, and
- a creditor or debtor with the Government for the under or over payment into the national pool for the year (based on the actual or estimated 'NNDR 3' return) representing the difference between NNDR income accruing for the year (net of the billing authority's cost of collection allowance) and the NNDR cash paid to the Government in the year excluding the amount paid/received to settle the previous year's under or overpayment into the national pool.

Under the 2009 SORP (and GAAP) the NNDR taxpayers' debtor and creditor balances and impairment allowance for doubtful debts are not Balance Sheet items of the billing authority since it acts as an agent of the Government when collecting NNDR. The balance due to or from the Government based on the actual or estimated NNDR 3, is not an amount that under the 2009 SORP should be recognised in the Balance Sheet of the billing authority. It does not represent an actual debtor/creditor position between a billing authority and the Government: it is simply part of the mechanism for determining the instalments by which the billing authority pays over the NNDR taxpayers' cash to its principal the Government. Under the 2009 SORP the correct debtor/creditor position that needs to be recognised in the billing authority's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of the billing authority's cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

No prior year adjustment to the Income and Expenditure Account or Statement of Movement on the General Fund Balance would usually be required in respect of NNDR income since the accounting policies followed by billing authorities will usually be in accordance with those required by the 2009 SORP.

A billing authority shall restate its 2008/09 Balance Sheet by de-recognising:

- NNDR taxpayers' debtor and creditor balances
- impairment allowance for doubtful NNDR debts
- the NNDR 3 notified amount of NNDR based creditor/debtor with the Government for the amount under or overpaid into the national pool for 2008/09.

It will recognise a creditor with the Government for cash collected from NNDR taxpayers (less cash retained in respect of the billing authority's cost of collection allowance) not yet paid to the Government at the Balance Sheet date, or, a debtor if it has 'overpaid' the Government. This amount will equal the net amount of the three Balance Sheet items derecognised above and therefore provides the double entry for them.

Since they are not revenue activities of billing authorities', which act as agents, the restated 2008/09 Cash Flow Statement shall exclude from 'Revenue activities':

- cash received from non-domestic rate receipts (except for the amount retained in respect of the cost of collection allowance, which shall be included with revenue activities as other operating cash receipts, if the direct method of preparation is used), and
- national non-domestic rate payments to national pool.

The difference between these two above amounts shall be included in management of liquid resources as a net increase/decrease in other liquid resources.



## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

The full required prior period adjustment in respect of council tax is set out on [pages 56 to 60](#).

#### Private Finance Initiative

SORP 2009 requires that PFI Transactions and Similar Contracts are accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FRoM) as this will assist in the transition to IFRS for 2010/11. IFRIC 12 is the interpretation of IFRS that applies to operators of PFI and similar contracts, and is expected to form part of UK GAAP in due course. The 2009 SORP is consistent with the accounting treatment required of other public sector bodies in the UK set out in the FRoM and approved by the Financial Reporting Advisory Board.

#### Terminology

The following terminology is used throughout; **Property** is the term used to refer to the assets used by the operator to deliver the PFI services for the Council whose two PFI schemes are Sandhill View School and Community and Learning Centre and Street Lighting and Road Traffic Signs. **Construction payments/element** refers to the finance lease elements of the payment made; this only applies where the service element and the construction element (liability and interest) can be separated rather than estimated. **Asset** is reserved for assets recognised on the local Council's Balance Sheet.

#### Overview of Basic Principles

##### Identifying arrangements to which this appendix applies

PFI contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

The accounting treatment set out shall apply where:

- (a) the local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where
- (b) the local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the property at the end of the term of the arrangement. Where the property is used for its entire life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC12 where the authority controls or regulates the services as described in the first condition.

Where these control tests are met, these accounting arrangements apply to all property acquired, constructed or enhanced by the operator for the purpose of the PFI or similar contract, including property to which the local authority gives the operator access. This also applies to property provided by the operator that previously appeared on the operator's Balance Sheet. Where the control tests are not met, the arrangement shall be accounted for in accordance with the general provisions of the SORP, as follows:

- (i) Where neither test is met, expenditure must be recognised as it is incurred.
- (ii) Where test (a) is met but test (b) is not, an authority must consider whether the arrangement is in substance a lease, and if so will account for it as such.
- (iii) Where test (b) is met but test (a) is not, an authority will recognise as an asset the excess of the expected fair value of the property at the end of the arrangement over the amount it will be required to pay the operator upon reversion. This asset shall be built up from payments made by the authority to the operator over the life of the arrangement.

## **Notes to the Core Financial Statements (Continued)**

### **Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)**

#### **Recognising assets and liabilities**

Property used in a PFI and similar contract is recognised as an asset or assets of the local authority. A related liability is also recognised at the same time. The asset is recognised in accordance with the SORP; which is when the asset is made available for use unless the local authority bears an element of the construction risk, which is not the case where standard PFI contract terms are used. Where an authority does bear the construction risk, it must 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 authority. In accordance with the SORP, separate assets will be recognised in respect of land and buildings where appropriate. The related liability will initially be measured at the value of the related asset, and subsequently will be calculated using the same actuarial method used for finance leases under the SORP.

Where the operator enhances property already recognised on the Balance Sheet of the local authority, the local authority shall recognise the fair value of the enhancement in the carrying value of the property. The SORP requires the different components of an asset to be accounted for separately if they have a substantially different useful life, and this approach shall be adopted where appropriate. A new liability will be recognised or the existing liability increased to reflect the authority's requirement to pay for the enhancement.

Where a PFI and similar contract can be separated into a service element and a construction element, the service element shall be expensed as incurred, and the construction element accounted for as if it were a finance lease.

Where a PFI and similar contract cannot be separated due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by estimating the fair value of the services. The fair value of the property (the cost to purchase the property) determines the amount to be recorded as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the liability and the interest element (using the interest rate implicit in the contract). Where it is not possible to determine the rate implicit in the contract, the authority can use its cost of capital rate (including inflation). It is expected that this situation would be rare.

#### **Specific Issues**

##### **Existing local authority assets used in a PFI and similar contracts**

A PFI and similar contract may make use of the existing assets of a local authority. A local authority will recognise enhancements to those assets and any additional property provided by the operator.

##### **Existing local authority assets not used in a PFI and similar contract**

A local authority may provide the operator with access to existing assets of the authority that are not to be used in the PFI and similar contract in exchange for reduced or eliminated payments. This may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period (which may or may not be the same as the period of the PFI and similar contract). Where the contract involves a permanent transfer of an asset to the operator, the local authority shall account for the disposal of the asset. The authority will also recognise on the Balance Sheet the consideration received for the asset transferred to the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or property provided by the operator. Any difference between the carrying value of the asset given up and the

## **Notes to the Core Financial Statements (Continued)**

### **Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)**

consideration received from the operator shall be recognised in the Income and Expenditure Account.

Where the arrangement does not involve a permanent transfer of the assets to the operator, a local authority shall account for the arrangement as a lease.

Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset, which remains on the authority's Balance Sheet. The granting of the operating lease is one element of the consideration provided to the operator for the provision of the property and services. Over the period of the operating lease, the authority shall recognise income from the operating lease in the Income and Expenditure Account along with a corresponding expense in the Income and Expenditure Account in respect of a reduction in the liability to pay for the property.

Where the asset provided by the authority is provided in the form of a finance lease, the local authority shall account for the disposal of the asset. The authority shall also recognise on the Balance Sheet the consideration received from the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or property provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in the Income and Expenditure Account.

#### **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 fixed asset.

#### **Income earned**

Any income earned by the local authority as part of a PFI and similar contract and not reflected in the unitary charge (for example, where the authority is entitled to a share of any third party income earned by the operator) shall be accounted for in accordance with the provisions of the SORP for income recognition.

#### **MRP (England and Wales)**

Assets acquired under a PFI and similar contract that are recognised on the authority'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 Statement of Movement on the General Fund Balance.

#### **Guarantees**

Any guarantees given as part of a PFI and similar contract shall be accounted for in accordance with the requirements of the SORP.

#### **Disclosure**

The following information shall be disclosed in relation to PFI and similar contracts, in addition to the disclosures relating to assets and liabilities required elsewhere in the SORP:

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

The value of assets held under PFI and similar contract at each Balance Sheet date, and an analysis of the movement in those values.

- The value of liabilities resulting from PFI and similar contracts at each Balance Sheet date, and an analysis of the movement in those values.
- Details of the payments due to be made under PFI and similar contracts (separated into repayments of liability, interest and service charges):
  - within one year
  - within two to five years
  - within six to ten, and
  - in each additional five-year period.

#### Capital financing requirement

Where PFI contracts or similar arrangements come 'on-Balance Sheet' as a result of the FReM based approach, there will be a requirement to adjust the Capital Financing Requirement, and authorities will therefore need to ensure their authorised limits and operational boundaries are set accordingly.

The full required prior period adjustment in respect of PFI is set out on [pages 56 to 60](#).

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Income and Expenditure Account

Cost of Services	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
<b>Continuing Services</b>					
Central Services					
Corporate and Democratic Core	5,661,715				5,661,715
Central Services to the Public	5,339,391				5,339,391
Other Operating Income and Expenditure	(60,516)				(60,516)
Court Services	706,297				706,297
Cultural, Environment and Planning Services					0
Cultural and Related Services	33,154,822				33,154,822
Environmental Services	21,456,115				21,456,115
Planning and Development Services	14,169,126				14,169,126
Children's and Education Services					0
Education Services	46,745,771			(988,299)	45,757,472
Children's Social Care	31,783,236				31,783,236
Highways, Roads and Transport Services	21,161,037			(2,093,205)	19,067,832
Housing Services	4,800,491				4,800,491
Adult Social Care	68,139,082				68,139,082
Non Distributed Costs	9,767,327				9,767,327
Exceptional Item - Insurance Provision	(567,620)				(567,620)
Exceptional Item - Equal Pay Provision	0				0
<b>Net Cost of Continuing Services</b>	262,256,274	0	0	(3,081,504)	259,174,770
Loss/(Gain) on the Disposal of Fixed Assets	301,558				301,558
Impairment of Landfill Allowances	227,520				227,520
Parish Council Precepts	50,268				50,268
Levies	18,109,925				18,109,925
(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services	(512,939)				(512,939)
Interest Payable and Similar Charges	8,544,017			3,388,257	11,932,274
Contribution of Housing Capital Receipts to Government Pool	53,517				53,517
Interest and Investment Income	(11,380,448)				(11,380,448)
Pension Interest Cost and Expected Return on Pension Fund Assets	15,190,000				15,190,000
<b>Net Operating Expenditure</b>	292,839,692	0	0	306,753	293,146,445
Council Tax Income*	(91,700,867)	764,775			(90,936,092)
General Government Grants	(44,162,322)				(44,162,322)
Non-Domestic Rates Redistribution	(132,944,980)				(132,944,980)
<b>(Surplus) / Deficit for the year</b>	24,031,523	764,775	0	306,753	25,103,051

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Statement of Movement on General Fund Balance

	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
Deficit / (Surplus) for the year on the Income and Expenditure Account	24,031,523	764,775		306,753	25,103,051
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	(23,746,784)	(764,775)		(306,753)	(24,818,312)
Reduction in General Fund balance for the year	284,739				284,739
General Fund balance brought forward	(17,608,945)				(17,608,945)
<b>General Fund balance carried forward</b>	<b>(17,324,206)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(17,324,206)</b>
Amount of General Fund balances held by schools under local management schemes	5,770,795				5,770,795
Amount of General Fund balances generally available for new expenditure	11,553,411				11,553,411
	<b>17,324,206</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,324,206</b>

#### Statement of Total Recognised Gains and Losses

Cost of Services	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
Deficit for the year on the Income and Expenditure Account	24,031,523	764,775	0	306,753	25,103,051
Actuarial (gains) / losses on pension fund assets and liabilities	185,460,000	0	0	0	185,460,000
Surplus arising on the revaluation of fixed assets	68,022,169	0	0	(7,907,353)	60,114,816
Other gains and losses required to be included in the STRGL	11,870,337	(764,775)	0	0	11,105,562
<b>Total recognised loss for the year</b>	<b>289,384,029</b>	<b>0</b>	<b>0</b>	<b>(7,600,600)</b>	<b>281,783,429</b>

Prior Period Adjustment

952,852

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Balance Sheet

	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
<b>Tangible Fixed Assets</b>					
<b>Operational Assets</b>					
Land and Buildings	684,582,198			22,322,023	706,904,221
Infrastructure	190,925,621			26,445,927	217,371,548
Vehicles, Plant, Furniture and Equipment	30,736,206				30,736,206
Community Assets	0				0
<b>Non Operational Assets</b>					
Investment Properties	40,141,372				40,141,372
Assets Under Construction	80,285,576				80,285,576
Assets Held For Disposal	87,828,000				87,828,000
<b>Intangible Assets</b>	1,319,956				1,319,956
<b>Total Fixed Assets</b>	1,115,818,929				1,164,586,879
Long Term Investments	31,524,554				31,524,554
Long Term Debtors	22,720,961			(1,253,187)	21,467,774
<b>Total Long Term Assets</b>	1,170,064,444				1,217,579,207
<b>Current Assets</b>					
Short Term Investments	135,109,765				135,109,765
Stocks and Stores	970,087				970,087
Work In Progress	1,123,681				1,123,681
Debtors	40,579,651	(150,964)	(311,145)	(4,972,817)	35,144,725
Landfill Usage Allowance	3,651,084				3,651,084
Cash - School Bank Accounts	1,063,569				1,063,569
Cash in Hand - Imprests	785,205				785,205
<b>Current Liabilities</b>					
Short Term Borrowing	(32,241,271)				(32,241,271)
Creditors	(84,484,029)	150,964	311,145		(84,021,920)
Liability to DEFRA - Landfill Usage	(3,651,084)				(3,651,084)
Cash Overdrawn	(11,426,983)				(11,426,983)
<b>Net Current Assets</b>	51,479,675				46,506,858
<b>Total Assets Less Current Liabilities</b>					
<b>Long Term Liabilities</b>					
Long Term Borrowing	(139,092,938)				(139,092,938)
Grants and Contributions Deferred Account	(223,957,728)				(223,957,728)
Long Term Liability - PFI	0			(35,894,198)	(35,894,198)
Liability Relating to defined Pension Scheme	(428,930,000)				(428,930,000)
Insurance Provision	(3,268,480)				(3,268,480)
Other Provisions	(5,040,258)				(5,040,258)
<b>Total Assets Less Liabilities</b>	421,254,715	0	0	6,647,748	427,902,463

## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Balance Sheet (Continued)

	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
<b>Reserves</b>					
Revaluation Reserve	131,449,749			7,907,353	139,357,102
Available-for-Sale Financial Instruments Reserve	0				0
Capital Adjustment Account	561,274,739			(1,259,605)	560,015,134
Deferred Credits	2,685,450				2,685,450
Usable Capital Receipts Reserve	6,424,538				6,424,538
Available for Sale Reserve (Newcastle Airport)	1,503,168				1,503,168
Pensions Reserve	(428,930,000)				(428,930,000)
Insurance Reserve	5,384,156				5,384,156
General Fund Balance - LMS Schools Reserve	5,770,795				5,770,795
General Fund Balance - General Reserve	11,553,411				11,553,411
Delegated Budgets Reserve	11,499,435				11,499,435
Financial Instruments Adjustment Account	(441,571)				(441,571)
Capital Reserves	25,234,973				25,234,973
Revenue Reserves	87,699,493				87,699,493
Collection Fund	146,379	(146,379)			0
Collection Fund Adjustment Account	0	146,379			146,379
<b>Total Net Worth</b>	<b>421,254,715</b>	<b>0</b>	<b>(146,379)</b>	<b>6,647,748</b>	<b>427,902,463</b>



## Notes to the Core Financial Statements (Continued)

### Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2008/2009)

#### Cash Flow Statement

	2008/2009 Net Expenditure £	Adjustments			Restated 2008/2009 Net Expenditure £
		Council Tax £	NNDR £	PFI £	
<b>Net Cash Flows from Revenue Activities</b>	(18,045,127)	(45,917)	(2,694,852)	(3,388,257)	(24,174,153)
<b>Dividends from Joint Ventures and Associates</b>					
Cash Inflows					
Dividends Received	(204,208)				(204,208)
<b>Return on Investments and Servicing of Finance</b>					
Cash Outflows					
Interest Paid	8,544,017			3,388,257	11,932,274
Cash Inflows					
Interest Received	(11,176,168)				(11,176,168)
<b>Capital Activities</b>					
Cash Outflows					
Purchase of Fixed Assets	98,843,197				98,843,197
Purchase of Long Term Investments	30,000,000				30,000,000
Other Capital Cash Payments	53,517				53,517
Cash Inflows					
Sale of Fixed Assets	(1,174,442)				(1,174,442)
Capital Grants Received	(84,280,671)				(84,280,671)
Other Capital Cash Receipts	(5,844,379)				(5,844,379)
<b>Acquisition and Disposals</b>					
Cash Inflows					
Receipts on Long Term Loan Notes	(455,178)				(455,178)
<b>Net Cash (Inflows) / Outflows before Financing</b>	16,260,558	(45,917)	(2,694,852)	0	13,519,789
<b>Management of Liquid Resources</b>					
Net Increase / (Decrease) in Short Term Deposits	(54,296,586)				(54,296,586)
Net Increase / (Decrease) in Other Liquid Deposits	0	45,917	2,694,852		2,740,769
<b>Financing</b>					
Cash Outflows					
Repayment of Amounts Borrowed	58,341,552				58,341,552
Cash Inflows					
New Loans Raised	(2,680)				(2,680)
New Short Term Loans	(25,390,215)				(25,390,215)
<b>Increase / (Decrease) in Cash</b>	(5,087,371)	0	0	0	(5,087,371)

## Notes to the Core Financial Statements (Continued)

### Notes to the Income and Expenditure Account

#### Note 2 – Trading Services

The Council is required to publish the financial results of services it operates on a trading account basis. The cost of the former DLO activities are categorised into General Highways and Civic Buildings Maintenance activities. The trading results in relation to 'Other Activities' for the former DLO are now reported as part of either General Highways or Education and Civic Buildings, depending upon the nature of work undertaken. The results for 2009/2010 are shown below:

	2009/2010			2008/2009		
	Expenditure	Income	Net Expenditure	Expenditure	Income	Net Expenditure
City Print Services	2,128,977	2,234,244	(105,267)	2,186,346	2,164,837	21,509
City Stores	26,802	0	26,802	287,828	287,828	0
General Highways	5,952,247	6,191,112	(238,865)	5,584,418	5,864,537	(280,119)
Education and Civic Buildings Maintenance	8,352,842	8,632,013	(279,171)	8,582,035	8,852,765	(270,730)
Networking Services	283,551	323,557	(40,006)	265,276	248,875	16,401
	<b>16,744,419</b>	<b>17,380,926</b>	<b>(636,507)</b>	<b>16,905,903</b>	<b>17,418,842</b>	<b>(512,939)</b>

## Notes to the Core Financial Statements (Continued)

### Note 2 – Trading Services (Continued)

The Income and Expenditure Account also includes various trading activities under service income and expenditure, the financial results of which were as follows:

	2009/2010			2008/2009		
	Expenditure £	Income £	Net Expenditure £	Expenditure £	Income £	Net Expenditure £
Retail Market	299,932	468,852	(168,920)	278,042	445,311	(167,269)
Industrial Estates	1,998,317	2,245,617	(247,300)	4,444,387	3,197,378	1,247,009
Miscellaneous Land and Properties***	16,045,872	4,118,575	11,927,297	16,379,918	4,299,950	12,079,968
Building Regulations	673,928	567,680	106,248	731,386	734,300	(2,914)
Building Control	275,265	15,339	259,926	298,735	14,972	283,763
Car Parks (Civil Parking Enforcement)*	953,590	349,002	604,588	938,819	387,289	551,530
Car Parks (Other)*	2,732,923	1,883,983	848,940	2,304,443	1,957,114	347,329
Cash in Transit Service	387,183	413,278	(26,095)	367,880	426,564	(58,684)
Refuse Collection	4,069,600	24,325	4,045,275	3,766,058	86,550	3,679,508
Other Cleaning	5,724,059	362,054	5,362,005	4,505,550	111,618	4,393,932
Grounds Maintenance	5,057,435	468,354	4,589,081	5,975,576	461,033	5,514,543
Leisure Management	12,309,433	9,180,908	3,128,525	8,103,409	4,679,249	3,424,160
Other Catering	551,513	426,193	125,320	500,079	462,408	37,671
Building Cleaning	4,300,877	16,544	4,284,333	4,248,209	2,962	4,245,247
School and Welfare Catering	6,708,071	865,477	5,842,594	6,970,533	1,174,584	5,795,949
Port of Sunderland**	4,300,291	3,202,008	1,098,283	4,623,749	3,578,121	1,045,628
Derwent Hill	1,231,038	1,063,829	167,209	1,351,002	1,132,613	218,389
Support Services to Schools****	538,507	522,636	15,871	4,439,080	2,165,563	2,273,517
Trade Refuse****	0	0	0	522,215	462,024	60,191
Land Searches	209,500	206,511	2,989	204,597	195,279	9,318
Training Centres	1,453,864	1,248,492	205,372	1,398,483	1,433,313	(34,830)
Allotments	160,256	81,347	78,909	202,691	93,853	108,838
Building Maintenance						
Surveying	3,064,137	3,135,235	(71,098)	3,334,391	3,330,452	3,939
Connexions Hub	4,442,472	4,785,692	(343,220)	4,262,320	4,709,710	(447,390)
	<b>77,488,063</b>	<b>35,651,931</b>	<b>41,836,132</b>	<b>80,151,552</b>	<b>35,542,210</b>	<b>44,609,342</b>

In April 2001 the Council adopted a set of ground rules for determining which service should operate on a Trading Account basis. These guiding principles reflect the requirements of the Best Value Accounting Code of Practice and provide a uniform approach to the monitoring of trading performance. At that time the Council also identified all those services to be operated and monitored on a trading account basis. The financial performance of all of these services is identified in the table above. Included in these items are the functions of the former Direct Service Organisations (DSO's) which were previously subject to the requirements of Compulsory Competitive Tendering (CCT) legislation. Since April 1999 these services have operated as part of the General Fund services. The accounts of the former DSO's continue to be maintained on a trading account basis in accordance with guiding principles adopted by the Council, and are included in the Best Value Accounting Code of Practice Cost of Services analysis.

\* Car Parks - The net position for both car parks (other) and car parks (CPE) is a £1,453,528 deficit (2008/2009 £898,859 deficit).

## Notes to the Core Financial Statements (Continued)

### Note 2 – Trading Services (Continued)

- \*\* Port of Sunderland includes Capital charges and FRS17 costs totalling £273,553 (for 2007/2008 £926,433). There was no in year transfer of surplus against budget to the Port Reserve (for 2008/2009 £167,631). The net expenditure position excluding these items is therefore £271,596 deficit (2008/2009 £48,436 surplus).
- \*\*\* Miscellaneous Land and Property includes impairment charges of £12,799,634 (2008/2009 £12,549,636). The net expenditure position excluding these charges is therefore £872,337 surplus (2008/2009 £469,668 surplus).
- \*\*\*\* Service no longer reported as a trading service by Children's Services.

### Note 3 – Local Management of Schools and School Delegated Budgets

Under the Education Reform Act 1988, once budgets have been delegated to schools, subject to scheme rules, any under spending can be carried forward by the school and do not accrue to the Council's balances. The value of school balances held at 31st March 2010 totalled £7,492,493 (31st March 2009 £5,770,795). These sums represent accumulated surpluses and amounts set aside for specific spending plans of schools. The principle of delegated budgets was extended to Council departments in 1992/1993. Unspent balances are shown in the Statement of Movement in General Fund Balances and identified as earmarked in the Balance Sheet on [Page 103 to 104](#).

### Note 4 – Industrial Loans at Subsidised Rates of Interest

Economic Development Regulations require the disclosure of loans to industry which are at a subsidised rate of interest (i.e. below market rates), also known as soft loans. There was one such loan in place in 2009/2010, the details of which are shown below:

Loan	Amount of Loan £	Term / years	Interest Rate %	Balance at 31 March 2010 £	Balance at 31 March 2009 £
Company DM	50,000	3	1.61	30,363	48,643

In accordance with the SORP 2009, 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 in the year the loan is made and then amortised over the life of the loan. All charges in respect of this are reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on the Council Tax.

### Note 5 - Subjective Summary

The following analysis treats DLO expenditure as agency and contracted services and does not therefore show such expenditure subjectively.

The analysis reflects the requirements of the BVACOP where internal recharges have been allocated to the service recipient and ensures that this expenditure appears only once in the accounts and that it reflects the total cost principal of BVACOP. It eliminates double counting of the same recharges. This treatment has been applied consistently for both financial years.

## Notes to the Core Financial Statements (Continued)

### Note 5 - Subjective Summary (Continued)

	2009/2010			Restated
	Gross Expenditure	Gross Income	Net Expenditure	2008/2009
	£	£	£	Net Expenditure £
Employee Expenses	305,546,269	0	305,546,269	290,640,413
Premises Related Expenses	26,796,985	0	26,796,985	37,807,043
Transport Related Expenses	12,053,343	0	12,053,343	10,042,985
Supplies and Services	84,790,251	0	84,790,251	78,581,808
Third Party Payments (See Note 10 Page 72 for more details)	111,042,350	0	111,042,350	112,999,073
Transfer Payments	136,696,817	0	136,696,817	118,372,912
Support Services	24,815,661	0	24,815,661	23,832,332
Capital Items	128,533,444	12,864,060	115,669,384	76,828,037
Government Grants	0	389,271,357	(389,271,357)	(362,023,733)
Other Grants, Reimbursements and Contributions	0	61,289,907	(61,289,907)	(57,178,202)
Customer and Client Receipts	0	69,716,871	(69,716,871)	(68,663,901)
Transfer from Provisions	0	107,750	(107,750)	(567,620)
Appropriation to Provisions	169,623	0	169,623	938,599
Recharges	0	2,428,676	(2,428,676)	(2,434,976)
<b>Net Cost of Services</b>	<b>830,444,743</b>	<b>535,678,621</b>	<b>294,766,122</b>	<b>259,174,770</b>
Loss/(Gain) on the Disposal of Fixed Assets	165,729	0	165,729	301,558
Impairment of Landfill Allowances	0	0	0	227,520
Parish Council Precepts	51,455	0	51,455	50,268
Other Levies	18,410,940	0	18,410,940	18,109,925
(Surplus)/Deficit on Trading Undertakings not included in net	0	636,507	(636,507)	(512,939)
Interest Payable and Similar Charges	9,056,029	0	9,056,029	11,932,274
Contribution of Housing Capital Receipts to Government Pool	24,905	0	24,905	53,517
Interest and Investment Income	0	3,558,380	(3,558,380)	(11,380,448)
Pensions Interest Cost and Expected Return on Pension	30,320,000	0	30,320,000	15,190,000
<b>Net Operating Expenditure</b>	<b>888,473,801</b>	<b>539,873,508</b>	<b>348,600,293</b>	<b>293,146,445</b>
Demand on the Collection Fund		95,269,313	(95,269,313)	(90,936,092)
General Government Grants (See Note 13 Page 75)		58,303,349	(58,303,349)	(44,162,322)
Non-Domestic Rates Redistribution		125,643,033	(125,643,033)	(132,944,980)
<b>(Surplus)/Deficit for the Year</b>	<b>888,473,801</b>	<b>819,089,203</b>	<b>69,384,598</b>	<b>25,103,051</b>
Capital Financing Costs	44,428,767	106,357,103	(61,928,336)	(28,462,237)
Housing Capital Receipts	0	24,905	(24,905)	(53,517)
PFI Residual Interest Appropriation	0	0	0	285,786
Transfer to Earmarked Reserves	28,815,613	0	28,815,613	2,221,932
Loss / (Gain) on the Disposal of Fixed Assets	0	165,729	(165,729)	(301,558)
Financial Instruments Adjustments	0	74,111	(74,111)	(61,113)
Delegated Budgets Underspend Carried Forward - Other	9,537,298	0	9,537,298	10,632,786
Delegated Budgets Underspend Carried Forward - Social Services Pooled Budgets	311,452	0	311,452	142,990
Delegated Budgets Underspend Carried Forward - Supporting People	503,964	0	503,964	723,660
Collection Fund Adjustment	861,559	0	861,559	(764,775)
Appropriation from Pension Reserve	36,130,000	51,120,000	(14,990,000)	350,000
PFI Appropriation Account	0	0	0	(286,076)
Transfer from Specific Reserves	0	25,648,798	(25,648,798)	(1,371,764)
Delegated Budget Surplus Brought Forward - Other	0	10,632,805	(10,632,805)	(6,486,133)
Delegated Budget Surplus Brought Forward - Social Services Pooled Budgets	0	142,990	(142,990)	(88,158)
Delegated Budget Surplus Brought Forward - Supporting People	0	723,660	(723,660)	(1,300,135)
<b>Increase in General Fund for the Year</b>	<b>1,009,062,454</b>	<b>1,013,979,304</b>	<b>(4,916,850)</b>	<b>284,739</b>

## Notes to the Core Financial Statements (Continued)

### Note 6 – Pension Costs

#### Note 6a – Teachers

Teachers employed by the authority are members of the Teachers Pension Scheme, administered by the Department for Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the Authority makes contributions based on a percentage of members' pensionable salaries.

In 2009/2010 the Council paid £12.558m to the Teachers Pensions Agency in respect of teachers retirement benefits, representing 14.1% of the pensionable pay. (The figures for 2008/2009 were £12.861m representing 14.2% of pensionable pay).

The authority is also responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers Scheme. These benefits are fully accrued in the pension liability described in [Note 37b Page 99](#) of the Balance Sheet.

#### Note 6b – Other Employees (Excluding Teachers)

In 2009/2010 the Council paid employers contributions of £20.974m (2008/2009 £20.642m) into the Tyne & Wear Pension Fund, which represents 14.5% (2008/2009 14.57%) of pensionable pay. The contribution rate is determined by the actuary based on triennial actuarial valuations, the last review completed at 31 March 2010. Under Pension Regulations overall contribution rates are set to meet 100% of the overall liabilities of the fund over a defined period. An additional £10.749m (equivalent to 7.43% of Pensionable Pay) was paid into the Fund during 2008/2009, (for 2008/2009 £10.266m equivalent to 7.25% of Pensionable Pay) in respect of the local government deficiency payment to enable the fund to support existing and future pensioners.

In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with related increases. These benefits are also reflected in the pension's liability as described in [Note 37a Pages 96 to 99](#) of the balance sheet.

#### Note 6c – FRS Disclosures

The Council participates in the Local Government Pension Scheme which is administered by South Tyneside MBC. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary. It is a funded scheme which means that the Authority and employees pay contributions into the fund, calculated at a level intended to balance pension liabilities with investment assets. In accordance with Financial Reporting Standards (FRS17) Retirement Benefits, the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to its Pension Scheme for its employees.

## Notes to the Core Financial Statements (Continued)

### Note 6c – FRS Disclosures (Continued)

The information included in the accounts and in the notes below has been provided by the Actuary to the Tyne and Wear Pension Fund. References in [ ] relate to the relevant paragraph(s) of the FRS17 requirements. The figures provided by the actuary to the Tyne and Wear Pension Fund are based on 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 results of actuarial calculations may be affected by uncertainties in a range of possible values.

- i) Employees of the Council are admitted to the Tyne and Wear Pension Fund (“the Fund”), which is administered by South Tyneside MBC under regulations governing the Local Government Pension Scheme, ‘a Defined Benefit Scheme’. [76a]
- ii) The most recent valuation was carried out as at 31 March 2007, and has been updated by the independent actuary to the Tyne and Wear Pension Fund to take account of the requirements of FRS17 in order to assess the liabilities of the fund as at 31 March 2010. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to the present value. [76(b)] The next revaluation will be carried out by the Actuary as at 31 March 2010.
- (iii) The Council’s contribution rates in respect of the period 1 April 2009 to 31 March 2011 and the contributions to cover the deficit in the Fund was certified by the Actuary as follows: [76(c)]

Period	Percentage of Pensionable Pay %	Additional Contributions £000
1 April 2008 to 31 March 2009	14.5	10.266
1 April 2009 to 31 March 2010	14.5	10.749
1 April 2010 to 31 March 2011	14.5	11.253

- (iv) The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account with accounting entries shown in the Statement of Movement in General Fund Balance. The following transactions have been made during the year:

## Notes to the Core Financial Statements (Continued)

### Note 6c – FRS Disclosures (Continued)

Local Government Pension Scheme	2009/2010 £m	2008/2009 £m
<b>Income and Expenditure Account</b>		
Net Cost of Services:		
Current Service Cost (per Actuary)	19.74	18.49
Past Service Costs (per Actuary)	1.06	0.91
Net Operating Expenditure:		
Interest Costs	63.75	60.18
Expected Return on Scheme Assets	(33.43)	(44.99)
<b>Net Charge to the Income and Expenditure Account</b>	<b>51.12</b>	<b>34.59</b>
<b>Statement of Movement on General Fund Balance:</b>		
Reversal of net charges made for retirement benefits on accordance with FRS17	(14.99)	0.35
<b>Actual amount charged against General Fund Balance for pensions in the year: Employers contributions payable to the scheme</b>	<b>36.13</b>	<b>34.94</b>

In addition to the recognised gains and losses included in the Income and Expenditure account, actuarial loss of £130,200,000 (£185,460,000 loss 2008/2009) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of losses recognised in the STRGL is £230,250,000

- (v) Further information can be found in South Tyneside Council's Pension Fund Annual Report or by contacting the Pension Fund Administrators directly. The address for correspondence is as follows: Pension Fund Administration, Finance Department, Town Hall, South Shields NE33 2RL or Telephone 0191 427 1717.



## Notes to the Core Financial Statements (Continued)

### Note 7 – Officer Emoluments and Members Allowances

#### Note 7a – Officer Emoluments

The number of employees, whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000:

	2009/2010		2008/2009	
	Non-Teaching Staff	Teaching Staff	Non-Teaching Staff	Teaching Staff
£50,000 - £54,999	31	61	27	71
£55,000 - £59,999	15	49	14	59
£60,000 - £64,999	13	48	6	34
£65,000 - £69,999	7	19	7	11
£70,000 - £74,999	5	9	7	6
£75,000 - £79,999	13	4	15	6
£80,000 - £84,999	1	5	4	3
£85,000 - £89,999	8	2	5	2
£90,000 - £94,999	2	5	0	3
£95,000 - £99,999	0	0	2	2
£100,000 - £105,000	0	1	0	0
£110,000 - £114,999	1	1	2	1
£115,000 - £119,999	1	0	1	0
£120,000 - £124,999	1	0	0	0
£130,000 - £134,999	0	0	1	0
£135,000 - £139,999	1	0	0	0
£170,000 - £174,999	0	0	1	0
£205,000 - £209,999	1	0	0	0
£215,000 - £219,999	1	0	0	0

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 2009/2010 and 2008/2009 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 Core Financial Statements (Continued)

### Note 7 – Officer Emoluments and Members Allowances

#### Note 7a – Officer Emoluments (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	Employers Pension Contributions	Total Remuneration including Pension Contributions
<b>2009/2010</b>								
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Dave Smith	201,801	0	0	0	7,905	209,706	29,261	238,967
Director of Financial Resources - Keith Beardmore	110,502	0	0	107,326	0	217,828	16,023	233,851
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Deputy Chief Executive*	66,097	0	0	0	0	66,097	9,584	75,681
Director of Adult Services	114,403	0	0	0	504	114,907	16,588	131,495
Director of Children's Services	118,890	0	0	0	0	118,890	17,239	136,129
Director of City Services*	64,885	0	0	0	0	64,885	9,408	74,293
Chief Solicitor	90,100	0	0	0	0	90,100	14,109	104,209
Director of Development and Regeneration*	64,609	0	0	0	0	64,609	9,368	73,977
Director of Community and Cultural Services*	34,867	0	0	0	0	34,867	5,056	39,923
Acting Director of Childrens Services	91,795	0	0	0	5,802	97,597	13,310	110,907

\* Officer not in post for full year.

## Notes to the Core Financial Statements (Continued)

### Note 7 – Officer Emoluments and Members Allowances

#### Note 7a – Officer Emoluments (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	Employers Pension Contributions	Total Remuneration including Pension Contributions
<b>2008/2009</b>								
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Dave Smith	165,723				8,371	174,094	24,029	198,123
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Director of Adult Services	112,993					112,993	15,576	128,569
Director of Children's Services	118,622					118,622	17,239	135,861
Director of Financial Resources	104,888					104,888	15,252	120,140
Chief Solicitor	97,826					97,826	14,091	111,917
Director of Development and Regeneration	110,758					110,758	16,060	126,818
Director of Community and Cultural Services	104,600					104,600	15,167	119,767

## Notes to the Core Financial Statements (Continued)

### Note 7 – Officer Emoluments and Members Allowances

#### Note 7b – Members Allowances

	2009/2010 £000	2008/2009 £000
Total Members Allowances paid in the Year	1,036	1,004

### Note 8 – Related Party Transactions

The Statement of Recommended Practice requires the disclosure of any material transactions with related parties to ensure that stakeholders are aware when these transactions take place and the amount and implications of such transactions.

Related party transactions are those transactions with related parties (i.e. 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 has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits).

All material related party transactions that follow the SORP guidance are disclosed below:

#### Council Members

In respect of 2009/2010 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 £4.537m made by the Authority in 2009/2010 (£4.087m in 2008/2009), of which £0.026m (£0.430m for 2008/2009) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £2.133m (£2.430m for 2008/2009) payments to companies and £2.378m (£1.227m for 2008/2009) 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 the 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. In addition, the award of any contracts by the Authority's Procurement Procedure Rules approved by the Council. 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.

#### Chief Officers

In respect of the 2009/2010 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.

## Notes to the Core Financial Statements (Continued)

### Note 8 – Related Party Transactions (Continued)

#### Other Relevant Information

Details of the Council's transactions with Central Government, other Local Authorities, related companies, levying bodies, schools with delegated budgets and employee pension funds are shown separately in the appropriate sections of the Statement of Accounts. In summary 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, Back on the Map Limited, Raich Carter Sports Centre, Pooled Budget Arrangements with the local Teaching Primary Care Trust and Tyne and Wear Care Alliance.

The council provides a range of services to various external organisations, the scale of the charges in respect of this are set out below:

	2009/2010 £	2008/2009 £
Tyne and Wear Fire and Rescue Service	599,651	586,734
Beamish Joint Committee	23,393	8,430
Beamish Museum Limited	47,033	55,320
Beamish Museum Trading Limited	12,441	19,059
Tyne and Wear Economic Development Company	73,478	70,847
Tyne and Wear Economic Development Company Joint Committee	13,305	12,916
	<b>769,301</b>	<b>753,306</b>

### Note 9 – Minimum Revenue Provision

For 2009/2010 the Minimum Revenue Provision is determined by reference to statutory guidelines and is annually by the Council as part of the budget setting exercise. The Accounting Policies on [Page 25 and 26](#) provides more detail on accounting for MRP in order to comply with the requirements of the SORP. The provisions are as follows:

	2009/2010 £	Restated 2008/2009 £
Statutory MRP	9,670,284	9,391,345
Voluntary MRP	862,015	735,794
	<b>10,532,299</b>	<b>10,127,139</b>

### Note 10 – Agency Services

These are services that are performed for the Council by other Authorities or Bodies, but where the Council still has responsibility for that service and reimburses the Authority or Body involved for the cost of the work or service carried out on its behalf. The principal areas of agency work are shown below and more detailed information can be made available on request of the Director of Financial Resources, Office of the Chief Executive, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

## Notes to the Core Financial Statements (Continued)

### Note 10 – Agency Services (Continued)

	2009/2010 £m	2008/2009 £m
Residential, Nursing and Home Care Provision	57.7	48.8
Fostering and Adoption Service	5.8	5.5
Payments to Voluntary Organisations	1.7	4.9
Health Trust	2.1	2.9
Supporting People Contracts	6.0	6.5
Highways Maintenance	11.0	13.0
Waste Disposal	7.5	7.0
Grounds maintenance Contracts	0.0	0.2
Council Services provided to Schools Delegated Budgets	3.5	3.4
School Meals Contract provided to Schools	6.0	6.3
School Placements for Special Education in Other Authorities	1.1	1.2
Museums Service - Joint Authority	4.0	0.9
Other Payments	3.6	12.4
<b>Total Agency Payments</b>	<b>110.0</b>	<b>113.0</b>

### Note 11 – Long Term Contracts – Private Finance Initiative (PFI)

The Council's first PFI scheme, Sandhill View School and Community and Learning Centre, became operational in September 2002 and the SORP requires the Council to provide details about the contract and the committed revenue resources for future financial years.

The Council is also committed to making future payments of £51.337m over the remaining term of the 25 year contract but this figure is reduced by the impact of the PFI Government Grant which is estimated at £27.034m over the same period of the contract. This then leaves an estimated remaining cost of the PFI scheme for future years to the Council of £24.303m as at 31 March 2009. It is also important to note that the additional costs of the scheme must also take into account budgets which previously covered some of the facilities now provided at the Sandhill View facility e.g. Sandhill View School and Grindon Library and that more facilities are also provided than were previously available.

The Council also entered into a PFI contract, on 12 August 2003, with Balfour Beatty Power Networks Ltd. 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 Council is also committed to making further payments estimated at £105.839m over the remaining term of the 25 year contract but this figure is reduced by the effect of the PFI Government Grant support which is estimated at £40.153m over the same period of the contract. This then leaves an estimated remaining cost of the PFI scheme for future years to the Council of £65.686m as at 31 March 2009. It is also important to note that the additional costs of the scheme must also take into account budgets which previously covered the facilities now provided and also the fact that all street lighting and traffic signs have been fully replaced and modernised as part of the contract.

The estimated contract payments for both PFI contracts can be analysed over the term of the respective contracts as follows, with the contract for Sandhill View Community and Learning Centre expiring in September 2027 (2027/2028) and the Highway Signs and Street Lighting contract expiring in August 2008 (2028/2029).

As part of the reforms to the Local Authority PFI Grant announced by the former Office of the Deputy Prime Minister (ODPM) now the Department for Communities and Local Government (CLG), the Authority took advantage of the opportunity offered in relation to both Sandhill

View and the Street Lighting schemes to move to the annuity method of calculating the grant entitlement. This method of calculation became effective from the 1 April 2005 and the figures set out in the table below reflect the change in Government Grant receivable.

	2010/2011	2011/2012 - 2015/2016	2016/2017 - 2020/2021	2021/2022 - 2025/2026	2026/2027 - 2028/2029	Total
Finance Lease Creditor Repayment	562,328	2,643,684	2,521,777	4,107,875	2,300,278	12,135,942
Finance Lease Creditor Interest	3,455,070	16,614,683	15,824,318	14,659,008	5,461,076	56,014,155
Lifecycle Maintenance Costs	308,002	1,654,501	1,862,803	2,097,330	1,147,099	7,069,735
Contingent Rentals	345,204	1,783,627	1,799,178	2,091,990	309,246	6,329,245
Operating Costs	2,970,843	16,996,639	20,878,933	23,430,735	11,349,237	75,626,387
PFI Grant	(2,343,748)	(16,483,522)	(18,668,740)	(18,668,740)	(9,632,868)	(65,797,618)
<b>Total</b>	<b>7,641,447</b>	<b>39,693,134</b>	<b>42,887,009</b>	<b>46,386,938</b>	<b>20,566,936</b>	<b>157,175,464</b>

## Note 12 – Pooled Budgets

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. 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 three such partnership schemes with Sunderland Teaching Primary Care Trust (STPCT). The notes below summarises the financial performance of each scheme and offers a brief explanation of their purpose:

### 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.

	2009/2010 £'000	2008/2009 £'000
Sunderland City Council	(1,038)	(991)
Sunderland Teaching Primary Care Trust	(1,326)	(1,265)
<b>Total Funding</b>	<b>(2,364)</b>	<b>(2,256)</b>
Gross Expenditure	2,229	2,381
<b>Net (Funding) / Expenditure</b>	<b>(135)</b>	125

### 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.

	2009/2010 £'000	2008/2009 £'000
Sunderland City Council	(901)	(869)
Sunderland Teaching Primary Care Trust	(1,405)	(1,355)
Learning Disabilities Development Fund	(522)	(475)
<b>Total Funding</b>	<b>(2,828)</b>	<b>(2,699)</b>
Gross Expenditure	2,553	2,511
<b>Net (Funding) / Expenditure</b>	<b>(275)</b>	<b>(188)</b>

## Notes to the Core Financial Statements (Continued)

### Note 12 – Pooled Budgets (Continued)

#### 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.

	2009/2010 £	2008/2009 £
Sunderland City Council	(1,274)	(1,235)
Sunderland Teaching Primary Care Trust	(1,015)	(991)
<b>Total Funding</b>	<b>(2,289)</b>	<b>(2,226)</b>
Gross Expenditure	2,242	2,127
<b>Net (Funding) / Expenditure</b>	<b>(47)</b>	<b>(99)</b>

### Note 13 – General Government Grants

The Council received the following general government grants that are not allocated to specific services, in addition to redistributed National Non-Domestic Rates which is shown separately on the Income and Expenditure Account.

	2009/2010 £	2008/2009 £
Revenue Support Grant	29,000,033	18,507,022
Local Area Business Growth Incentive Scheme Grant	379,443	272,850
Area Based Grant (ABG)	28,923,873	25,382,450
<b>Total General Government Grant Received</b>	<b>58,303,349</b>	<b>44,162,322</b>

Area Based Grant replaced Local Area Agreement Grant in 2008/2009. Area Based Grant is a none ring-fenced general grant, in other words no conditions on its use are imposed as part of the grant determination ensuring full local control over how the grant can be used. This means that, unlike Local Area Agreement Grant, its use is not restricted to supporting the achievement of Local Area Agreement targets.

### Note 14 – Audit Costs

The Sunderland City Council incurred the following fees in respect of external audit and inspection:

	2009/2010 £	2008/2009 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor.	330,325	352,737
Fees payable to the Audit Commission with regard to additional external audit services carried out by the appointed auditor.	6,000	0
Fees payable to the Audit Commission for the certification of grant claims and returns	61,876	46,557
<b>Total Costs</b>	<b>398,201</b>	<b>399,294</b>



## Notes to the Core Financial Statements (Continued)

### Note 15 – Dedicated Schools Grant (DSG)

The Councils expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). 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 2008. The School Budget includes elements for a range of educational services provided on an authority-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 2009/2010 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2009/2010	12,179	144,470	156,649
Brought forward from 2008/2009	0	152	152
Carry forward to 2010/2011 agreed in advance			
Agreed budgeted distribution in 2009/2010	12,179	144,622	156,801
Actual central expenditure	11,740		11,740
Actual ISB deployed to schools	0	145,121	145,121
Local authority contribution for 2009/2010	(439)	499	60
Carry forward to 2010/2011 agreed in advance	0	0	0

In 2009/2010 the Council received £156.649m compared to £158.861m in 2008/2009. This grant continues to be credited directly against the Education Services (Net cost of service line) on the Income and Expenditure Account.

The school contingency figure is approved by the Schools Forum at the beginning of each financial year and then is allocated to schools as necessary. The purpose of this funding is two-fold: (i) to support the development of Sunderland Futures, which is a partnership of all Secondary schools to deliver diplomas and (ii) adjustments to school budget shares for named SEN pupils.

## **Notes to the Core Financial Statements (Continued)**

### **Notes to the Statement of Movement on the General Fund Balance**

#### **Note 16 – Statement of Movement on the General Fund Balance**

The General Fund balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves earmarked for future expenditure.

The Income and Expenditure Account however shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. The SORP requires the Authority to reconcile the Income and Expenditure Account with the Movement of General Fund Balance, (which is based on a different accounting basis). The main accounting differences are set out below:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from useable capital receipts rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The reconciliation statement therefore summarises the differences between the outturn and the Income and Expenditure Account and the General Fund Balance.

## Notes to the Core Financial Statements (Continued)

### Note 17 – Reconciling Items for the Statement of Movement on the General Fund Balance

	Notes	2009/2010		2008/2009 Restated	
		£	£	£	£
<b>Amounts to be included in the Income and Expenditure Account but not required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>					
Amortisation of intangible fixed assets		(170,732)		(139,350)	
Depreciation and impairment of fixed assets		(101,951,069)		(77,233,946)	
Government Grants Deferred amortisation		14,681,146		20,214,446	
Net revenue expenditure funded from capital under statute		(4,235,302)		(6,985,878)	
Net gain / (losses) on sale of fixed assets		(165,729)		(301,558)	
Collection Fund Adjustment		861,559		(764,775)	
Differences between amounts debited / credited to the income and expenditure account and amounts payable / receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt		(74,111)		(61,113)	
Net Charges made for retirement benefits in accordance with FRS17	6c	(51,120,000)	(142,174,238)	(34,590,000)	(99,862,174)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>					
Minimum revenue provision for capital financing	9	8,271,504		8,231,116	
MRP Adjustment PFI		1,398,780		1,160,229	
Capital expenditure charged in year to the General Fund Balance		19,215,322		12,294,721	
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(24,905)		(53,517)	
Employers contributions payable to the Tyne and Wear Pension Fund and retirement benefits payable direct to pensioners	6c	36,130,000	64,990,701	34,940,000	56,572,549
Voluntary MRP			862,015		735,794
<b>Transfer to or from Earmarked Reserves</b>	48				
Residential Homes Reserve		0		(27,159)	
General Capital Reserve		1,105,763		2,924,960	
Other Miscellaneous Reserves		1,933,001		281,983	
General Revenue Reserves - Port		62,591		87,605	
Inward Investment Reserve		0		(196,565)	
Play Areas Reserve		(272,961)		(326,129)	
Amenity Areas Reserve		2,753		0	
SAP Development Reserve		0		(79,442)	
Apprentice Back pay Reserve		(179,671)		0	
Strategic Investment Reserve		(4,997,894)		4,035,047	
Service Pressures and Priorities Reserve		(211,933)		(1,109,826)	
Economic Development Reserve		0		(225,000)	
Repairs and Renewals Reserve		(714,375)		136,288	

## Notes to the Core Financial Statements (Continued)

### Note 17 - Reconciling Items for the Statement of Movement on the General Fund Balance (Continued)

Table continued from Page 78

	Notes	2009/2010		2008/2009 Restated	
		£	£	£	£
<b>Transfer to or from Earmarked Reserves</b>					
Waste Disposal Reserve		(430,115)		85,115	
Energy Costs Reserve		0		(1,000,000)	
Commuted Sums Reserve		37,202		175,845	
Pilotage Cutter Replacement Reserve		330		3,211	
Strategic Investment Plan Reserve		(1,197,492)		5,993,579	
Insurance Reserve		(184,371)		(1,065,009)	
School Meals Consortium Reserve		(100,268)		(81,122)	
School Meals Reserve		0		(180,000)	
Landfill Allowance Trading Scheme (LATS) Reserve		0		(227,520)	
Sandhill View PFI Smoothing Reserve		(160,546)		29,966	
School Community Activity Reserve		(121,633)		(356,999)	
Street Lighting PFI Smoothing Reserve		(188,805)		29,798	
Children's Services Modernisation Reserve		27,061		50,000	
External Placements Reserve		200,000		150,000	
Education Redundancy Reserve		80,029		739,083	
Connexions Hub Tyne and Wear Reserve		(29,003)		219,897	
Connexions Hub Reserve		326,755		0	
Pupil Referral Unit Reserve		0		84,931	
Extra District Fees Reserve		61,495		77,000	
Safeguarding Reserve		(250,000)		452,806	
Connexions Hub Agreement Reserve		0		379,370	
Targeting Support Reserve		(317,165)		954,610	
Sunderland Safeguarding Children reserve		(7,493)		0	
Modernisation and Service Pressures Reserve		0		800,000	
Unknown Future Pensions Reserve		(331,531)		331,531	
The Place Reserve		(69,962)		0	
Highways Maintenance Reserve		(65,000)		185,000	
Cultural Development Reserve		(192,755)		0	
Civil Parking Enforcement reserve		0		100,653	
BIP Urban Management fee clawback Reserve		(120,000)		0	
VCD Support reserve		(70,000)		70,000	
Industrial Units Reserve		(307,000)		307,000	
Reserve		2,600,000		0	
WNF - Junction Improvements Reserve		600,000		0	
WNF - Visible Workshop and Other Projects Reserve		3,600,000		0	
Children Placement Strategy Reserve		900,000		0	
House Sale Income reserve		1,249,808		0	
Economic Downturn reserve		900,000		300,000	
			3,166,815		14,110,507
<b>Appropriations</b>					
Delegated Budget Surplus		(1,095,507)		4,146,653	
Delegated Budget Surplus - Social Services Pooled Budgets		168,462		54,832	
Delegated Budget Surplus - Supporting People		(219,696)	(1,146,741)	(576,473)	3,625,012
<b>Net additional amount required to be credited to the General Fund Balance for the year</b>			(74,301,448)		(24,818,312)

## Notes to the Core Financial Statements (Continued)

### Note 18 – Movement on the Pension Reserve and Details of the Actuarial Gains and Losses

#### Note 18a – Movement on the Pensions Reserve

	Restated Balance at 1 April 2008 £m	Movement 2008/2009 £m	Balance at 1 April 2009 £m	Movement 2009/2010 £m	Balance at 31 March 2010 £m
Pensions Reserve (Please see Note 41 for further details)	(243.820)	(185.110)	(428.930)	<b>(145.190)</b>	<b>(574.120)</b>

#### Note 18b – Actuarial Gains / Losses included in the STRGL

The actuarial gains and losses identified as part of the movement on the Pensions Reserve for 2009/2010 showed a net loss of £130,200,000 (£185,460,000 net loss in 2008/2009), this can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31 March of each year. This information is provided by the Actuary as part of the FRS17 process and means this is independently verified by specialist pension advice.

	2007/2008 Restated		2008/2009		2009/2010	
	Amount £m	% of Scheme Assets / Liabilities	Amount £m	% of Scheme Assets / Liabilities	Amount £m	% of Scheme Assets / Liabilities
a) Actual return less expected return on assets	(35.340)	(4.0)% Liabilities	(119.070)	(12.3)% Liabilities	<b>135.010</b>	<b>10.2%</b> <b>Liabilities</b>
b) Changes in the assumptions underlying the present value of pension liabilities	111.750	12.6% Liabilities	(62.260)	(6.4)% Liabilities	<b>(277.120)</b>	<b>(20.9%)</b> <b>Liabilities</b>
c) Experience gains and losses on pension liabilities	9.820	(1.5)% Assets	(4.130)	0.8% Assets	<b>11.910</b>	<b>(1.6%)</b> <b>Assets</b>
<b>Total Gains / (Losses) included in the STRGL</b>	86.230		(185.460)		<b>(130.200)</b>	

#### Volatility of results of FRS17 and reasons for variation

The results reported under FRS17 reporting standard can change dramatically depending upon market conditions. The liabilities are linked to yields on AA-rated corporate bonds whereas the majority of the assets of the fund are invested in equities. This leads to volatility in the net pension asset on the Balance Sheet and to a lesser extent in the Statement of Total Recognised Gains and (Losses), the reasons for the variations are set out below:

- During the year ended the 31 March 2010 the investment return on fund assets was greater than assumed at the start of the year. This led to a gain on the 'Actual Return less expected return on assets' section on the Total Actuarial Loss.
- The financial assumptions underlying the calculation of the liabilities used by the Actuary differed between the two financial years with the effect that the liabilities have increased in value, resulting in a loss in the 'Change in assumptions' section of the Total Actuarial Loss

## Notes to the Core Financial Statements (Continued)

### Note 18b – Actuarial Gains / Losses included in the STRGL (Continued)

- The results of the latest full actuarial valuation as at 31 March 2007 have been compared to the differences between actual experience since the previous valuation, and the assumptions for FRS17 proposed in previous years which has better informed the gains and losses on liabilities. This has meant an observed loss on liabilities within the 'Experience gains and losses on pension liabilities' section of the Total Actuarial Loss.

### Note 19 – Movement in Unrealised Value of Fixed Assets showing Surplus arising on the revaluation of fixed assets

	2009/2010 £	2008/2009 Restated £
Gains on revaluation of Fixed Assets in year	42,180,246	42,670,331
Impairment losses on fixed assets not charged to Income and Expenditure Account	(85,200)	(102,785,147)
<b>Surplus arising on the revaluation of fixed assets as reported as part of the STRGL</b>	<b>42,095,046</b>	(60,114,816)
Impairment losses on fixed assets charged to income and expenditure account	(71,269,177)	(47,943,717)
<b>Total increase / (decrease) in unrealised capital resources in year</b>	<b>(29,174,131)</b>	(108,058,533)

This shows the extent to which the value of the Authority's asset portfolio has changed in the year, made up of:

- Increases in fixed asset balance arising from revaluations.
- Reductions in the fixed asset balance arising from impairments.

Asset values may decrease following a revaluation or following a reassessment of an asset's value. In such circumstances this impairment is accounted for by either, charging the loss to the relevant service revenue account where the impairment is attributable to a clear consumption of economic benefits, or by writing the loss off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

### Note 20 – Analysis of other Gains / Losses

	2009/2010 £	2008/2009 £
Reduction in the fair value of the shareholding holding in Newcastle Airport	708,043	11,105,562
<b>Total losses</b>	<b>708,043</b>	11,105,562

More details of the reduction in the fair value of the airport can be found on [Page 17](#) of the Director of Financial Resources Foreword.

## Notes to the Core Financial Statements (Continued)

### Notes to the Balance Sheet

#### Note 21 – Movement of Fixed Assets

	Operational Land and Buildings (PFI) £	Operational Land & Buildings £	Infra-structure (PFI) £	Infra-structure £	Vehicles, Furniture, Plant & Equipment £	Investment Properties £	Assets Under Construction £	Assets held for disposal £	Restated Total £
Gross Book Value 31 March 2009	24,891,258	718,414,934	30,081,499	242,119,441	54,216,375	40,141,372	80,285,576	87,828,000	1,277,978,455
<b>Reclassifications</b>		<b>64,506,578</b>		<b>984,994</b>	<b>112,809</b>	<b>(245,000)</b>	<b>(65,359,381)</b>	<b>0</b>	<b>0</b>
<b>Additions (Capital Expenditure)</b>		<b>28,909,296</b>		<b>6,587,399</b>	<b>12,119,308</b>	<b>0</b>	<b>21,014,801</b>	<b>0</b>	<b>68,630,804</b>
<b>Disposals (Sales)</b>		<b>0</b>		<b>0</b>	<b>0</b>	<b>(100,000)</b>	<b>0</b>	<b>0</b>	<b>(100,000)</b>
<b>Transfer of Assets</b>		<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,015,000)</b>	<b>0</b>	<b>(1,015,000)</b>
<b>Revaluations</b>		<b>19,628,182</b>		<b>0</b>	<b>0</b>	<b>5,539,860</b>	<b>1,033,000</b>	<b>2,976,000</b>	<b>29,177,042</b>
<b>Impairments</b>		<b>(59,115,497)</b>		<b>0</b>	<b>(909,655)</b>	<b>(3,121,364)</b>	<b>(1,124,270)</b>	<b>(8,737,000)</b>	<b>(73,007,786)</b>
<b>Gross Book Value at 31 March 2010</b>	<b>24,891,258</b>	<b>772,343,493</b>	<b>30,081,499</b>	<b>249,691,834</b>	<b>65,538,837</b>	<b>42,214,868</b>	<b>34,834,726</b>	<b>82,067,000</b>	<b>1,301,663,515</b>
<b>Accumulated Depreciation and Impairment</b>	<b>2,569,235</b>	<b>33,832,736</b>	<b>3,635,572</b>	<b>51,193,820</b>	<b>23,480,169</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>114,711,532</b>
<b>Depreciation on Revalued Assets</b>		<b>(14,526,657)</b>		<b>0</b>	<b>(129,951)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14,656,608)</b>
<b>Depreciation for Year</b>	<b>504,290</b>	<b>18,282,469</b>	<b>1,077,734</b>	<b>6,082,829</b>	<b>4,734,567</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30,681,889</b>
<b>Depreciation Carried Forward</b>	<b>3,073,525</b>	<b>37,588,548</b>	<b>4,713,306</b>	<b>57,276,649</b>	<b>28,084,785</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>130,736,813</b>
Net Book Value 31 March 2009 Restated	22,322,023	684,582,198	26,445,927	190,925,621	30,736,206	40,141,372	80,285,576	87,828,000	1,163,266,923
<b>Net Book Value 31 March 2010</b>	<b>21,817,733</b>	<b>734,754,945</b>	<b>25,368,193</b>	<b>192,415,185</b>	<b>37,454,052</b>	<b>42,214,868</b>	<b>34,834,726</b>	<b>82,067,000</b>	<b>1,170,926,702</b>
Nature of Asset Holding									
<b>PFI</b>	<b>21,817,733</b>		<b>25,368,193</b>						<b>47185926</b>
<b>Owned</b>		<b>734,754,945</b>		<b>192,415,185</b>	<b>37,454,052</b>	<b>42,214,868</b>	<b>34,834,726</b>	<b>82,067,000</b>	<b>1,170,926,702</b>

The Council holds a number of community assets such as parks which are not used in the direct provision of services and are intended to be held in perpetuity. As such these assets have been assessed as having no financial value to the council.

## Notes to the Core Financial Statements (Continued)

### Note 21 – Movement of Fixed Assets (Continued)

Capital expenditure by service was as follows:

	2009/2010 £	2008/2009 £
<b>Capital Expenditure:</b>		
Leader / Deputy Leader	1,313,562	1,096,332
Resources	2,378,447	1,978,674
Children's and Learning City	53,552,865	82,084,429
Healthy City	7,531,069	5,159,813
Prosperous City	1,958,482	2,442,424
Safer City	200,227	495,319
Attractive and Inclusive City	25,333,558	18,518,009
Sustainable Communities	6,535,913	8,220,915
Responsive Local Services and Customer Care	1,117,069	3,535,200
	<b>99,921,192</b>	<b>123,531,115</b>
<b>Sources of Finance:</b>		
Loans	7,838,462	9,719,675
Capital Receipts	2,485,354	8,019,753
Government Grants	62,519,365	88,814,384
Other Grants and Miscellaneous Contributions	7,862,690	4,682,582
Revenue	4,057,805	4,190,429
Reserves	15,157,516	8,104,292
	<b>99,921,192</b>	<b>123,531,115</b>

Expenditure on fixed assets for 2009/2010 was £68.631m (£101.879m in 2008/2009) expenditure on intangible assets was £0.241m (£0.314m in 2008/2009) and the remainder £31.049m (£21.338m in 2008/2009) representing grants, advances to other organisation for capital purposes, de-minimis expenditure transferred to revenue and expenditure on property not owned by the Authority.



## Notes to the Core Financial Statements (Continued)

### Note 21 – Movement of Fixed Assets (Continued)

	2009/2010 £	Restated 2008/2009 £
<b>Opening Capital Financing Requirement at 1 April</b>	<b>241,256,914</b>	204,723,332
Prior Year Adjustment	0	305,213
Prior Year adjustment PFI		36,635,833
<u>Capital Investment</u>		
Operational Assets	68,630,804	101,879,193
Non-Operational Assets	0	0
Intangible Assets	241,441	313,829
Revenue Funded From Capital Under Statute	31,048,946	21,338,094
<u>Sources of Finance</u>		
Capital Receipts	(2,485,354)	(8,019,753)
Government Grants and Other contributions	(70,382,055)	(93,496,967)
Direct Revenue Financing (includes minimum revenue provision)	(29,747,620)	(22,421,860)
<b>Closing Capital Finance Requirement</b>	<b>238,563,076</b>	241,256,914
<b>Explanation and Movements in Capital Financing Requirement</b>		
Increase / (Decrease) in underlying need to borrow (PFI)	(1,398,780)	35,475,604
Increase / (Decrease) in underlying need to borrow (Supported by government financial assistance)	(992,566)	963,457
Increase in underlying need to borrow (Unsupported by government financial assistance)	(302,492)	94,521
<b>Movement in Capital Financing Requirement</b>	<b>(2,693,838)</b>	36,533,582

The Local Government Act 2003 provided a new prudential regime for the control of Local Authority capital expenditure. Under the prudential framework Local Authorities are free to borrow without specific government consent if they can afford to service the debt without government support. The basic principle is that authorities will be free to invest in capital expenditure as long as the 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 the budget setting process. These indicators are then regularly monitored throughout the year.

The capital financing requirement is one of the indicators that must be produced as part of the 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 capital purpose, the Local Authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus an estimate of any additional capital financing requirement for the current and next two financial years.

The Authority had no difficulty meeting this requirement in 2009/2010, nor are any difficulties envisaged for future years. All unsupported borrowing is undertaken following a capital appraisal process. The council makes a minimum revenue provision to repay borrowing over time. This measure comprises two elements. The first element is a statutory element (where all borrowing to 31/03/2008 and any new supported borrowing is repaid using existing regulation 28 of the Capital Financing Regulations of the Local Government Act 2003 and unsupported borrowing since 01/04/2008 is repaid based on the estimated life of the asset the loan is used to finance). Whilst the second element is a voluntary element (made to ensure

## Notes to the Core Financial Statements (Continued)

### Note 21 – Movement of Fixed Assets (Continued)

that the council does not provide less resource to repay debt than it would have done under the previous system of capital controls, to ensure that loans for restricted advances are repaid in full, to accelerate loan repayment on invest to save schemes and to accelerate loan repayment where loans have been used to finance capital spend previously met from operating leases such that loans outstanding are repaid over the life of the asset).

Valuations of Council dwellings, operational land and buildings, community assets and non-operational assets have been carried out by N.Wood, qualified Chartered Surveyor (A.R.I.C.S) of the Council. All other asset categories have been valued by the Director of Financial Resources. Assets are valued and asset categories assessed with guidance supplied by CIPFA and A.R.I.C.S. The Council's capital expenditure is held in non-operational assets as an asset under construction and added to the appropriate fixed asset category once the scheme is complete.

Revaluation of assets takes place as part of a five year rolling programme with a proportion of all assets being re-valued each year, in addition an assessment for impairment is undertaken annually. The remaining useful life of an asset is assessed at the same time as the individual asset is re-valued. Depreciation has been calculated on a straight line basis based on the value of the asset at 1 April 2009, less any residual value, divided by life expectancy. Capital spend on schemes completed in the year is added to the asset value but this spend is not subject to depreciation until the following year. The assets held for disposal are strategic long term assets and represent vacant land and property awaiting either redevelopment for strategic purposes or disposal in future years. Investment properties include assets held for the primary purpose of investment from which a commercial rental income is obtained. Assets under construction include capital works still in progress at 31 March 2009, land and property purchased in advance of capital schemes and land and property awaiting reuse.

Operational buildings are depreciated over the anticipated useful life of the asset, which can be any length of time between 1 and 60 years. Where an asset is assessed as having a useful life in excess of 50 years depreciation is charged over 60 years. Vehicles, plant, furniture and equipment are depreciated over the anticipated useful life of the asset, generally between 3 and 10 years. Infrastructure Assets are depreciated over the anticipated useful life of the asset generally 40 years. All assets are assessed each year for any material impairment, by the Council's Valuer, in accordance with FRS11. All impairment is charged to the Income and Expenditure Account in the year that it occurred, providing that there has been no corresponding revaluation for the asset in earlier years that has been credited to the council's revaluation reserve. Net assets have been reduced by £71.4m to reflect impairment in the year. The main areas of impairment relate to capital works not adding an equivalent value to an asset, particularly in respect of new schools constructed under the Building Schools for the Future Programme which has resulted in £42.8m net impairment following replacement of existing schools, in addition there has been revaluations of investment property impairing asset values by £3.1m and revaluations of assets held for disposal impairing asset values by £8.7m.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets with gross valuations of fixed assets valued at current value shown by year of valuation:

## Notes to the Core Financial Statements (Continued)

### Note 21 – Movement of Fixed Assets (Continued)

	Operational Land and Buildings £	Non-Operational Assets £	Infrastructure £	Vehicles, Furniture & Plant £	Total £
Valued at Historical Costs	10,246,742	29,589,726	279,773,333	65,538,837	385,148,638
Valued at Current Value in					
2005/2006	34,036,000	8,029,180			42,065,180
2006/2007	3,698,000	4,012,000			7,710,000
2007/2008	6,791,000	570,000			7,361,000
2008/2009	507,174,007	19,767,000			526,941,007
2009/2010	235,289,000	97,148,690			332,437,690
<b>Total as at 31 March 2010</b>	<b>797,234,749</b>	<b>159,116,596</b>	<b>279,773,333</b>	<b>65,538,837</b>	<b>1,301,663,515</b>
Total as at 31 March 2009	718,414,934	208,254,948	242,119,441	54,216,375	1,223,005,698

The table reflects the categorisation of Council Assets. Voluntary Aided schools and Foundation schools are excluded from the analysis as the schools are not reflected in the Council's asset register. Academy schools are still included in the analysis until asset ownership transfers to the governing body of the school.

	31 March 2010	31 March 2009		31 March 2010	31 March 2009
Schools	90	91	Multi Storey Car Parks	3	3
Other Education Establishments	13	13	Kilometres of Highway	1,267	1,234
Children's Homes and Day Centres	3	3	Museums and Galleries	4	4
Centres / Homes for Physical Disability	4	4	Libraries	14	14
Centres / Homes for Learning Disability	27	27	Leisure Centres (Multi-Purpose)	3	3
Centres / Homes for the Mentally Ill	23	23	Leisure facilities including swimming pools	3	2
Social Services Multi-Purpose Centre	1	1	Sports Complexes	5	6
Social Services Administrative Offices Etc.	13	13	Tennis Centre and Pool	1	1
Factory Units / RE Government Centre	128	128	Crematorium	1	1
Port	1	1	<b>Community Assets</b>		
Pilotage Vessels	2	2	Reclaimed Land (Hectares)	450	450
Retail market	1	1	Parks and Open Spaces (Hectares)	3,895	3,895
Civic Centre and Offices	12	11	Country Parks (Hectares)	241	241
Theatre	1	1	Miles of Coastline	6	6
Tourist Information Centre	1	1	Cemeteries	10	10
Off Street Car parks	34	34	Allotments (Hectares)	83	83

## Notes to the Core Financial Statements (Continued)

### Note 21 – Movement of Fixed Assets (Continued)

It is estimated that the Council has commitments under capital contracts of approximately £36.9m of approved capital spending which may be incurred over the next few years (£36.8m in 2010/11, and £0.1m in future years). The largest of these commitments are, £7.0m relating to the Building Schools for the Future Programme, £2.2m for Building Schools for the Future ICT contract, £4.4m relating to the Sunderland Strategic Transport Corridor, £4.1m relating to area renewal schemes at Hetton Downs, Eppleton and Castletown, £2.5m relating to works at the Central Car Park, £2.3m relating to Recycling provision, £1.9m relating to redevelopment of Barnes Park and £1.6m relating to Extra Care Housing schemes. It is anticipated that all major schemes will be completed in 2010/2011 with the exception of the Sunderland Strategic Transport Corridor.

### Note 22 – Lease and Hire Purchase Agreement

Conforming to the requirements of SSAP21, Accounting for Leases and Hire Purchase Contract, the Council has no leases qualifying as finance leases which result in the recognition of an asset in the balance sheet. A summary of transactions during 2009/2010 related to leasing meeting the SSAP21 definition of operating leases is shown below.

#### Finance Leases

No assets were acquired under Finance Leases during the year.

#### Operating Leases – Vehicles

The capital value of assets acquired under operating leases for 2009/2010 was £22,100 (2008/2009 £Nil).

The total operating lease rentals paid in 2009/2010 was £604,871 (2008/2009 £822,876).

The liability for remaining primary period rentals of operating leases for 2009/2010 was £455,718 (2008/2009 £835,966). The outstanding liability can be analysed as follows:

	At 31 March 2010 £	At 31 March 2009 £
Leasing Expiring in 1 year	234,694	393,830
Leasing Expiring in 2 to 5 years	221,024	442,136
Leasing Expiring in 6 years and over	0	0
	<b>455,718</b>	<b>835,966</b>

#### Operating Leases – Land and Buildings

The Council is lessee of a small number of short term property leases. The annual payment is currently £672,516 (2008/2009 £600,797) relating to the following periods:

	At 31 March 2010 £	At 31 March 2009 £
Leasing Expiring in 1 year	309,780	283,155
Leasing Expiring in 2 to 5 years	227,299	124,267
Leasing Expiring in 6 years and over	135,437	193,375
	<b>672,516</b>	<b>600,797</b>

#### Lease Rental Income (the Council as lessor)

The Council has granted a number of leases on an operational lease basis, (where the assets in terms of risks and rewards of ownership remain the Council's). Rent income receivable during the year is summarised as follows:

## Notes to the Core Financial Statements (Continued)

### Note 22 – Lease and Hire Purchase Agreement (Continued)

	At 31 March 2010 £	At 31 March 2009 £
Rental Premises (including a market)	1,192,083	1,136,950
Industrial Premises	1,526,114	1,848,080
Other	3,488,549	2,853,690
	<b>6,206,746</b>	<b>5,838,720</b>

### Note 23 – Intangible Assets

Intangible assets represent expenditure which does not result in tangible fixed assets but where the Authority does control the economic benefits arising from the expenditure. FRS10 requires Authorities to capitalise Intangible Assets and amortise the cost of these purchases over the life of the asset.

Movement in Intangible Assets	Software Licences £
Original Cost	1,664,068
Amortisation to 1 April 2009	(344,112)
Balance at 1 April 2009	1,319,956
<b>Expenditure in Year</b>	<b>241,441</b>
<b>Written off to revenue in year</b>	<b>(170,732)</b>
<b>Balance at 31 March 2010</b>	<b>1,390,665</b>

Software Licences have been purchased in the year for use on a number of the Council's IT systems. The value of the asset is subject to an amortisation charge to revenue based on the balance at the beginning of the financial year. Amortisation will be over the expected life of the assets which has been assessed on average at 10 years.

### Note 24 – Investments

#### Note 24a – Long Term Investments

The Authority invests the majority of its funds internally in the Consolidated Advances and Borrowing Pool (CABP). The CABP had no long term investments at 31<sup>st</sup> March 2010 (£30,000,000 at 31<sup>st</sup> March 2009. Long term investments are investments held in various Financial Institutions which were taken out for a period over 365 days and still have more than 365 days to maturity as at 31<sup>st</sup> March 2010. The Council has shares in Newcastle Airport Ltd., in addition to other shares and unit trusts which were transferred to the Council with the transfer of responsibility for Sunderland Pilotage Authority on 1 October 1988.

	At 31 March 2010 £	At 31 March 2009 £
Government Securities	5,240	5,240
NIAL Holdings PLC (Newcastle International Airport Ltd)	795,123	1,503,168
Newcastle Airport LA Holding Co Ltd	1,845	1,845
Other Shares / Unit Trusts	14,301	14,301
Other Long Term Investments	0	30,000,000
	<b>816,509</b>	<b>31,524,554</b>

## Notes to the Core Financial Statements (Continued)

### Note 24a – Long Term Investments (Continued)

#### Government Securities and Other Shares and Unit Trusts

The market value of Government securities for 2009/2010 is £8,250 (2008/2009 £9,189) and of Other Shares and Unit Trusts for 2009/2010 is £73,427 (2008/2009 £57,328)

#### NIAL Holdings PLC / Newcastle Airport LA Holdings Co Ltd

Under the Airports Act 1986 the Newcastle International Airport became an Airport Company on 1st April 1987, and all properties, rights and liabilities of the constituent local authorities were transferred to it. In consideration of this transfer the Council received an allocation of £6,161,377 worth of shares which represented 18.45% of the called up share capital of the Company.

On 4th May 2001 however, the seven local authority shareholders of Newcastle International Airport Limited (NIAL), entered into a strategic partnership with Copenhagen Airports Ltd. This involved the creation of a new company NIAL Holdings Ltd, to own 100% of the shares in Newcastle International Airport Ltd, 51% of the shareholding of NIAL Holdings Ltd is held by the original local authority shareholders and a further 49% is held by Copenhagen Airports Ltd. The shareholding of the Council in 2001/2002 remained at 6,161,377 but this shareholding together with the other local authorities now represents only 51% (33,395,000) of the revised share capital in the new company of £65,480,000 with 49% of the revised share capital in the new Holding Company having been acquired by Copenhagen Airports Ltd (32,085,000). The value of the shares (6,161,377) held by the Council have been re-valued to more closely reflect the valuation of the Holding company when it was created in 2001 in line with other shareholders.

The strong performance of the business in recent years allowed the airport to revisit its capital structure and as a result the group's finances were restructured in December 2006 with the repayment of the £85m Bond with new senior debt loan of £302m and facilities for capital expenditure and working capital totalling £75m. This refinancing also resulted in a restructuring of the group with the addition of a new finance company, NIAL Finance Ltd and a new parent company, NIAL Group Ltd. The Council continues to retain the same shares and interests in these new companies by holding a 9.41% stake in each company.

The holding company for the local authority interests is Newcastle Airport Local Authority Holding Company Limited, (NALAHCL), which is wholly owned by the seven local authorities (LA7) and owns 51% of NIAL Holdings PLC. The Council owns 1,845 shares in NALAHCL which is equivalent to 18.45% ownership of this company.

The local authority shareholders received £94.9 million in 2001/2002 in cash from Copenhagen Airports Ltd as the first of three payments, which in total amounted to £194.9 million, in exchange for their 49% shareholding in NIAL. The Council received £17.221 million of the first tranche of the £94.9 million total. In addition, NIAL Holdings PLC issued £25.0 million of long term loan notes to the local authority shareholders in recognition of the value built up in Newcastle International Airport Ltd over many years and these were 'allocated' to each Authority based on its shareholding value. It also issued short term loan notes to the value of £75.0 million which were repaid in April 2002 of which this Council received £13.655 million in 2002/2003. The third tranche relates to the repayment of the £25 million of long term loan notes which commenced in 2003/2004 and will continue until the loan notes are fully repaid in 2012/2013.

#### Loan Notes

The Council's share of the loan notes amounts to £4.552m and this balance has reduced to £1.366m as at 31<sup>st</sup> March 2010 (31<sup>st</sup> March 2009 £1.821m) because the Council has received seven annual repayment instalments to date totalling £3.186m. Interest on the remaining loan notes held is also received by the Council each year. (Note 49 on Pages 118 to 119 provides more details of the financial arrangements in place).

## Notes to the Core Financial Statements (Continued)

### Note 24a – Long Term Investments (Continued)

#### Dividends

There was no dividend declared for 2009 (2008 £Nil dividend). There are no outstanding balances owed to or from NIAL at the year end. NIAL Group Limited made a loss before tax of £4.171m (2008 profit of £2.357m) and a loss after tax of £3.161m (2008 loss of £10.227m).

However, the company agreed to pay a dividend of £2.171m in respect of the financial year ending 31<sup>st</sup> December 2007 and this was included in the 2008/2009 accounts, as this was declared at a board meeting on 2<sup>nd</sup> March 2009 following a favourable court settlement in respect of the refinancing transaction dating back to December 2006. The amount allocated to the NALA Holding Company was £1.107m and the Council's share was £0.204m. There was no proposed dividend for 2009 and no dividends are reflected in the 2009/2010 accounts.

The airport continued to meet its senior debt repayments in 2009/2010. Dividends are expected to be made in future years as the airport increases trade and becomes more profitable. [Note 49 on Pages 118 to 119](#) provides more details of the existing financial arrangements in place.

#### NIAL - Airport Valuation

The valuation of £1.503m previously shown in the Council's accounts reflected the Council's last full Airport valuation based on its mid range Equity value of £15.975m for the Airport in total as at 31<sup>st</sup> March 2009. This was derived from information supplied by independent valuers (Deloitte) which reflected a number of indicators used to assess the Airport's fair value.

The fair value of the Airport was subject to another independent valuation carried out by Grant Thornton based on a set of well established business valuation models to review and update the fair value of the Airport as at 31<sup>st</sup> March 2010 for inclusion in the accounts for 2009/2010.

The Council's share of this revised valuation saw its shareholding worth reduce once more by a further £0.708m to a valuation of £0.795m in 2009/2010 and this figure is now included within the Council's accounts. The valuation reflects factors such as the company's present trading performance (which remains very competitive) its net debt position (which includes the company's total debt of almost £323m) and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been further impaired, (fallen in value), as a direct result of the economic downturn and the continued depressed state of the financial markets during 2009/2010.

### Note 24b – Short Term Investments

The Council has short term investments of £172,246,835 as at 31 March 2010 (£135,109,765 at 31 March 2009) comprising of £132,150,214 (£112,042,395 for 2008/2009) invested with Banks and £40,096,621 (£23,067,370 for 2008/2009) with Building Societies. Of the short term investments held by the Council, £481,196 (£708,674 for 2008/2009) relates to sums held on behalf of contractors' guarantee bonds which are held and invested by the Council until such time as the work commissioned is completed to the satisfaction of the Council. The Bond is then repaid to the contractor with the appropriate interest. (See [Note 39, Pages 100 and 101](#) for details).

## Notes to the Core Financial Statements (Continued)

### Note 25 – Long Term Debtors Mortgages

This represents principal outstanding on mortgage advances under the Housing Acts to Housing Associations and members of the public and advances for industrial development processes.

	Outstanding 01/04/2009 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2010 £
Housing Associations, Housing Purchase, Improvements etc	148,977	0	(37,060)	111,917
Industrialists	45,812	50,000	(15,449)	80,363
	194,789	50,000	(52,509)	192,280

The amounts outstanding at 31 March 2010 include £2,086 in respect of arrears of principal (£2,234 2008/2009).

### Note 26 – Long Term Debtors – Long Term Loan Notes

This represents principal outstanding on long term loan notes received from Copenhagen Airports Ltd as part of the consideration of the sale of the Council's share (49%) in Newcastle International Airport Ltd in May 2001. Under the terms of the sale agreement the loan notes are repayable in equal instalments over 10 years starting in 2003/2004.

	01/04/2009 £	Advances £	Repayments £	31/03/2010 £
Long Term Loan Notes - Newcastle Airport	1,821,432	0	(455,179)	1,366,253

### Note 27 – Long Term Debtors – Loans to Other Public Bodies

These represent the debt outstanding on assets transferred to other public bodies. Since 1st April 1986 the City Council has provided advances from its Loans Fund to the Tyne and Wear Fire and Rescue Authority to finance its capital expenditure.

As a consequence of the demise of Cleveland County Council, the financial administration of the Beamish North of England Open Air Museum was transferred to Sunderland City Council during 1995/1996.

The table below analyses the movements in Long Term Debtors - Loans to Other Public Bodies.

	Outstanding 01/04/2009 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2010 £
Tyne and Wear Fire and Rescue Authority	18,329,528	0	(733,182)	17,596,346
Beamish Open Air Museum	223,038	404,621	(8,922)	618,737
	18,552,566	404,621	(742,104)	18,215,083



## Notes to the Core Financial Statements (Continued)

### Note 28 – Long Term Debtors – Car Loan Advances

This represents the debt outstanding on car loans made to employees.

	Outstanding 01/04/2009 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2010 £
Car Loan Advances	20,948	9,336	(13,899)	16,385

### Note 29 – Other Long Term Debtors

This represents debtors over one year old and mainly relates to various grants outstanding where claims have been made or where the Council has been provided with a notice of intention to pay the debt.

	Outstanding 01/04/2009 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2010 £
Other Long Term Debtors	878,039	758,288	(59,968)	1,576,359

### Note 30 – Stocks and Stores

All stocks and stores at the year-end are valued at cost price, with the exception of stores located at the Building and Highways Maintenance Divisions within the Community and Cultural Services Directorate and salt stock, which are valued at latest price.

	31 March 2010 £	31 March 2009 £
Direct Labour Organisation - Stores	152,138	162,888
Central Purchasing - Stores	0	26,500
Cleaning Stores	69,262	61,843
Winter Maintenance - Road Salt	14,280	134,706
School Catering	122,101	137,784
ILC Equipment	514,286	221,973
Other Stock in Hand	257,850	224,393
	1,129,917	970,087

## Notes to the Core Financial Statements (Continued)

### Note 31 – Debtors

	31 March 2010		Restated 31 March 2009	
	£	£	£	£
Government Grants		2,797,624		4,428,763
Revenue and Customs (VAT)		3,838,715		3,596,566
Council Taxpayers Arrears		10,516,391		10,321,400
NNDR owed to Central Government		7,089,974		2,388,102
Sunderland Teaching Primary Care Trust		2,135,705		1,553,363
Sundry Debtors		19,279,541		18,369,944
		<u>45,657,950</u>		<u>40,658,138</u>
<b>Other Debtor Related Items</b>				
PFI Lifecycle prepayment for Street Lighting and Highway Signs		719,376		418,593
<b>Less: Provision for Bad Debts</b>				
Council Tax	(4,460,571)		(5,097,928)	
Housing Benefit	(437,364)		(423,988)	
Miscellaneous	(525,621)	(5,423,556)	(410,090)	(5,932,006)
		<u>40,953,770</u>		<u>35,144,725</u>

### Note 32 – Landfill Usage Allowance and Liability to DEFRA – Landfill Usage

The above scheme was introduced by the government to incentivise Councils to reach certain recycling targets over a period from 2005/2006 up to the year 2011/2012. Under the scheme, if Councils fail to meet their targets, by both improving waste collection and recycling and using or trading their allowances, then heavy fines are incurred, currently £150 per allowance. The targets are progressively tougher in each year. The scheme therefore is essentially a 'cap and trade' scheme whereby local authorities can trade the allowances allocated to them each year by government, or they can elect to retain these to use in future years in order to meet their more challenging targets. The amount that they can use from future years allocations is also capped by the regulations in order to control the proper use of allowances. Some years are therefore categorised as target years and in these years all unused allowances up to that point are 'lost'.

The value of the allowances, when first introduced in April 2006, was £20.20, a value determined by Department for Environment, Food and Rural Affairs (DEFRA), until a proper trading market emerged, as few authorities had traded in the first year of the scheme. As trading has commenced market values have been established and wide price variations have been experienced, in 2006/2007 a market value of £17.98 was established, however as Councils have introduced measures to address their waste targets, market demand for allowances fell significantly in 2007/2008 where the value fell to £5.00 per an allowance. At the end of 2008/2009 allowances were practically worthless as demand continued to be low and this being a target year meant the significant level of unused allowances could not be carried forward.

The fair value of the LATS assets can only be established by examining the market for their trading value, in 2009/2010 LATS assets values have varied from between £Nil and £20.00 as all unused allowances Council's hold at the end of 2009/2010 (another target year) are forfeited in accordance with government guidelines. Reducing allowances and increased targets in 2009/2010 have meant that there has been some demand for allowances. The

## Notes to the Core Financial Statements (Continued)

### Note 32 – Landfill Usage Allowance and Liability to DEFRA – Landfill Usage (Continued)

Council has estimated that it will need to purchase approximately 8,700 allowances for 2009/2010 and has obtained these at a very competitive price of £0.95 per allowance (in effect its market value). The accounts show the value of its LATS at market value and as such the accounts remain fully compliant with the accounting treatment and disclosure notes for LATS as set out in the SORP 2009

As 2009/2010 is a target year the value of LATS carried forward from the previous year should show a nil valuation as at 1<sup>st</sup> April 2009. The opening valuation has therefore been written out of the accounts. The in year value of LATS reflects the market price paid for the LATS purchased for 2009/2010 (i.e the market price to the council).

	Landfill Usage Allowances Allocated £	Less Used During the year £	LATS earmarked Reserves £
Opening balances as at 1 April 2009	3,651,084	3,651,084	0
Opening values written out (target year)	(3,651,084)	(3,651,084)	0
<b>Impairment of allowances during the year</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions during the year</b>	<b>60,849</b>	<b>(60,849)</b>	<b>0</b>
<b>Purchased in year</b>	<b>8,265</b>	<b>(8,265)</b>	<b>0</b>
<b>Closing balances as at 31st March 2010</b>	<b>69,114</b>	<b>(69,114)</b>	<b>0</b>

### Note 33 - Creditors

	31 March 2010 £	Restated 31 March 2009 £
Sundry Creditors	(42,559,587)	(46,098,716)
Receipts in advance	(9,645,514)	(9,498,727)
Government Grants received in advance	(32,283,852)	(28,424,477)
	<b>(84,488,953)</b>	(84,021,920)

### Note 34 – Cash Overdrawn

The actual cash in hand at the bank at 31st March 2010 was £0.405m (£0.030m cash in hand as at 31 March 2009), well within the £1.500m overdraft limit agreed with the bank.

The Council manages effectively the cash flow of its funds and has an excellent track record on treasury management services of which the bank balance is but one of a number of elements within this area. The accounts for 2009/2010 show an overdrawn cash balance of £8.133m (2008/2009 was £11.427m), reflecting the bank balance that would exist as at 31st March if all cheques drawn before 31st March were presented and all known late bankings were made at the year end date. In reality this situation would never arise as the Council would take the necessary day to day treasury management action to either lend or borrow temporary funds appropriately.

## Notes to the Core Financial Statements (Continued)

### Note 35 – Loans Outstanding – Long Term Borrowing

The table below shows the source and the maturity analysis of loans outstanding.

	31 March 2010 £	31 March 2009 £
<b>Source of Loan</b>		
Public Works Loan Board	107,500,000	98,500,000
Mortgage Loans	40,445,821	40,470,875
Stock	118,063	122,063
	<b>148,063,884</b>	<b>139,092,938</b>
<b>An analysis of loans by maturity</b>		
Maturing in 1-2 years	57,990	12,342
Maturing in 2-5 years	10,045,913	85,561
Maturing in 5-10 years	14,080,545	79,797
Maturing in 10-20 years	9,110,383	121,892
Maturing in 20-30 years	40,000	40,000
Maturing in 30-40 years	15,002,063	15,006,063
Maturing in 40-50 years	64,500,000	88,500,000
Maturing in more than 50 years	35,226,990	35,247,283
	<b>148,063,884</b>	<b>139,092,938</b>

At 31 March 2010 £39.50m of the mortgage loans related to money market LOBO (Lender Option Borrower Option) loans. Originally these loans had a stepped interest rate structure but £34.50m of these loans were renegotiated to flat interest rate loans. Accounting regulations require the interest on all these loans to be averaged over the contractual life of the loans. This meant that an interest equalisation fund had to be established to even out the interest charged to each financial year.

The value of these LOBO loans together with the Interest Equalisation Fund at 31st March 2010 is £40.227m (£40.247m at 31 March 2009), £5.0m is included in the maturing in 30-40 year category and £35.227m in the maturing in more than 50 years category of the above table,

### Note 36 – Grants and Contributions Deferred Account

The Grants and Contributions Deferred account represents amounts of capital grant received, which are being deferred to offset the depreciation on the asset the grant was paid for.

	2009/2010 £	2008/2009 £
Balance brought forward 1 April	223,957,728	165,058,729
Grants applied to capital investment in year	43,535,787	79,113,445
Amounts credited in the Income and Expenditure Account	(14,681,146)	(20,214,446)
Total movement on Grants and Contributions Deferred Account	28,854,641	58,898,999
Balance carried forward 31 March	252,812,369	223,957,728

The balance of £252.812m as at 31 March 2010 (£223.958m as at 31 March 2009) on this account represents the value of capital grants and contributions which have been applied to finance the acquisition or enhancement of fixed assets held in the asset register. In accordance with the SORP the balance on this account is released to revenue in line with the depreciation of the asset. Where there has been any impairment to an asset the balance on this account is released to revenue to reflect the assets impairment charged.

## Notes to the Core Financial Statements (Continued)

### Note 37 – Liability Related to Defined Pension Scheme and Pensions Reserve

#### Note 37a – Local Government Pension Scheme

Note 6, Pages 65 to 67 to the income and expenditure account contains details of the Authority's participation in the Local Government Pension Scheme (administered by South Tyneside MBC) and the associated retirement benefits.

With regard to the Local Government Pensions Scheme, there were no contributions remaining payable at the year end.

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March 2010 are as follows:

#### Note 37a – Local Government Pension Scheme

##### Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of scheme assets:

	2009/2010 £m	2008/2009 £m
Balance brought forward 1 April	538.38	640.77
Expected rate of return	33.43	44.99
Actuarial gains and losses	168.44	(164.06)
Employers contributions	32.77	31.62
Contributions by scheme participants	9.27	9.04
Benefits paid	(29.52)	(23.98)
Balance carried forward 31 March	752.77	538.38

Reconciliation of fair value of scheme liabilities:

	2009/2010 £m	2008/2009 £m
Balance brought forward 1 April	967.31	884.59
Current service cost	19.74	18.49
Interest cost	63.75	60.18
Contributions by scheme participants	9.27	9.04
Actuarial gains and losses	298.64	21.40
Benefits paid	(32.88)	(27.30)
Past service costs	1.06	0.91
Balance carried forward 31 March	1,326.89	967.31

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 returns on equity investments reflect long term real rates of return experienced in the respective markets.

## Notes to the Core Financial Statements (Continued)

### Note 37a – Local Government Pension Scheme (Continued)

The actual return on scheme assets in the year was a gain of £201,870,000 (2008/2009 £119,070,000 loss)

#### Scheme History

	2005/2006*	2006/2007 Restated	2007/2008 Restated	2008/2009	2009/2010
	£m	£m	£m	£m	£m
Present value of scheme liabilities	(934.30)	(986.22)	(884.59)	(967.31)	<b>(1,326.89)</b>
Fair value of scheme assets	615.61	664.27	640.77	538.38	<b>752.77</b>
Surplus / (Deficit) in the scheme at 31 March	(318.69)	(321.95)	(243.82)	(428.93)	<b>(574.12)</b>

\* In accordance with Paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous two periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 31<sup>st</sup> March 2008 and 31<sup>st</sup> March 2007 have been re-measured for this purpose. Asset values for periods ending 31<sup>st</sup> March 2006 and 31<sup>st</sup> March 2005 are shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised).

The retirement benefits that have been promised under the formal terms of a pension scheme (plus any constructive obligation for further benefits where the Authority has given employees valid expectations that such benefits will be granted), measured on an actuarial basis, estimating the future cash flows that will arise from liabilities (based on such things as mortality rates, employees turnover rates and salary growth), that are then discounted to present values.

The liabilities show the underlying commitments that the Authority has, in the long-run, to pay retirement benefits. The total net liability of £574.12 million as at 31 March 2010 (£428.93 million as at 31 March 2009) has a substantial impact on the net worth of the Authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme's actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2011 is £32.77m, contributions may also be required towards the strain on the fund. In addition, £3.36m is anticipated to be paid directly to beneficiaries in respect of unfunded benefits.

#### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the roll forward method. The Local Government Pension Scheme liabilities have been assessed by Hewitt Associates Limited, an independent firm of actuaries, estimates for the Tyne and Wear Pension Fund being based on the latest full valuation of the scheme as at 31 March 2007.

Sunderland City Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2010.

The main assumptions used in their calculations have been:

## Notes to the Core Financial Statements (Continued)

### Note 37a – Local Government Pension Scheme (Continued)

	2009/2010	2008/2009
Long-term expected rate of return on assets in the scheme:		
Equity investments	8.00%	7.00%
Corporate Bonds	5.50%	5.80%
Government Bonds	4.50%	4.00%
Property	8.50%	6.00%
Cash	0.70%	1.60%
Other	8.00%	1.60%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	20.0 years	19.9 years
Women	22.9 years	22.8 years
Longevity at 65 for future pensioners:		
Men	22.2 years	22.1 years
Women	25.1 years	25.0 years
Rate of inflation	3.90%	3.50%
Rate of increase in salaries	5.40%	5.00%
Rate of increase in pensioners	3.90%	3.50%
Rate of discounting scheme liabilities*	5.50%	6.60%
Commutation - Each member is assumed to exchange a percentage of the maximum amount permitted of their pre 1 April 1998 entitlements.	50.00%	50.00%
Commutation - Each member is assumed to exchange a percentage of the maximum amount permitted of their post 31 March 2008	75.00%	75.00%

\* The basis on which pension liabilities are valued is now based upon the yields of AA-rated corporate bonds, whereas the majority of the assets of the fund are invested in equities. This will inevitably lead to volatility in the net pension asset on the balance sheet and to a lesser extent, in the statement of total movement in reserves.

The above figures have been provided by Hewitt Associates Limited, actuaries to the Local Government Pension Scheme (administered by South Tyneside MBC) 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 mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

#### Pension Reserve

The pension reserve represents the Authority's attributable share of the investments held in the pension scheme to cover liabilities.

Assets in the scheme are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the pension scheme fund:

	31 March 2010		31 March 2009	
	Long Term Return £m	Fund Assets %	Long Term Return £m	Fund Assets %
Equity Investments	510.37	67.8	355.87	66.1
Government Bonds	70.01	9.3	54.91	10.2
Other Bonds	85.82	11.4	55.99	10.4
Property	55.70	7.4	45.22	8.4
Cash	9.79	1.3	3.78	0.7
Other Assets	21.08	2.8	22.61	4.2
Average Long Term Expected Rate of Return	752.77	100.0	538.38	100.0

## Notes to the Core Financial Statements (Continued)

### Note 37a – Local Government Pension Scheme (Continued)

#### History of experience in gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/2010 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	2005/2006	2006/2007	2007/2008 Restated	2008/2009	2009/2010
Total Pension Fund Assets (£m)	615.61	664.27	640.77	538.38	752.77
Difference between expected and actual return on assets (£m) Gains / (Losses)	88.27	(3.95)	81.64	(164.06)	135.01
Difference between expected and actual return on assets as a percentage of total assets (%)	14.34	(0.59)	12.74	(30.47)	17.94
Total Pension Fund Liabilities (£m)	934.30	986.22	884.59	967.31	1,326.89
Actual Experienced Gains and (Losses) on liabilities (£m)	(0.52)	2.07	9.82	(4.13)	11.91
Actual Experienced Gains and (Losses) on Liabilities as a percentage of total liabilities (%)	(0.06)	0.21	1.11	(0.43)	0.90

- In accordance with Paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experienced gain / (loss) on liabilities shown has not been restated for periods ending 31 March 2007 and 31 March 2006 and includes the experience relating to unfunded liabilities.

### Note 37b – Teachers Pension Scheme

With regard to the Teachers Pension Scheme, there were no contributions remaining payable at the year end.

The pension costs relating to teachers are classified as a Defined Contribution Scheme which is a 'un-funded' scheme administered nationally by the Department for Children, Schools and Families (DCSF). The DCSF uses a notional fund as the basis for calculating the employers' contribution rate paid by each local authority. As such it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the accounts it is therefore accounted for on the same basis as a Defined Contribution Scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued and included in the pensions liability provided by the Actuary.



## Notes to the Core Financial Statements (Continued)

### Note 38 – Insurance Provisions

The provision was set up in March 1992 to finance costs associated with insurable risks. The main cover provided by the fund is:

- Damage to Council property in the event of fire, lightning, explosion, aircraft or terrorism.
- Certain legal liability claims involving negligence made against the City Council.

	£
Balance at 1 April 2009	(3,268,480)
Deduct: Expenditure during the year: Settlement of claims	2,784,027
	(484,453)
Add: Income during the year	(2,788,514)
	(3,272,967)
Less: Transfer to Earmarked Reserves	0
Balance at 31 March 2010	(3,272,967)

The most recent valuation of this provision was carried out in March 2010, by independent valuers, who have confirmed that the provision is adequate to meet its assessed liabilities.

### Note 39 – Other Provisions

The accounts include provisions for a number of specific purposes. The following is an analysis which details the provisions made and the movement on these provisions. The provisions which are considered significant are also described in more detail in the notes below. All provisions are reviewed each year to ensure that they are required and are sufficient to meet future anticipated costs and are also fully compliant with the requirements of FRS12.

	At 1 April 2009 £	Deduct Expenditure During Year £	Add Income During Year £	At 31 March 2010 £
Guarantee Bonds*	(708,674)	260,045	(32,567)	(481,196)
Back on the Map**	(3,899,439)	1,008,574	(7,025)	(2,897,890)
Equal Pay Probable Payments***	(43,712)	0	0	(43,712)
Adult Services Strain on the Fund****	(388,433)	388,433	0	0
Support Costs for Client with Learning Disabilities*****	0	0	(124,078)	(124,078)
Repayments of Parking Fees	0	0	(5,953)	(5,953)
	(5,040,258)	1,657,052	(169,623)	(3,552,829)

#### Notes to Other Provisions

- \* Guarantees Bonds - These are generally paid to the Council by contractors carrying out work on behalf of the Council. These funds are then invested and repaid as and when the contractor fulfils work done under contract. The expected timing of any economic benefit to the Council results when the contract is completed to the Council's satisfaction. The only uncertainty surrounds the date at which point the contractor fulfils the contractual obligations to the satisfaction of the Council.
- \*\* Back on the Map (BoTM) - The provision relates to funding owed by the Council to BoTM when the Council with the agreement of Government Office North East utilised temporarily spare grant funding from BoTM to ensure the grant was fully utilised in 2007/2008. It is expected that BoTM will fully utilise all of this funding in 2010/2011 when they bring forward schemes that are in keeping with the original terms of the grant funding awarded to them to regenerate the east end of Sunderland.

## Notes to the Core Financial Statements (Continued)

### Note 39 – Other Provisions (Continued)

- \*\*\* Equal Pay Probable Payments - The Council has prudently set aside a provision based on the best information available to meet the remaining known tax bill on claims settled to date.
- \*\*\*\* Adult Services Strain on the Fund – This provision was set up to fund the strain on the fund payments made to meet the known tax bill on claims settled as at 31<sup>st</sup> March 2009 which related to 70 staff who had accepted voluntary redundancy during March 2009 (i.e. staff from Home Care, Older Persons and Day Care Unit). This provision was fully utilised in 2009/2010.
- \*\*\*\*\* Support Costs for Clients with Learning Disabilities – This provision has been set up to fund support costs for a client residing in Sunderland with long term conditions. This provision will meet the support cost liabilities incurred by Devon County Council between November 2007 and March 2010 for which the Council was responsible and the provision will be fully utilised in 2010/2011.

### Note 40 – Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

The Reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been re-valued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the balance sheet is greater because they are carried at re-valued amounts rather than depreciated historical cost.

Whilst these gains arising from revaluations increases the net worth of the authority they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

	2009/2010 £	Restated 2008/2009 £
Balance as at 1 April	139,357,102	203,612,550
Add: Upwards Revaluation	42,180,246	34,762,978
Add: Upwards Revaluation PFI	0	7,907,353
	<b>181,537,348</b>	246,282,881
Less:		
Excess of current costs over historic cost depreciation	(3,202,973)	(3,039,632)
Revaluation gain transfer following downwards revaluation	(18,064,658)	0
Prior Year revaluation applied against downward revaluation	(85,200)	(102,785,147)
Revaluation gain written off following disposal and transfers	(100,000)	(1,101,000)
<b>Balance as at 31 March</b>	<b>160,084,517</b>	139,357,102

## Notes to the Core Financial Statements (Continued)

### Note 41 – Capital Adjustment Account

The Capital Adjustment Account was created in 2007/2008. The balance as at 1st April 2007 was created from the balances that existed on the now defunct Fixed Asset Revaluation Account and the Capital Financing Account. The Capital Adjustment Account accumulates the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal (as debits) and it also accumulates the resources that have been set aside to finance capital expenditure (as credits). The same process applies to capital expenditure that is only capital by statutory definition. The balance on the account represents the timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

	2009/2010		Restated 2008/2009	
	£	£	£	£
Balance at 1 April		560,015,134		591,975,164
PFI Adjustments				(1,259,895)
Add:				
Capital Financing				
Capital Receipts Applied	2,485,354		8,019,753	
Revenue	4,057,805		4,190,429	
Government Grants	35,673,097		74,647,720	
Other Grants and Contributions	7,862,690		4,465,725	
Use of Capital Reserves	15,157,516	65,236,462	8,104,292	99,427,919
Excess of current cost over historic cost depreciation		3,202,973		3,039,632
Revaluation gain transfer following downwards revaluation		18,064,658		0
Revaluation gain written off following disposals and transfers		100,000		1,101,000
Build up of residual interest in PFI schemes		0		0
Government Grants Deferred applied to revenue		14,681,146		20,214,446
Minimum Revenue Provision		10,532,299		8,966,910
		671,832,672		723,465,176
Less:				
Revenue Expenditure Funded from Capital Under Statute written down	(4,202,679)		(6,954,573)	
Deferred PFI Debtor				0
Depreciation applied to Revenue	(30,681,892)		(27,822,958)	
Amortisation applied to Revenue	(170,732)		(139,349)	
Impairment applied to Revenue	(71,269,177)		(47,943,717)	
Carrying amount of fixed assets following disposals and transfers	(1,115,000)		(1,476,000)	
Addition to Government Grants Deferred	(43,535,787)	(150,975,267)	(79,113,445)	(163,450,042)
<b>Balance at 31 March</b>		<b>520,857,405</b>		<b>560,015,134</b>

### Note 42 - Deferred Credits

Deferred capital receipts arise from the repayment of loans granted to individuals for the purchase of council houses and other dwellings, and from receipts due in respect of long term notes received as part of the consideration from the sale of 49% of the Council's share in Newcastle Airport. At 31 March 2010 these amounted to £2,164,442 (31 March 2009 £2,685,450).

## Notes to the Core Financial Statements (Continued)

### Note 43 – Usable Capital Receipts Reserve (available for capital purposes)

Under regulations contained in the Local Government Act 2003, 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. The government determined in 2005/2006 that a proportion of Capital Receipts from mortgage repayments relating to properties contained within the Council's Housing Revenue Account prior to the Large Scale Voluntary Transfer (LSVT) of property to Sunderland Housing Group (now called Gentoo) is paid over to the government and redistributed to authorities as part of capital grant settlements. The payment of pooled housing receipts relates to mortgage repayments received in 2009/2010. This amount is also shown in the income and expenditure account (Page 44) as required by the SORP.

	2009/2010 £	2008/2009 £
Balance of Usable Capital Receipts at 1 April	6,424,538	12,796,832
Add:		
Sources of Capital Receipts during year*	1,437,657	1,700,976
	7,862,195	14,497,808
Less:		
Pooled Housing Receipts	(24,905)	(53,517)
Financing Capital Expenditure	(2,485,354)	(8,019,753)
<b>Balance of Usable Receipts at 31 March</b>	<b>5,351,936</b>	<b>6,424,538</b>
Amounts Receivable in year*		
Capital Receipts	949,272	1,174,442
Mortgage repaid	33,207	71,356
Long Term Loan Notes repaid	455,178	455,178
<b>Total</b>	<b>1,437,657</b>	<b>1,700,976</b>

In 2009/2010 capital receipts of £949,272 (2008/2009 £1,174,442) were generated mainly due to the sale of land at Farrington Row (£825,000) to aid regeneration (the major disposals in 2008/2009 related to assets at Houghton Sports Complex and St Peters Wharf).

During 2009/2010 the council transferred assets in the Castletown area to Gentoo for a nominal sum as part of an agreed joint venture scheme for development of the area (in 2008/2009 the council transferred The Woodlands, Washington to Housing 21 for a nominal sum as part of its extra care housing strategy.)

### Note 44 – General Fund Balances

General Fund Balances as reported in the Statement of Accounts on Page 45 shows the amount of General Fund Balance available to the Council and the level of balances ring-fenced to schools under the Scheme of Local Management of Schools in order to comply with the SORP. The analysis below sets out and explains the movement in these balances during 2009/2010.

	2009/2010 £	2008/2009 £
Schools Locally Managed - Reserve	7,492,493	5,770,795
General Reserve	14,748,563	11,553,411
<b>Total General Fund Balance at 31 March</b>	<b>22,241,056</b>	<b>17,324,206</b>

## Notes to the Core Financial Statements (Continued)

### Note 44 – General Fund Balances (Continued)

When the 2009/2010 original budget was set balances were estimated to reduce by £3.496 million as a result of contributions of £0.431m to the revenue budget and £3.065m to the capital programme.

As part of the budget setting process for 2010/2011 a review of the 2009/2010 contingencies and non delegated budgets was undertaken and balances were estimated to increase by £6.691m at that time. This took into account:

- Savings on interest on balances of £3.000m,
- Additional income of £1.679m in respect of income received from the Local Authority Business Growth Initiative of £0.379m and VAT refunds of £1.300m,
- Anticipated savings of £2.500m in contingency provisions,
- Transfer of £0.488m to support capital programme pressures.

The final general balances position of £14.748m is as estimated at the revised estimate stage after taking account of a number of items reported to Cabinet as part of the outturn report.

The Foreword by the City Treasurer set out on [Pages 8 and 9](#) provides more detail on the variations set out above and commitments against these balances.

#### Schools Locally Managed Reserve

In accordance with the Education Reform Act 1988, the Scheme of Local Management of Schools provides for the carry forward of individual school surpluses. These are earmarked reserves and are not available to the Council for general use but now form part of the General Fund Balance in accordance with the SORP. The net surplus at 31 March 2010 comprised individual surpluses totalling £7.829m, (£6.563m for 2008/2009) and deficits totalling £0.337m, (£0.792m for 2008/2009). Centrally held contingencies due to be redistributed to schools in 2009/2010 totalled £Nil, (Contingencies held at the end of 2008/2009 to be redistributed to schools in 2009/2010 totalled £0.152m). The net surplus at 31 March 2010 totals £7.492m (2008/2009 was £5.771m).

### Note 45 – Delegated Budgets Reserve

	2009/2010	2008/2009
	£	£
Delegated Budgets - General	9,918,430	10,948,878
Delegated Budgets - Other	434,284	550,557
<b>Total General Fund Balance</b>	<b>10,352,714</b>	<b>11,499,435</b>

## Notes to the Core Financial Statements (Continued)

### Note 45 – Delegated Budgets Reserve (Continued)

The amount of Delegated Budgets - General has decreased during 2009/2010 by a net movement of £1.029m. This movement represents service budget spending financed from both previous years under spending carried forward and in year generated surpluses as reported to Cabinet on 24th June 2010. The net decrease is after taking account of a transfer of £6.6m to capital reserves in respect of approved capital projects.

The use of surpluses in the year complies with the criteria set out for delegated budgets, where delegated surpluses can be carried forward and used to meet future service spending commitments. Of the total amount of delegated budgets £9.920m carried forward, a significant amount has been earmarked for use in 2010/2011.

The amount of Delegated Budgets - Other has reduced during 2009/2010 by a net movement of £0.116m, (in 2008/2009 there was a net reduction in surplus of £0.128m). This mainly represents the planned use of the former Careers Service budget surplus of £0.149m during 2009/2010. The level of surplus relating to the Careers Service budget was fully utilised in the year and as a result no surplus remains, (2008/2009 was £0.149m). The City Regions surplus has increased by £0.032m to a level of £0.434m in 2009/2010, (2008/2009 £0.402m). Most of this balance (£0.333m) is earmarked to fund specific programmes and is expected to be spent in the first part of 2010/2011. The balance is also committed and will be used to address future initiatives to be agreed by the City Regions Board.

### Note 46 – Financial Instruments

Accounting regulations require the 'financial instruments' (investments, lending and borrowing of the Council) shown on the balance sheet to be further analysed in various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

#### Financial Instruments

	Long Term		Current		Total	
	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000	31 March 2009 £000
<b>Borrowings</b>						
Financial Liabilities at amortised cost	148,087	139,093	40,597	43,668	188,684	182,761
<b>Total Borrowings</b>	<b>148,087</b>	<b>139,093</b>	<b>40,597</b>	<b>43,668</b>	<b>188,684</b>	<b>182,761</b>
<b>Investments</b>						
Available for Sale Assets	817	1,524	0	0	817	1,524
Loans and receivables	0	30,000	172,247	135,109	172,247	165,109
<b>Total Investments</b>	<b>817</b>	<b>31,524</b>	<b>172,247</b>	<b>135,109</b>	<b>173,064</b>	<b>166,633</b>

LOBO's of £10.0m have been included in long term borrowing but have a call date within the next 12 months. The above long term figures are based on SORP which states that in undertaking effective interest rate calculations the maturity period for a LOBO should be taken as being the contractual period to maturity a period much greater than the call date of 12 months.

#### Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

	2009/2010				2008/2009			
	Financial Liabilities	Financial Assets		Total	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £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	(6,046)	0	0	(6,046)	(8,639)	0	0	(8,639)
Interest payable and similar charges	(6,046)	0	0	(6,046)	(8,639)	0	0	(8,639)
Interest Income	99	0	0	99	97	10,051	204	10,352
Interest and Investment Income	99	3,584	0	99	97	10,051	204	10,352
Net Gain / (loss) for the year	(5,947)	3,584	0	(5,947)	(8,542)	10,051	204	1,713

#### Fair Value of Assets and Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below.

#### Methods and assumptions in valuation technique.

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rates applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

The rates quoted in this valuation were obtained by our treasury management consultants from the market on 31 March 2010, using bid prices where applicable.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 063/10.
- For other market debt and investments the discount rate used is the rates 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, but only disclose those which are materially different from the carrying value.

## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

#### Fair Value of Liabilities carried at Amortised Cost

	31 March 2010		31 March 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB	108,675	105,257	99,644	98,427
LOBO's	40,578	47,500	40,597	42,449
Stock	128	88	138	129
Other	238	276	243	291
Bank Overdraft	8,133	8,133	11,427	11,427
Short Term Borrowing	30,908	30,908	30,712	30,669
<b>Financial Liabilities</b>	<b>188,660</b>	<b>192,162</b>	<b>182,761</b>	<b>183,392</b>

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.

#### Fair Value of Assets carried at Amortised Cost

	31 March 2010		31 March 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Deposits with Banks & Building Societies	172,247	172,650	165,110	165,975
<b>Financial Assets</b>	<b>172,247</b>	<b>172,650</b>	<b>165,110</b>	<b>165,975</b>

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.

#### 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 principals for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

##### 1. 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 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



## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

2009/2010	Amount at 31 March 2010	Historical Experience of default	Historical Experience adjusted for market conditions as at 31 March 2010	Estimated maximum exposure to default and uncollectability
	£000	%	£000	£000
Deposits with Banks and other financial institutions	172,247	0	0	0
Bonds and other securities	0	0	0	0
Customers	18,485	2.90	536	536
<b>Financial Assets</b>	<b>190,732</b>		<b>536</b>	<b>536</b>

2008/2009	Amount at 31 March 2009	Historical Experience of default	Historical Experience adjusted for market conditions as at 31 March 2009	Estimated maximum exposure to default and uncollectability
	£000	%	£000	£000
Deposits with Banks and other financial institutions	165,110	0.00	0	0
Bonds and other securities	0	0.00	0	0
Customers	12,733	0.48	61	61
<b>Financial Assets</b>	<b>177,843</b>		<b>61</b>	<b>61</b>

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds

#### 2. 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 or re-borrowing at a time of unfavourable interest rates.

## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

Loans Outstanding	31 March 2010 £000	31 March 2009 £000
Public Works Loan Board	108,675	99,644
Market Debt / Loan Board	40,578	40,597
Temporary Borrowing	30,908	30,712
Local Bonds	58	56
Other	308	325
<b>Total</b>	<b>180,527</b>	<b>171,334</b>
Less than 1 year	32,463	32,241
Maturing in 1-2 years	58	12
Maturing in 2-5 years	10,046	86
Maturing in 5-10 years	14,081	80
Maturing in 10-20 years	9,110	122
Maturing in 20-30 years	40	40
Maturing in 30-40 years	15,002	15,006
Maturing in 40-50 years	64,500	88,500
Maturing in more than 50 years	35,227	35,247
<b>Total</b>	<b>180,527</b>	<b>171,334</b>

### 3. 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 authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Account.
- 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 STRGL.
- 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 authority'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

## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

appropriate. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31st March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2010 £000	31 March 2009 £000
Increase in interest payable on variable rate borrowings	509	407
Increase in interest received on variable rate borrowings	1,869	2,338
<b>Net Impact on Income and Expenditure Account</b>	<b>1,360</b>	<b>2,745</b>
Decrease in fair value of 'available for sale' investment assets	0	0
<b>Impact on STRGL</b>	<b>0</b>	<b>0</b>
Decrease in fair value of fixed rate investment assets (No impact on I&E Account or STRGL)	(586)	(1,121)
Decrease in fair value of fixed rate borrowing liabilities (No impact on I&E Account or STRGL)	(17,377)	(20,730)

#### 4. Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £795,123 (2008/2009 £1,503,168) in Newcastle Airport which is not listed on the stock exchange. The authority is consequently exposed to loss arising from the movement in the price of these shares which have been re-valued in 2009/2010.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2008/2009 £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 STRGL. The market value of these holdings as at 31st March 2010 was £81,676 in total (the value at 31st March 2009 was £61,081).

#### 5. 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.

## Notes to the Core Financial Statements (Continued)

### Note 46 – Financial Instruments (Continued)

#### Soft Loans

Loans to third parties at below market rate have to be accounted for on a fair value basis. The fair value is the present value of all future cash receipts discounted using the prevailing market interest rate for a similar instrument and for an organisation with a similar credit rating. LAAP Bulletin 73 confirms that materiality needs to be taken into consideration and where the value is not material the new accounting adjustments need not be followed.

The SORP requires that the difference between cash lent and fair value be recognised immediately in the Income and Expenditure Account. The fair value of a soft loan will increase over the term of the loan, because the amount of interest forfeited will reduce. This is reflected by increasing the carrying value of the loan to reflect the unwinding of the discount. The resulting increase in value is recognised in the Income and Expenditure Account. The impact of a soft loan upon the Income & Expenditure account has therefore not been adjusted.

The value of soft loans given by the City of Sunderland amounted to £46,748, £16,385 of this total represents the value of car loan advances outstanding as at 31 March 2010 (2008/2009 £20,948) and a low interest loan for £30,363 (2008/2009 £48,643). The difference between the carrying amount and the fair value of the car loan advances is considered to be immaterial, the market rate for a loan for comparative purposes has been established at 4.50%, the interest rate charged by the Council for a car loan advance is 4.45%, and therefore the income and expenditure account has not been adjusted. However, adjustments have been made for the soft loan, the details of which are set out below:

Date of Loan	Amount £	Duration of Loan	Annual Interest Rate Charged %	Assumed Annual Interest Rate %	Interest Foregone £
01/02/2009	50,000	36 months	1.61	4.5	972

### Note 47 – Financial Instrument Adjustment Account

SORP requires that financial assets are carried at fair value unless they have fixed or determinable payments but are not quoted in an active market. The outcome of proper accounting practice is different from that required in assessing the impact on local taxes. The Financial Instruments Adjustment Account helps manage this process by providing a balancing mechanism between the different rates at which gains and losses, such as premiums and discounts on the early repayment of debt are recognised under SORP and are required by statute to be met from the General Fund.

	2009/2010 £	2008/2009 £
Balance at 01 April	(441,571)	(380,457)
Premiums	171,081	186,850
Discounts	(239,579)	(239,579)
LOBO's	13,493	(5,554)
Soft Loans	(19,106)	(2,831)
Balance at 31 March	(515,682)	(441,571)

## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves

The SORP requires the Council to provide details of all of its Capital Reserves and Revenue Reserves on the Balance Sheet (Page 47). This note shows in more detail the make up of these balances which relate to various earmarked reserves established and agreed by the Council. These are amounts of money set aside for a specific purpose, the amount and timing of which is not yet known but where there is a clear liability or spending pressure to be addressed in the future.

Capital Reserves:	2009/2010	2008/2009	Purpose of the Reserve
	£	£	
Un-utilised RCCO Reserve	8,915,621	7,559,250	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	11,543,088	12,740,579	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	4,489,385	4,576,836	Usable capital receipts set aside to fund future capital projects previously approved.
Children's Social Care Capital Reserves	195,150	358,308	Reserve earmarked for capital developments within Children's Services.
<b>Total Capital Reserves</b>	<b>25,143,244</b>	25,234,973	

## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	2009/2010 £	2008/2009 Restated £	Purpose of the Reserve
Strategic Investment Reserve	51,185,836	56,183,729	A reserve established to address some of the Council's key developments and strategic priorities.
Service Pressures and Priorities Reserve	1,252,613	1,778,472	Reserve established to address approved service pressures and priorities.
Other Miscellaneous Reserves	1,219,787	737,227	Numerous small revenue reserves set up for specific purposes.
Repairs and Renewals Reserve	704,752	1,424,752	The reserve is used to fund repairs and renewals associated with council buildings and work associated with the Disability Discrimination Act.
Economic Development Reserve	1,000,000	1,000,000	This reserve was established to fund future economic development grants.
Economic Downturn Reserve	1,200,000	300,000	To mitigate the potential budgetary impact of the economic downturn.
SAP Development Reserve	300,426	300,426	Reserve established to fund future developments to the SAP system.
Sandhill Centre PFI Smoothing Reserve	2,643,024	2,803,570	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Education Meals Consortium Reserve	161,614	261,882	The reserve was set up for schools within the School meals consortium which purchase meals from Cultural and Community Services. The balance is to be held pending the outcome of the review of school meal charging arrangements and trading performance in 2008/2009.
School Community Reserve	2,245,282	2,366,915	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
Children's Services Modernisation Reserve	108,936	81,875	The reserve is to fund one-off transitional costs associated with the Children's Social Services Modernisation Programme.
Connexions Related Reserves	1,088,816	1,117,819	The reserve was set up for two specific purposes. Firstly, to fund overhanging costs / liabilities arising from the transfer of the Tyne and Wear Connexions service to individual local authorities. Secondly, to facilitate investment and fund transitional costs over an initial three year period in the newly formed Tyne and Wear Hub service.

## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	2009/2010 £	2008/2009 Restated £	Purpose of the Reserve
Connexions Pensions Reserve	0	331,531	Mitigate financial impact of pension rights transferred to the Council from Connexions.
Connexions Hub Agreement	706,125	379,370	The reserve is held as part of the current Hub agreement to provide for unforeseen costs covering the 3 year period 1 <sup>st</sup> April 2008 – 31 <sup>st</sup> March 2011.
External Placements Reserve	600,000	400,000	The reserve was established to manage the costs of external placements which fluctuate year on year and will minimise the potential in year impact on the Children's Services Directorate Budget.
Education Redundancies Reserve	952,342	872,313	The reserve was established to meet the anticipated costs of voluntary redundancies at schools as a result of falling pupil rolls within the Authority's schools.
Pupil Referral Unit Reserve	84,931	84,931	This reserve is earmarked for improvements to the curriculum provided for pupils educated through the Pupil Referral Unit. The reserve will also enable improvements to be made in response to Ofsted recommendations.
Extra District Fees Reserve	138,495	77,000	The reserve was established to manage the costs of Extra District placements which fluctuate year on year and will minimise the potential in year impact on the Children's Services Directorate Budget.
Safeguarding Reserve	195,313	452,806	This reserve is set provide funding to respond to additional safeguarding needs arising from the Lord Laming report and revised external scrutiny arrangements.
NEET Targeting Support Reserve	637,445	954,610	This reserve is set up to provide funding for academic year projects and allow additional targeted support for those Not in Education, Employment or Training (NEET) and Risk and Resilience priorities.
Street Lighting and Highway Signs PFI Smoothing Reserve	7,448,037	7,636,842	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Port General Reserve	895,089	832,499	The reserve is intended to meet the potential costs associated with the future investment needs of the Port.

## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	2009/2010 £	2008/2009 Restated £	Purpose of the Reserve
Replacement Port Vessel Reserve	123,396	123,065	Established with contributions from ship owners in 1987/1988 towards the replacement of the pilot cutter vessels.
Highways Maintenance Service Pressures Reserve	120,000	185,000	This reserve has been established to meet future Highways maintenance service pressures in 2009/2010.
Civil Parking Enforcement Reserve	100,653	100,653	Reserve earmarked to complete a review of traffic orders in preparation for the possibility of enforcing moving traffic offences using Civil Parking Enforcement powers.
Adult Services Modernisation Reserve	416,032	416,032	The reserve was set up to fund the one off transitional costs associated with the Adult Services Modernisation Programme.
Residential Homes Reserve	182,350	261,341	The purpose of the reserve is to replace furniture in the Council's small homes for people with learning disabilities.
Adult Services Modernisation and Service Pressures Reserve	800,000	800,000	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care.
Inward Investment Reserve	1,626	71,620	A reserve to enable the development of a series of events over a 3 year period to increase tourism and to assist in improving the economic prosperity of the City.
Play Areas Reserve	1,104,241	1,377,202	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.
Amenity Areas Reserve	766,502	763,749	This reserve is set up to fund / finance with maintenance requirements of amenity areas.



## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	2009/2010 £	2008/2009 Restated £	Purpose of the Reserve
Commuted Sums Reserve	2,122,210	2,074,784	The reserve was set up to reflect the monies developers of new housing estates pay to the Council for maintaining the upkeep of grassed areas and areas of common ground for which the Council has responsibility. The funds are invested and earn interest and are drawn upon to fund the grounds maintenance carried out each year.
Apprentices Back Pay Reserve	37,938	217,608	Reserve established to fund potential back pay claims from apprentices.
Waste Disposal Reserve	0	430,115	Reserve established to meet the preparatory costs associated with the long term strategic waste disposal solution.
Community Development Support Reserve	0	192,755	Reserve established for the support and implementation of the Community Development Plan.
Industrial Units Reserve	0	307,000	A ring fenced deficit has arisen over the past two years on industrial units. Whilst every effort will be made to make good this position, the reserve has been established to fund the deficit should this not be the case.
City Services Efficiency Savings	180,000	0	Reserve established to fund the phasing of City Services efficiency savings.
Carers Demo Site	214,539	0	Reserve established to fund breaks for long term carers.
Healthy City Investment	239,003	0	Reserve established to promote a healthier city.
Mortgage Rescue Scheme	149,675	0	Reserve established to help prevent vulnerable home owners having their properties repossessed as a result of the recession.
Fund Campus Clients	165,817	0	Reserve established to fund the overpayment of grant from STPCT
House Sale Income	1,249,803	0	Reserve established from income owed to the council for the care needs of clients in independent sector care homes.
Housing Benefit / Council Tax Staff	449,743	0	To fund additional staffing requirements to meet increased case loads as a result of the economic downturn
WNF - Software City	2,600,000	0	Reserve established to help fund the development of Software City
WNF - Junction Improvements	600,000	0	Reserve established to help fund junction improvements.
WNF Visible Workshop and other projects	3,600,000	0	Reserve established to help fund the development of visible workshop and other projects.

## Notes to the Core Financial Statements (Continued)

### Note 48 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	2009/2010 £	2008/2009 Restated £	Purpose of the Reserve
Property Rationalisation Project	250,000	0	Reserve established to fund the rationalisation of office accommodation
Children Placement Strategy	900,000	0	A ring fenced service pressures reserve to support the children's placement strategy
<b>Total Revenue Reserves</b>	<b>91,142,391</b>	87,699,493	

### Note 49 – Related Companies and Organisations

#### 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 districts of Tyne and Wear.

The Company's objectives are:

- (i) The assistance, promotion, encouragement and security of the economic development and regeneration of Tyne and Wear, of new industry and commerce, and employment opportunities within Tyne and Wear;
- (ii) The investigation of the needs of industry and commerce, and the advertising and promotion of the benefits of Tyne and Wear as a location for the expansion and promotion of industry and commerce;
- (iii) The promotion of the interests of industry and commerce in all circles of local and central government and administration

Members of the Company have a limited guarantee of £1. If, however, the Company was ever wound up or dissolved by the agreement of at least a majority of its members, then all liabilities and debts would have to be satisfied before any remaining interests in land of the Company could be transferred to the Council in which they are located. Any other funds and property not so covered (in the memorandum of association) would be distributed in proportion to the populations of each constituent Council's area. As the portfolio of assets of the Company is considerable and its residual liabilities are not considered to be significant then the Council would anticipate a distribution of net assets/proceeds should this event occur at any time.

To gauge the scale of its business, the financial results of the company for 2008/2009 showed a consolidated trading loss after taxation of £0.025m (2007/2008 £679,268 profit) and had net assets worth £14.592m (2007/2008 £15.786m). The Company's audited accounts for 2009/2010 will be made available once approved by the Board at its AGM in December 2010.

## Notes to the Core Financial Statements (Continued)

### Note 49 – Related Companies and Organisations (Continued)

The Council acts as an agent for the Company in managing its property interests in Sunderland, as well as providing legal and financial services, and makes a charge for these services against the company's income. The accounts which have a 31st March year end date are available once agreed at the AGM held by the Company in the following January. Copies of the accounts can then be acquired upon application to the Manager, Tyne and Wear Development Company Limited, Investor House, Colima Avenue, Sunderland Enterprise Park, Sunderland SR5 3XB.

#### **Newcastle International Airport Ltd / NIAL Holdings Ltd / NIAL Group Ltd**

Under the Airports Act 1986, Newcastle International Airport became an Airport Company on 1st April 1987 and properties, rights and liabilities of the constituent local authorities were transferred to it. In consideration of this transaction, the Council received an allocation of 6,161,377 £1 shares out of a total share capital of 33,395,000 with a book value of £6,161,377. As already mentioned in **Note 27a on Pages 90** to the Balance Sheet, the Council sold 49% of its shareholding to Copenhagen Airports Ltd and has retained 51% of its previous shareholding with a revised book value of £12,608,730, as this shareholding now represents 51% of NIAL Holdings Ltd share holding total of 65,480,000 which was valued at £134.0 million at that time. The valuation of NIAL Holdings Limited is reviewed annually. The current estimated valuation of the share holding as at 31 March 2010 is £8.425m and the proportion relating to the Council's share is £0.795, this is an impairment of £0.708m from the previous valuation included in 2008/2009 accounts of £1.503m.

A new Company known as NIAL Holdings Ltd was then established to hold all shares in Newcastle Airport Ltd and distributes 49% of any dividend to Copenhagen Airports (32,085,000 shares) and the remaining 51% to the constituent local authorities (33,395,000 shares) who collectively own a separate Company known as the Newcastle Airport Local Authority Holdings Ltd. The Council holds a 18.45% shareholding in the Newcastle Airport Local Authority Holdings Company which equates to a 9.41% shareholding in NIAL Holdings Ltd and from 2007 the other group company NIAL Group Limited .

The principal activity of Newcastle International Airport Ltd (registered 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year. There was no dividend declared for 2009 (2008 £Nil dividend). There are no outstanding balances owed to or from NIAL at the year end. NIAL Group Limited made a loss before tax of £4.171m (2008 profit of £2.357m) and a loss after tax of £3.161m (2008 £10.227m).

The company agreed to pay a dividend of £2.171m in respect of the financial year ending 31<sup>st</sup> December 2007 in 2008/2009. This was declared at a board meeting on 2<sup>nd</sup> March 2009 following a favourable court settlement in respect of the refinancing transaction dating back to December 2006. The amount allocated to the NALA HCL was £1.107m and the Council's share was £0.204m. This figure was included in the 2008/2009 accounts. No dividends were payable in 2009/2010

A request for a copy of NIAL Group Limited accounts should be made in writing to the following address:  
Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear NE33 2RL.

#### **Newcastle Airport Local Authority Holdings Company Ltd.**

The Council's liability in this arrangement is explained below in the notes in respect of the Newcastle Airport Local Authority Holding Company Limited (NALAHCL) which retains the majority shareholding of 51%.

## Notes to the Core Financial Statements (Continued)

### Note 49 – Related Companies and Organisations (Continued)

The Company has a share capital of £10,000 of which the Council's holding is £1,845 or 18.45% of the total. The purpose of the company is mainly to distribute the surplus generated from NIAL Holdings Ltd and the Council's share amounts to 18.45% of the distributable amounts. These shares were purchased during 2002/2003 to reflect this shareholding, this forms part of [Note 27a, Pages 90](#) to the balance sheet. No losses / deficits are anticipated as these will be dealt with within the above PLC arrangements. The accounts are now prepared on a year end of 31 December to allow full consolidation with the Newcastle Airport accounts mentioned above. The accounts of the group have been audited and reported to the respective Boards.

The results of the Newcastle Airport Local Authority Holding Company Limited show that there will be no dividend paid in respect of 2009. As previously mentioned, NIAL agreed to pay a dividend of £1.107m in respect of the financial year ending 31<sup>st</sup> December 2007 to LA Holding Company Ltd and the Council's share was £0.204m, which was included in the 2008/2009 accounts. The fact that no dividend is to be received for 2009 is not unexpected as this is a direct result of the refinancing exercise carried out when the Companies debt was restructured. In the future there is still the prospect of dividends but this will be based upon the future financial performance of the company.

The Council's liability in this arrangement amounts to the loss of its shareholding in the company, if the company should ever to cease trading. However, with considerable assets available to the airport this is considered unlikely that a net liability position would emerge. The consolidated accounts of NIAL Holdings Ltd are consolidated into the accounts of Newcastle Airport Local Authority Holding Company Limited (NALAHCL) and as such, a copy of these accounts can be obtained upon application to the Head of Finance, South Tyneside MBC, Town Hall and Civic Centre, Westoe Road, South Shields NE33 2RL.

#### 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.

From 1st October 2000, the Council, with the agreement of the Trust, entered into a facilities management arrangement with Apollo Leisure for a fixed annual amount. This transferred the risk and upkeep of the premises to Apollo Leisure from the Trust, which was known as Clear Channel Entertainments but is currently known as Live Nation who have transferred the role to the Ambassador Theatre Group. The buildings, however, do remain the property of Sunderland City Council. The contract stipulates the amount to be paid by the Council to the Ambassador Theatre Group which totalled £391,699 in 2009/2010, (£405,701 in 2008/2009). The Council as such does not therefore contribute to any losses but does benefit from any surpluses made in excess of an agreed return by the facilities management company during its financial year's operations. The Trust monitors these arrangements and has, as a result, incurred minimal costs each year. If the agreement was ever terminated then the assets of the Theatre remain with the Council and the only liability would be to meet any costs of the Trust which are considered minimal.

In 2009/2010, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust however made a small surplus of £24 in 2009/2010 (surplus of £351 for 2008/2009) in year which will increase its reserves to meet future costs. Its reserves as at 31 March 2010 now stand at £7,044 (£7,020 as at 31 March 2009). In 2009/2010 the Council made a contribution of £26,806 (£26,347 for 2008/2009) 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.

## Notes to the Core Financial Statements (Continued)

### Note 49 – Related Companies and Organisations (Continued)

A copy of the Trust accounts can be obtained from the Director of Financial Resources, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

The Accounting Code of Practice 1996 introduced new requirements where a local authority has interests in companies, to determine whether group accounts are required. There are two main considerations in such determination:

- Materiality
- Whether such companies would be regarded as subsidiary and associated companies under the Companies Act

The Companies referred to above do not meet the above criteria and consequently group accounts have not been prepared in line with the Statement of Accounting Policies (Page 23) and the new requirements that applied from 1st April 2004.

#### **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 £30,974 in 2009/2010 (£30,072 2008/2009).

As a constituent member the Council has to comply with the constitution agreed by member authorities. This includes resolutions that if the museum was to be discontinued the permanent collection of the museum would be transferred in whole or in part to such registered museums with similar objects to the museum as the Joint Committee see fit. All other assets of the museum would after all debts and liabilities have been satisfied be applied for such charitable objects for the advancement of education as the Joint Committee sees fit. (It should be noted that the land would revert to Durham County Council). If debts and liabilities exceeded the assets then the balance will have to be met by the six remaining constituent authorities in equal shares.

New arrangements for the management of the Museum came into effect on 1<sup>st</sup> April 2008. The Joint Committee continues to be 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 2009/2010 the Joint committee made an operating loss of £321,000 (2008/2009 £508,000 loss) and had net assets of £14,891,000 (2008/2009 £14,407,000). The Group made an operating surplus of £308,000 on 2009/2010 (208/2009 £665,000 loss) and held net assets of £13,049,000 (2008/2009 £13,793,000). The Council receives no income or contributions from the above reported arrangements.

Copies of the Joint Committees and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

## Notes to the Core Financial Statements (Continued)

### Note 50 – Contingent Liabilities

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 £0.643m (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 had confirmation that the maximum possible loss of grant would not exceed £107,000. During 2009/2010 the Council concluded its discussions with GONE and provided more detailed information in respect of the dispute and the Council subsequently received notification that it would have to repay grant funding of £97,819 to settle the issues. As such this contingent liability has been fully discharged in the current financial year and the repayment of grant monies is included within the Statement of Accounts for 2009/2010. The Council also responded by putting in place corrective action so as to prevent a re-occurrence of the issues raised by the ECA.

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 sought advice from Queens 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. The claim continues to be resisted by the

## Notes to the Core Financial Statements (Continued)

### Note 50 – Contingent Liabilities (Continued)

Council and in the light of the position with this dispute the Council considers that any further payment would not exceed £0.200m plus potential costs should the Council lose this action.

The claim from Mowlem PLC, known as Carillion, in respect of the Queen Alexandra Bridge works which were completed in October 2006 has now been settled. The reference to arbitration has been withdrawn and the final account has been issued and paid during 2009/2010.

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 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 cannot be assessed or quantified at this time however the Council has issued contribution notices against the Unions in respect of some of these claims.

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 in respect of URBAN II grant claims, which could result in a potential loss of grant funding of up to £0.316m (this is regarded as 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.

The Council has received notice from the Environment Agency that it is one of a number of named organisations that is a potential contributor to the costs of the remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works have not yet been accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. The position will however be kept under regular review, but it is considered prudent to treat it as a contingent liability.

The Council may be potentially required to consider modification of the planning consents in respect of two units at Peel Retail Park, Washington. The outcome of litigation is currently awaited. Once the judgement is issued the Council will seek to quantify the extent of any potential liability as a result.

## Notes to the Core Financial Statements (Continued)

### Note 51 – 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 2010 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.

	Restated Balance at 01/04/2009 £	Additions during the year £	Income £	Expenditure £	Balance at 31/03/09 £
Children Services Trust Funds	153,256	0	40,940	0	194,196
Adults Services Fund	71,351	0	139	650	70,840
	224,607	0	41,079	650	265,036

### Note 52 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with Revenue and Customs in relation to overpaid output tax, the value of these claims amount to £3,273,670. However as there is no indication of the likelihood of these claims being paid they have been reflected as a contingent asset.

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 £1.261m.

### Note 53 – Post Balance Sheet Events

#### Non adjusting events

#### Pensions: Actuarial Review of the Local Government Pension Scheme

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the Actuary in his next full actuarial review of the pension fund, due to be carried out as at 31st March 2010. The Actuary's advice on whether or not there is any anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions. The results of the actuarial review will become available in the autumn when the Actuary has completed and released his revaluation report.

#### Pensions: Changes from RPI to CPI

In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a reduction in the pension's liabilities and therefore the pension deficit on the balance sheet. The change will also impact upon the income and expenditure / profit and loss account over the next accounting period.



Hewitt have calculated that the impact on the balance sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities on the balance sheet by:

- Approximately £107.75M for LGPS funded benefits.
- Approximately £2.03M for LGPS unfunded benefits.
- Approximately £0.96M for LGPS unfunded teachers benefits.

Hewitt have based this figure on the FRS 17 assumptions applicable at the accounting year end, and allowing for CPI increases being lower than RPI increases by around 0.7% p.a. in the long term (Hewitt's best estimate of the differential at the accounting date). The actual figure will also reflect the date of measurement and assumptions used when producing next year's figures.

It is anticipated that the reduction in liabilities will be accounted for as a (negative) past service cost i.e. this change constitutes a change to benefits since pension scheme members will expect a lower benefit following the change.

It is also anticipated that the move to CPI will reduce the interest cost and current service cost calculated for the next accounting period compared to the position if pension increases remained linked to the RPI.

### **Personal searches of local land charges register**

The Government has concluded that charging for a personal search of local land charges register is incompatible with the EIR regulations 2004 and is therefore revoking the £22 personal search fee with immediate effect. They have also stated that where the fee has been wrongly charged since January 2005 when the EIR regulations came into force, local authorities will need to consider bringing a potential refund to the attention of those who have been wrongfully charged.

An initial estimate of the potential liability between 1<sup>st</sup> January 2005 and 31<sup>st</sup> March 2010 amounted to £168,388 and a further £16,898 in 2010/2011. It is yet unclear how and when fees will be refunded. Ultimately the fees were borne by members of the public, therefore if a personal search company does claim a refund, they will need to provide evidence that the refund has been passed on to the client instigating the personal search otherwise they may be unjustly enriched.

### **Adjusting event**

There are no adjusting post balance sheet events.

## Notes to the Core Financial Statements (Continued)

### Notes to the Cash Flow Statement

#### Note 54 – Reconciliation of Revenue Activities

The net Cash Flow can be reconciled to the Income and Expenditure Account as follows:

	2009/2010		Restated 2008/2009	
	£	£	£	£
(Surplus)/Deficit per Income and Expenditure Account		<b>69,384,498</b>		23,573,501
Non Cash Transactions				
Depreciation, Impairment and Government Grants Deferred Amortisation		<b>(87,440,655)</b>		(57,158,850)
Deferred charges written to revenue		<b>(4,235,301)</b>		(6,985,878)
Direct Revenue Financing				12,294,721
Net Movement on Reserves and Provisions		<b>(2,020,075)</b>		(17,735,227)
Pension Fund Adjustments		<b>(14,990,000)</b>		15,190,000
Other		<b>(5,118,116)</b>	<b>(113,804,147)</b>	(1,975,368)
Items on an accruals basis				
Increase / (Decrease) in Debtors		<b>5,108,116</b>		(1,967,378)
(Increase) / Decrease in Creditors		<b>9,272,929</b>	<b>14,381,045</b>	10,590,326
Net Cash Flow from Revenue Activities		<b>(30,038,604)</b>		(24,174,153)

#### Note 55 – Increase / (Decrease) in Cash

	31/03/2010	31/03/2009	Movement	Movement
	£	£	2009/2010	2008/2009
Cash in Hand	<b>841,197</b>	785,205	<b>(55,992)</b>	85,639
Cash in School Bank Accounts	<b>1,318,905</b>	1,063,569	<b>(255,336)</b>	486,313
Cash Overdrawn	<b>(8,133,153)</b>	(11,426,983)	<b>(3,293,830)</b>	(5,659,323)
	<b>(5,973,051)</b>	(9,578,209)	<b>(3,605,158)</b>	(5,087,371)

#### Note 56 – Increase / (Decrease) in Liquid Resources

	31/03/2010	Restated 31/03/2009	Movement	Restated Movement
	£	£	2009/2010	2008/2009
Short Term Deposits	<b>172,246,835</b>	135,109,765	37,137,070	(54,296,586)
NNDR Adjustment	<b>9,441,744</b>	2,694,852	6,746,892	2,694,852
Council Tax Adjustment	<b>183,742</b>	45,917	137,825	45,917
<b>Net Movement</b>	<b>181,872,321</b>	137,850,534	<b>44,021,787</b>	(51,555,817)

#### Note 57 – Increase / (Decrease) in Financing

	31/03/2010	Restated 31/03/2009	Movement	Restated Movement
	£	£	2009/2010	2008/2009
Long Term Borrowing	<b>(148,063,883)</b>	(139,092,938)	<b>(8,970,945)</b>	30,079,715
Short Term Borrowing	<b>(32,463,642)</b>	(32,241,271)	<b>(222,371)</b>	2,868,942
<b>Net Movement</b>	<b>(180,527,525)</b>	(171,334,209)	<b>(9,193,316)</b>	32,948,657

## Notes to the Core Financial Statements (Continued)

### Note 58 – Reconciliation of Net Cash Movement to Movement in Debt

	2009/2010 £	Restated 2008/2009 £
Decrease in cash during the year - Note 55	<b>3,605,158</b>	5,087,371
Decrease in liquid resources - Note 56	<b>44,021,787</b>	(51,555,817)
Decrease in financing - Note 57	<b>(9,193,316)</b>	32,948,657
	<b>38,433,629</b>	(13,519,789)
Represented by movement in:		
Net Debt at 1 April	<b>(44,798,975)</b>	(31,279,186)
Net Debt at 31 March	<b>(6,365,346)</b>	(44,798,975)
	<b>(38,433,629)</b>	13,519,789

## Supplementary Statement

### The Collection Fund Account for Year Ended 31 March 2009

	Note	2009/2010		2008/2009 Restated	
		£	£	£	£
<b>Income</b>					
Council Tax	60		107,473,578		103,655,307
Government Grants	63		(1,297)		(2,628)
Income from Business Rates	61a		78,035,848		74,489,457
			<u>185,508,129</u>		<u>178,142,136</u>
<b>Expenditure</b>					
Precepts and Demands:					
City of Sunderland		93,907,754		91,200,867	
Tyne and Wear Fire and Rescue Authority		5,836,995		5,762,913	
Northumbria Police		6,545,779	106,290,528	6,298,414	103,262,194
Business Rates - Payment to pool	61c	76,132,435		72,798,283	
Business Rates - Cost of collection and other allowances.	61b/62b	1,903,413	78,035,848	1,691,174	74,489,457
Amounts Written Off:					
Council Tax	62a		430,004		563,666
Provision for uncollectable amounts:					
Council Tax			(723,359)		192,368
			<u>184,033,021</u>		<u>178,507,685</u>
Net Income (Deficit) for the Year			1,475,108		(365,549)
<b>Add balance b/fwd from previous year</b>			165,738		1,031,287
Less Amounts transferred to General Fund					
Council Tax Surplus			(500,000)		(500,000)
<b>Fund Balance Carried Forward at 31 March</b>	64		1,140,846		165,738

## Notes to the Collection Fund Account

### Note 59 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into 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 £1,325.72 for 2009/2010, (£1,288.75 for 2008/2009), 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	2009/2010	2008/2009
	£ p	£ p
A	43,785.07	43,816.67
B	11,095.10	11,139.31
C	12,441.86	12,318.17
D	7,317.66	7,283.61
E	3,223.22	3,268.73
F	1,307.26	1,298.77
G	893.03	886.90
H	25.48	23.52
	<b>80,088.68</b>	<b>80,035.68</b>

The income of £107,473,578 for 2009/2010, (£103,655,307 for 2008/2009), is receivable from the following sources:

	2009/2010	2008/2009
	£	£
Billed to Council Tax Payers	81,286,065	79,642,683
Council Tax Benefits	26,187,513	24,012,624
<b>Total</b>	<b>107,473,578</b>	<b>103,655,307</b>

## Notes to the Collection Fund Account (Continued)

### Note 60 – 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 2009/2010 can be analysed as follows:

	Ref	2009/2010		2008/2009	
		£	£	£	£
Gross Rates Collectable			78,035,848		74,489,457
Less:					
Costs of Collection Allowance		(339,368)		(331,599)	
Other Allowances and Adjustments Reclaimable		(1,564,045)		(736,973)	
Amounts Written Off (see note 66 for details)		(945,650)	(2,849,063)	(622,602)	(1,691,174)
<b>Amount Payable to Pool</b>			<b>75,186,785</b>		<b>72,798,283</b>

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 2009/2010 the Council received a contribution from the pool of £125,643,033 which is payable directly to the General Fund, (in 2008/2009 this figure was £132,944,980).

The Total Business Rateable value as at 31 March 2010 was £184,383,871 (the value as at 31st March 2009 was £184,129,361). The Business Rates Multiplier (poundage) for 2009/2010 was 48.5 pence compared to the previous year's figure of 46.2 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 48.1 pence in 2009/2010, (compared to the 45.8 pence in 2008/2009).

### Note 61 – 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 2009/2010 £430,004 (£563,666 for 2008/2009) 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 does not impact on the Precepting Authorities resources. To put this figure into context, the amount written off compared to the collectable Council Tax for 2009/2010 represents less than 0.40% (2008/2009 this was 0.55%) of the total sum.

#### b) Business Rates

In 2009/2010 £945,650 was written off, (2008/2009 £622,602), 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 does not impact on the Authorities resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2009/2010 represents 1.21% (2008/2009 this was 0.84%) of the total sum.

### Note 62 – Government Grants

	2009/2010	2008/2009
	£	£
Transitional Relief Grant	(1,297)	(2,628)

## Notes to the Collection Fund Account (Continued)

### Note 63 – Fund Balance

The fund balance can be analysed as follows:

	2009/2010 £	2008/2009 £
Sunderland City Council	1,007,938	146,379
Northumbria Police Authority	70,258	10,109
Tyne and Wear Fire and Rescue Authority	62,650	9,250
<b>Total Collection Fund Balance</b>	<b>1,140,846</b>	165,738

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 £70,258 and £62,650 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £1,007,938 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

