

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 11 February 2011 at 1.30 pm

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1.	<b>Receipt of Declarations of Interest (if any)</b>	
2.	<b>Apologies</b>	
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	(Copy herewith).	
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	<b>(a) Letter of Representation</b>	73
	(Copy herewith).	
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	(Copy herewith).	

ELAINE WAUGH  
Head of Law and Governance

Civic Centre  
SUNDERLAND

3 February 2011

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 26 NOVEMBER 2010 at 1.30pm**

**Present:-**

Mr G N Cook in the Chair

Councillors M Forbes, Rolph, Tate, T Wright and Mr J P Paterson.

**Declarations of Interest**

The following Councillors declared personal interests in the report listed below as Members of the bodies indicated:-

Item 4 – Internal Audit Services – Progress Report for 2010/2011	Councillor Rolph and Councillor Tate	LEA appointed School Governors and Members of School Finance Committee
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**Apologies for Absence**

Apologies for absence were received from Councillor Allan.

**Minutes**

21. RESOLVED that the minutes of the meeting of the Committee held on 30 September 2010 be confirmed and signed as a correct record.

With respect to the comment made by the District Auditor at the previous meeting relating to whether the controls in place relating to journal entries could allow for fraud to occur, the Director of Financial Resources reported that some additional internal audit work had been done in this area. It had been found that it was not possible to use the journal system on its own to make fraudulent payments, as payments could only be made through other separate systems where the controls were considered satisfactory.

## **Internal Audit Services – Progress Report for 2010/2011**

The Head of Audit, Risk and Procurement submitted a report outlining the performance of Internal Audit up to 8 October 2010, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control.

The Audit and Governance Committee had previously approved the Internal Audit Strategy and Operational Plan for 2010/2011 in March 2010. This set out the audit work planned for the year and performance targets to be achieved. The Head of Audit, Risk and Procurement advised that all Key Performance Indicators (KPIs) were on target with three exceptions. These targets were:-

- Lower cost than average (per £3 spend) within CIPFA Benchmarking Club Comparator Group;
- Percentage of planned audits completed; and
- Percentage of medium risk recommendations implemented.

The Committee were informed that the audit cost per £m gross turnover for the Council stood at £998 which was a reduction from the previous figure of £1,071. However the comparator authorities had reduced their costs to a greater extent to lead to an average of £941 per £m gross turnover. Proposals were already in place to reduce the budget of Internal Audit Services by a further £90,000 for 2011/2012.

The reason for the percentage of completed audits being lower than planned was mainly due to the majority of schools audits being scheduled for later in the year. The audit of the performance management ICT system would not be completed during this year as its implementation had been delayed. However this would not impact on the ability to give an audit opinion in the annual report.

The target of 90% implementation of medium risk recommendations was still not being met. With respect to the implementation of medium risk recommendations, the Committee were advised that quarterly reports were now being issued to Executive Directors to provide them with an update on progress, including the latest implementation rate, which should lead to an improvement.

For this year's plan, the audit risk assessment process had changed and assurances were to be provided based on 18 key risk areas. The overall opinion for all key risk areas was either good or satisfactory and there were no high or significant recommendations and no matters identified which are material to the overall internal control environment of the Council. Managers had also accepted all of the medium and low risk recommendations which had been made.

The Government had announced that the Financial Management Standard in Schools had been cancelled but would be replaced by another assessment in the future. In the interim period, the Internal Audit Service would give consideration to how they could continue to give Members assurance of sound financial management in schools.

Special work had been undertaken in relation to identifying fraud or error resulting in financial loss and although duplicate payments were found, these had not been

classed as fraudulent but a result of human error. Further work of this nature would be undertaken.

The Head of Audit, Risk and Procurement concluded that good progress had been made against the plan for this year and there continued to be a sound system of internal control throughout the Council.

Councillor Wright was pleased to note that the Council's procurement arrangements had been widely praised by external sources and he thanked Paul Davies and his staff for their achievements in this area. He then queried how the overall implementation rate for medium risk recommendations had gone down from 86% to 85% between June and October.

The Head of Audit, Risk and Procurement advised that the implementation figure reflected the outcome of follow up audits in the previous 12 months and was designed to test the recent attitude of management to their implementation.

Councillor Wright expressed his satisfaction about the work and methods of the Internal Audit Service, but asked if the Service was confident that over a period of four to five years, every department within the Council would be covered.

The Committee was advised that the role of Internal Audit was not to look at everything the Council did but to undertake sufficient work in key risk areas to be able to provide an overall opinion. Some area of work would not ever reach a significantly high point on the risk scale to warrant auditing, for example petty cash.

Councillor Wright then went on to request clarification on how the situation with the Audit Commission would impact on the Council's Internal Audit Service and its resources. The Head of Audit, Risk and Procurement explained that the Audit Commission's current role as external auditor would largely focus on the accounts, overall governance arrangements and value for money in the future and was largely different from that of Internal Audit. The work programmes for both was different but complementary. With regard to resources, there was a danger that during restructures cuts may not be felt in the short term but then have an impact on the long term of the service. The Head of Audit, Risk and Procurement indicated that he had been heavily involved in developing proposals for savings within internal audit and he was confident that the future resources proposed would be sufficient in the new structure in light of the changes which were being made.

The Director of Financial Resources added that, as Section 151 Officer, he had a statutory responsibility to ensure that adequate resources were available for audit and other financial processes. The cost of the service was only one aspect of the changes and the way services are organised to deliver services effectively was fundamental to the Business Transformation Programme was. An example of this had been the bringing together of risk management and internal audit within one Division as a more efficient and effective way of organising resources.

Councillor Tate referred to the Integrated Transport Authority's use of external auditors and queried whether this work might go out to tender in the future. The Director of Financial Resources advised that there was an ongoing debate about what would take the place of the Audit Commission. He also highlighted that some

local authorities already use external firms as their auditors, but this was done through the Audit Commission.

Ian Rutter, representing the District Auditor commented that the Audit Commission acted as external auditors for approximately 70% of local authority and health bodies. There was discussion about a successor body to the Audit Commission to be owned by employees going forward but at the present time, primary legislation for the abolition was required and it was intended that the Audit Commission would cease to exist in March 2013.

Councillor Rolph queried the robustness of the CIPFA comparator group as the turnover of organisations which on the surface look similar, could be vastly different. The Head of Audit, Risk and Procurement acknowledged that all benchmarks had limitations and the service was not just aiming to have low costs but a balance between quality and cost. A balanced scorecard approach was used as set out in the agreed Operational Internal Audit Plan, if it was felt efficiencies could be obtained then these would be pursued. Attention was also drawn to another comparator which was cost per audit day where Sunderland had achieved a lower cost than the CIPFA comparator group.

The Committee had heard that Internal Audit planned to look at the Business Transformation Programme and Councillor Rolph stated for information, that a sub-group of the Management Scrutiny Committee were also considering the programme.

Following up on the identification of duplicate payments to the value of £96,000, the Chair asked if there were any opportunities to look at this again to ensure nothing else had slipped through the system. The Head of Audit, Risk and Procurement commented that he was confident that a thorough exercise had been undertaken, however he recognised that there were external companies who have dedicated ICT tools in this area and he would discuss with the Director of Financial Resources the possibility of using an external company. These companies were paid on a commission basis only, and therefore if no overpayments were identified then no fees would be paid.

Following discussion, it was:-

22. RESOLVED that:-

- (i) the performance of the Internal Audit Service at this point in the year be noted; and
- (ii) using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken to date within 2010/2011, it was considered that overall throughout the Council there continued to be a sound internal control environment.

## **Internal Audit Services – Consultation for Internal Audit Plan 2011/2012**

The Head of Audit, Risk and Procurement submitted a report asking the Committee to consider the development of the Internal Audit Operational Plan for the forthcoming year.

Internal Audit need to focus their work on the key/major risks facing the Council when formulating their Internal Audit Plan. To do this an audit risk assessment and planning methodology is used:-

- (a) A list of key risk areas has been determined which cover the main areas of inherent risk within the Council.
- (b) Each key risk area is assessed based on the strength of the control arrangements known to be in place to manage the risks in that area, the likelihood of a failure in control, and the impact that failure could have.
- (c) In order to carry out the risk assessment, the following is carried out:-
  - a review of key corporate strategies/plans;
  - consultation with the Chief Executive, Chief Officers, other Senior Managers, the Director of Financial Resources, the Corporate Risk Manager and the Assistant Chief Executive, to identify key issues facing the Council nationally, regionally and locally;
  - consideration of new Council (or associated body) initiatives, government initiatives and legislation.

The full process usually takes place over December and January of each year. The Council is currently engaged in a programme to review and improve services and identify efficiency savings which means there will be changes to the way services are delivered and to the systems and processes being operated. Details of these changes would be identified through the internal audit work currently ongoing and through the consultation taking place with key officers.

A number of areas have already been identified as priorities for the operation plan for 2011/2012. These are as follows:-

- Implementation of the Council's Economic Master Plan
- Shared Service Centre
- Arrangements for the delivery of Corporate Services
- ICT support and delivery to directorates, including budget management
- Corporate Asset Management
- Implementation of the Council's Smarter Working Project
- Mayor Incident Planning
- Treasury Management
- Customer Service Network developments

Members of the Committee were asked to consider the areas for potential inclusion in next year's Operational Plan and were invited to discuss any additional areas which could be considered during the development of the Operational Plan for 2011/2012.

Councillor Rolph commented that she had expected Area Committees and associated arrangements to be included in the Plan but understood that this may have been left until the changes had been embedded for a longer period. The Head of Audit, Risk and Procurement advised that there was scope to programme this to take place later in the audit year of 2011/2012.

Consideration having been given to the report, it was:-

23. RESOLVED that the development of the Internal Audit Operational Plan for 2011/2012 be noted and any further comments submitted to the Head of Risk, Audit and Procurement.

### **Corporate Risk Profile**

The Director of Financial Resources submitted a report informing the Committee of the findings of the latest review of the Corporate Risk Profile, undertaken in September 2010.

The report provided information in relation to:-

- the identified risks and any additions, changes or closed risks;
- an analysis of the risk score movement and commentary;
- an analysis of progress in relation to actions identified to mitigate the risks.

The annual review of the Corporate Risk Profile had been carried out in April 2010 and the mid-term review had been undertaken in September 2010 by the Corporate Risk Management Group. This review confirmed that the Profile identified and detailed the major risks facing the Council and changes had been made to some of the risk descriptions to better reflect the areas covered.

The report outlined risks which had been added, closed or changed and also all risks which remain on the Profile, the Risk Owner, movement in the Risk Score and commentary. The Head of Audit, Risk and Procurement highlighted that two risks were scored at a maximum of 16, with one of these having moved up from a previous score of 12 due to a reassessment by the Group rather than a real change in the current situation. He also drew Members' attention to the table showing the analysis of actions included in the Corporate Risk Profile. As the result of the mid-term review an additional 14 actions had been added to the Profile.

Councillor Forbes referred to the changes to the risk description for Risk 15 and taking out the reference to 'significant productivity gains'. The Head of Audit, Risk and Procurement advised that the change had been made to reflect that the risk was that services may suffer once a revised budget was set. The way that the Council was planning to mitigate this risk was in part, through productivity gains, but the change to the description did not imply that productivity gains would not be sought.



Councillor Rolph queried why one of the newly added risks 'Failure to fundamentally reduce poverty levels in Sunderland' should be scored lower than a similar existing risk of 'Failure to fundamentally reduce health inequalities in Sunderland'. The Head of Audit, Risk and Procurement advised that many risks overlapped with others and the score was a judgement made by the Corporate Risk Management Group. John Jordan, Corporate Risk Manager added that in regard to the specific risks highlighted by Councillor Rolph, there was a 15 year plan to address health inequalities but there was uncertainty about whether there would be a significant impact from this in the early stages. It was felt there was more potential to reduce poverty levels at this time and this had led to differing risk scores for the two elements.

The Chairman made a general comment about changes to the benefits system and how this would impact on people in Sunderland, particularly vulnerable adults and children, and the need to address this within the risk assessment process.

Councillor Wright referred to the current staffing situation, that staff were not being replaced and there would be large pressures on staff over the next few years. The Head of Audit, Risk and Procurement reported that the risk was recognised within the profile as 'Inability to match and motivate human resources, skills/abilities, to meet changing organisational requirements'.

Having discussed the report, the Committee concluded that corporate risks were being identified and assessed, actions were in place to manage the risks and identified actions were generally being implemented on time.

24. RESOLVED that the review of the Corporate Risk Profile be noted.

### **Statement of Accounts 2009/2010 – Court of Appeal Decision in Veolia ES v Nottinghamshire County Council and Others (2010)**

The Director of Financial Resources submitted a report updating Members on the position with regard to the formal process required to approve the Statement of Accounts 2009/2010.

It had previously been reported to the Committee that the Council had received a request from a member of the public for commercially sensitive information relating to PFI contracts during the public inspection period for the accounts. The Council had then 'stopped' the right of public inspection until guidance had been received on a point of law relating to the potential disclosure of this information.

The decision in respect of Veolia v Nottinghamshire County Council was handed down on 28 October and it had determined that the right to inspect documents under Section 15 of the Audit Commission Act 1998 did not provide an unrestricted right to inspect contract documents and there was an implied exception in respect of confidential/commercially sensitive information.

Now that the law had been clarified, the Council could continue with the existing audit and run a new public inspection period. The notice of the Audit of Accounts was published on 18 November 2010 and the new Public Inspection Period was to

run from 2 December to 31 December 2010. The date for the Exercise of Public Right to Inspect the Accounts would be 4 January 2011.

In response to a request for clarification from Councillor Wright, the Director of Financial Resources stated that the Council had asked if the Public Inspection Period could be suspended but had been advised that the process should be stopped and an entirely new Inspection Period established.

Councillor Forbes enquired if, following the Court of Appeal's ruling, contractors could declare all of a contract confidential. The Director of Financial Resources assured Members that requests were considered on the basis of a public interest test and that it was the Council who, in consultation with the contractor, would decide what was commercially sensitive.

Following a question from Councillor Tate, Members were advised that the same elector could make the same request within the inspection period but the Council would now be able to answer his objection. The judgement had been based on European Human Rights and Procurement Law so it was unlikely to be challenged further.

Having considered the report, it was:-

25. RESOLVED that the contents of the report and the timetable for public inspection and completion of the audit of the Statement of Accounts for 2009/2010 be noted.

The Chairman made reference to the meeting being the last Audit and Governance Committee to be attended by George Blyth, Director of Financial Resources. He thanked George for his hard work for the Committee and wished him good luck in his retirement.

(Signed) G N COOK  
Chairman

**AUDIT AND GOVERNANCE COMMITTEE**

**11 February 2011**

**TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2010/2011**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of the Report**

- 1.1. To note the progress in implementing the Treasury Management Borrowing and Investment Strategy for 2010/2011.
- 1.2. This report specifically advises Members of:
  - the progress in implementing the Treasury Management Strategy for 2010/2011 up to the third quarter of the financial year;
  - sets out updates to the authorised institutions that the Council will invest with.

**2. Description of Decision:**

- 2.1 The Committee is recommended to:
  - note the progress made in implementing the borrowing and investment strategy for 2010/2011;
  - note the Council's amended Lending List set out in Appendix 1.

**3 Review of the Prudential Indicators and Treasury Management Strategy for 2010/2011**

- 3.1 The Prudential Indicators for 2010/2011 were approved by the Council on the 3rd March 2010 and are regularly reviewed to ensure that:
  - the Council remains within its Authorised Limit for External Debt;
  - treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Council Treasury Management Policy and Strategy Statement;
  - the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.
- 3.2 Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Council. At this stage, the Council is operating within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and there are no areas for concern or any issues which require any review of the indicators as originally approved.

#### 4. Borrowing Strategy for 2010/2011

4.1 The Borrowing Strategy is based upon interest rate forecasts from a number of City institutions. The table below shows the anticipated movement in interest rates since the strategy was approved by Council in March 2010.

	Bank Base Rate		PWLB 5 year Maturity Rate		PWLB 10 year Maturity Rate		PWLB 50 year Maturity Rate	
	March 2010	Dec 2010	March 2010	Dec 2010	March 2010	Dec 2010	March 2010	Dec 2010
March 2011	1.50%	0.50%	3.60%	3.00%	4.45%	4.10%	5.00%	5.20%
March 2012	3.50%	1.00%	4.60%	3.50%	5.00%	4.40%	5.30%	5.50%
March 2013	4.50%	2.25%	4.85%	4.40%	5.15%	5.00%	5.45%	5.60%
March 2014	N/A	3.25%	N/A	5.00%	N/A	5.40%	N/A	5.70%

Economists have been forced to review their economic forecasts in the light of recent events, namely:

- The Sovereign debt crisis that accelerated in May 2010 with Greece and continues to the present time with Ireland and now threatens Portugal and other EU member states.
- The austerity plan introduced by the new coalition government to address the public sector deficit over the next five years.
- The economic growth forecasts for the UK economy which predict weak growth.
- The Bank of England's forecast for inflation - although inflation has remained above the Monetary Policy Committee's (MPC) 2% target, the MPC is confident that inflation will be below the target over the next two years following a further rise to 3.5% by the end of 2010.

Consequently, forecasters are now predicting that the Bank Base Rate and shorter term PWLB rates will remain low for a longer period of time.

4.2 On 20th October 2010, following the Chancellor's announcement of the Spending Review, the Treasury instructed the PWLB to increase the average interest rate on all new loans to an average of 1.00% above the Government's cost of borrowing. This change has resulted in an overall increase in PWLB rates going forward and makes borrowing from this source less affordable.

The Council's strategy for 2010/2011 is to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2010/2011. In response to the Government's increase in PWLB rates across all PWLB loan periods, it is recommended that the Council's benchmark rate for long-term borrowing is increased to 5.50% for the remainder of 2010/2011.

4.3 The Council has borrowed £30.5m in 2010/2011 at an average interest rate of 3.31%, however any further borrowing in 2010/2011 will need to be over shorter term periods to achieve the benchmarking target rate.

4.4 Included in the strategy was provision for debt rescheduling. At this stage, no debt rescheduling has been undertaken in 2010/2011 as rates have not been considered sufficiently favourable.

4.5 The strategy for the remainder of 2010/2011 is to continue to monitor interest rates and to take advantage of any debt rescheduling opportunities that may arise

## **5. Investment Strategy for 2010/2011**

5.1 The primary aim of the Investment Strategy is the security of Council funds, then having regard to liquidity i.e. the availability of cash to meet council liabilities, and finally to secure a reasonable rate of return on its investments.

5.2 As at 31st December 2010, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.49% compared with the benchmark rate (i.e. the 7 day rate) of 0.34%. Performance is significantly above the benchmark rate, whilst the treasury management function continues to adhere to the prudent policy agreed by the Council.

The investment policy is monitored to ensure it has flexibility to take full advantage of changes in market conditions.

5.3 The Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio Holder for Resources, has delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate. On 7th October 2010 the Director of Financial Resources, after consultation with Cabinet Portfolio Holder for Resources agreed to add Cater Allen to the Approved Lending List. Although Cater Allen is not individually credit rated it is part of the Santander banking group and it was decided to apply the credit ratings of Santander to Cater Allen as any investments placed with Cater Allen are fully guaranteed by Santander. The addition of Cater Allen to the Approved Lending List gives the Council further flexibility when placing funds and aids the potential for additional yield whilst maintaining proper levels of security and liquidity. The delegated decision is set out at Appendix 1, together with the Approved Lending List (Appendix 2)



<b>RECORD OF DECISION MADE UNDER DELEGATED POWERS</b>	
<b>Department:</b>	Office of the Chief Executive - Financial Resources
<b>Officer making Decision:</b>	Director of Financial Resources
<b>Date of decision:</b>	7/10/2010
<b>Nature of decision made:</b>	
<p>Addition to the Approved Lending List: To add Cater Allen, part of the Santander Banking Group, to the Council's approved Lending List.</p>	
<b>Reason for decision:</b>	
<p>Where an organisation (which is not individually credit rated) is part of a group, and is wholly guaranteed by that group, then the credit ratings of that group can be applied to the organisation to determine its credit limit and rating.</p> <p>Therefore, Cater Allen, being part of the Santander Banking Group means that although it is not individually "credit rated" it can assume the rating of the Santander Banking Group. All deposits placed with Cater Allen are fully and unconditionally guaranteed by Santander UK Plc., which is a highly rated financial institution and is also included in the Government's Credit Guarantee Scheme.</p> <p>The Council has a copy of the letter of guarantee by Santander and this has been reviewed by our legal section as being in order and they have confirmed that this provides the Council with the appropriate assurance to include Cater Allen on the Council's Lending List.</p> <p>The group limit for Santander will not change from the current level of £40 million but any deposits made with Cater Allen will count against the Group Limit for the Santander Banking Group. The decision will mean that the Council can then deal with Cater Allen as appropriate.</p>	
<b>Members/Officers consulted (attach their views as appropriate)</b>	Cllr D. Allan
<b>File/background papers used:</b>	Letter of Guarantee by Santander and Legal Advice
<b>Is this a confidential matter as referred to in paragraph 7 of the Guidance?</b>	No
<b>Paragraph of Delegation Scheme relied upon:</b>	Council approved on 4 <sup>th</sup> March 2009 that "delegated authority be given to the City Treasurer, (now Director of Financial Resources), in consultation with the Cabinet Portfolio holder for Resources, to vary the Lending List Criteria and the

	Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively".
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<b>Signature:</b> .....	<b>Date: 7<sup>th</sup> October 2010</b>
<b>Counter Signature:</b> .....	<b>Date:</b>



Approved Lending List

Appendix 2

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
<b>UK</b>	AAA	F1+			Aaa			AAA		300	364 days
<b>Lloyds Banking Group</b> (see Note 1)										<b>Group Limit 50</b>	
Lloyds Banking Group plc	AA-	F1+	C	1	Aa3	-	-	A	A-1	50	364 days
Lloyds TSB Bank Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	50	364 days
Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1	50	364 days
<b>Royal Bank of Scotland Group</b> (See Note 1)										<b>Group Limit 50</b>	
Royal Bank of Scotland Group plc	AA-	F1+	C/D	1	A1	P-1	-	A	A-1	50	364 days
The Royal Bank of Scotland Plc	AA-	F1+	C/D	1	Aa3	P-1	C-	A+	A-1	50	364 days
National Westminster Bank Plc	AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1	50	364 days
Ulster Bank Ltd	A+	F1+	E	1	A2	P-1	D-	A	A-1	50	364 days
<b>Santander Group *</b>										<b>Group Limit 40</b>	
Santander UK plc	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Cater Allen	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Barclays Bank plc *	AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+	40	364 days
HSBC Bank plc *	AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+	40	364 days

**Appendix 2(continued)**

	Fitch			Support	Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual		L Term	S Term	Fin Strength	L Term	S Term		
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	B	1	A2	P-1	C+	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
<b>Top 10 Building Societies (by asset value)</b>											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	5	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	5	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	5	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	5	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	5	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	5	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	5	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	5	Baa2	P-2	D	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	5	6 Months
<b>Foreign Banks have a combined total limit of £40m</b>											
<b>Australia</b>	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+	20	364 Days

**Appendix 2 (continued)**

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
<b>Canada</b>	<b>AAA</b>				<b>Aaa</b>			<b>AAA</b>		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aa1	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
<b>Money Market Funds</b>										50	2 Years
Prime Rate Stirling Liquidity	AAA MMF							AAAm		30	2 Years
Insight Liquidity Fund					AAA MR1			AAAm		30	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		30	2 Years

**Notes**

**Note 1 Nationalised / Part Nationalised**

The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £50 million for a maximum period of 364 days

\* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme  
The counterparties in this section will have an AA rating applied to them thus giving them a revised credit limit of £40 million for a maximum period of 364 days

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

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

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



**AUDIT AND GOVERNANCE COMMITTEE**

11 February 2011

**TREASURY MANAGEMENT POLICY AND STRATEGY 2011/2012,  
INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS FOR  
2011/2012 TO 2013/2014**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of the Report**

- 1.1 To inform the Audit and Governance Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2011/2012 and to note the Prudential 'Treasury Management' Indicators for 2011/2012 to 2013/2014 and to provide comments to Cabinet and Council on the proposed policy and indicators where appropriate.

**2. Description of Decision**

- 2.1 Committee is requested to:
- Provide any appropriate comments to Cabinet / Council on the proposed:
    - Annual Treasury Management Policy and Strategy (including specifically the Annual Borrowing and Investment Strategies);
    - prudential 'Treasury Management' indicators;

**3. Treasury Management**

- 3.1 Treasury management is defined as "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

**3.2 Statutory requirements**

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Management Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable, these are set out in Appendix 1.

The Act also requires the Council to adopt a Treasury Management Policy Statement (detailed in Appendix 2) and to set out its Treasury

Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments (Appendix 3).

The Department of Communities and Local Government issued revised investment guidance which came into effect from 1 April 2010. There are no major changes required over and above the arrangements that the Council already has in place and were included in the revised CIPFA Treasury Management Code of Practice 2009 that the Council fully adheres to.

### 3.3 CIPFA requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 3<sup>rd</sup> March 2010.

The primary requirements of the Code are as follows:

1. The Council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
- suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement (is detailed in Appendix 2) and the TMP's follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments which are minor in nature do not result in the Council deviating from the Code's key principles however.

2. The Council will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Executive Director of Commercial and Corporate Services, who acts in accordance with the organisation's Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council has previously nominated the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **Treasury Management Strategy for 2011/2012**

- 3.4 The Treasury Management Strategy comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments and for giving priority to the security and liquidity of investments.
- 3.5 There are no major changes being proposed to the overall Treasury Management Strategy in 2011/2012 which maintains the careful and prudent approach adopted by the Council in previous years. Particular areas that inform the strategy include the extent of potential borrowing included in the Council's capital programme, the availability of borrowing, and the current and forecast world and UK economic position, in particular forecasts relating to interest rates and security of investments.
- 3.6 The proposed Treasury Management Strategy Statement for 2011/2012 is set out in Appendix 3 and is based upon the views of the Executive Director of Commercial and Corporate Services, supplemented with market data, market information and leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.
- 3.7 The strategy is subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate. It is pleasing to note that the Council's current average rate of borrowing at 3.35% is low in comparison with other local authorities whilst the current rate earned on investments at 1.49% is higher than the benchmark rate. In addition debt rescheduling undertaken by the Council has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. For example, since November 2008 the Council has rescheduled debt worth £59.5 million with an ongoing reduction in interest costs of just under £1.0 million per annum. Market conditions are under constant review so that the Council can take a view on the optimum time to carry out further borrowing or debt rescheduling.

### **4. Suggested Reason for Decision**

- 4.1 To comply with statutory requirements.

### **5. Alternative Options**

- 5.1 No alternatives are submitted for Cabinet consideration

## **Background Papers**

Sector City Watch (Monthly)

Local Government Act 2003

The Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition)

Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition 2009)

Treasury Management in the Public services Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition)



**Prudential 'Treasury Management' Indicators 2011/2012 to 2013/2014**

The indicators below relate to Treasury Management (all indicators relating to capital financing have been removed for clarity and can be found in the Capital Programme 2011/2012 and Treasury Management Policy and Strategy 2011/2012, including Prudential Indicators for 2011/2012 to 2013/2014 report to Cabinet - 16<sup>th</sup> February 2011.

- P5 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt, gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Council is asked to approve these limits and to delegate authority to the Executive Director of Commercial and Corporate Services, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to Cabinet and the Council at the next meetings following the change.

	<b>Authorised Limit for External Debt</b>			
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	323,990	331,539	340,096	347,623
Other long term liabilities	91,558	50,860	48,710	46,515
<b>Total</b>	<b>415,548</b>	<b>382,399</b>	<b>388,806</b>	<b>394,138</b>

The Executive Director of Commercial and Corporate Services reports that these authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Executive Director of Commercial and Corporate Services also confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes. It should be noted that the Council undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in Sunderland's borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing for the

Council. A specific element of risk has also been taken into account for these bodies.

In taking its decisions on the Revenue Budget and Capital Programme for 2011/2012, the Council is asked to note that the authorised limit determined for 2011/2012, (see P5 above), will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

- P6 The Council is also asked to approve the following operational boundary for external debt for the same time period and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst case scenario level, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the Executive Director of Commercial and Corporate Services, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, similar to the authorised limit set out above.

The operational boundary limit will be closely monitored and a report will be made to Cabinet and Council if it is exceeded at any point. In any financial year, it is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be broken temporarily as a result of the timing of debt rescheduling.

	<b>Operational Boundary for External Debt</b>			
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	235,743	261,603	276,335	291,258
Other long term liabilities	91,558	50,860	48,710	46,515
<b>Total</b>	<b>327,301</b>	<b>312,463</b>	<b>325,045</b>	<b>337,773</b>

- P7 The Council's actual external debt at 31<sup>st</sup> March 2010 was £178.273 million.

The Council includes an element for long-term liabilities relating to PFI schemes and finance leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for cash flow variations.

- P9 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted on 20<sup>th</sup> November 2002 by full Council and the revised Code was adopted on 3<sup>rd</sup> March 2010.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

- (a) capital expenditure plans are affordable;
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice;

and that in taking decisions in relation to (a) to (c) above the local authority is

- (d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

- (e) local strategic planning;
- (f) local asset management planning;
- (g) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the Authority can take timely remedial action.

- P10 It is recommended that the Council sets an upper limit on its fixed interest rate exposures of £105 million in 2011/2012, £125 million in 2012/2013 and £145 million in 2013/2014.

- P11 It is further recommended that the Council sets an upper limit on its variable interest rate exposures of £60 million in 2011/2012, £60 million in 2012/2013 and £50 million in 2013/2014.

- P12 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
over 50 years	100%	0%

P13 A maximum maturity limit of £100 million is set for each financial year (2011/2012, 2012/2013 and 2013/2014) for long term investments, (those over 364 days), made by the authority. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The type of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 3).

At present the Council has £0.836 million of long-term investments. This is £0.816 million for the value of share capital held in NIAL Holdings PLC. This equates to a 9.41% share in Newcastle International Airport. The Council also holds £0.020 million in government securities, other shares and unit trusts.

### Treasury Management Policy Statement

In line with CIPFA recommendations, on the 3<sup>rd</sup> March 2010 the Council adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Council defines its treasury management activities as: The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council needs to re-affirm its commitment to the above Treasury Management Policy Statement each year.



## Treasury Management Strategy Statement for 2011/2012

### 1. Introduction

- 1.1 The Local Government Act 2003 and subsequent guidance requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2011/2012 is set out below and is based upon the Executive Director of Commercial and Corporate Services views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Sector Treasury Services.

- 1.2 The treasury management strategy covers:

#### A. Borrowing Policy and Strategy

- treasury limits for 2011/2012 to 2013/2014
- the past and current treasury management position
- the borrowing requirement 2011/2012
- prudential and treasury management Indicators for 2011/12 to 2013/14
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling

#### B. Annual Investment Policy and Strategy

- Investment policy and objectives
- the investment strategy
- investment types
- investments defined as capital expenditure
- investment limits
- provision for credit related losses
- creditworthiness policy
- monitoring of credit ratings
- past performance and current position
- outlook and proposed investment strategy
- external fund managers
- policy on use of external service providers

### 2. Borrowing Policy and Strategy

#### 2.1 Treasury Limits for 2011/12 to 2013/14

It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under

review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and two successive financial years and details can be found in Appendix 1 of this report. The Council is asked to approve these limits and to delegate authority to the Executive Director of Commercial and Corporate Services, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long term liabilities where this would be appropriate. Any such changes made will be reported to the Cabinet and the Council at their next meetings following the change.

Also, the Council is asked to approve the Operational Boundary Limits which are included in the Prudential Indicators (Appendix 1). This operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Council is also asked to delegate authority to the Executive Director of Commercial and Corporate Services, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

## **2.2 The Past and Current Treasury Management Position**

### **2.2.1 Interest Rates 2010/2011**

Interest rates were fairly static with only small variations during the current financial year, until the government, on 20th October 2010, following the Chancellor’s announcement of the Spending Review, instructed the PWLB to increase the average interest rate on all new loans by an average of 1.00% above the Government’s cost of borrowing. This unexpected change at the time saw an overall increase in all PWLB rates going forward of 0.87% making borrowing from this source both less affordable and less attractive. The table below shows that the largest movement in rates was short term borrowing up to one year of 0.82% and by approximately 0.5% on all other maturity periods. Rates increased because of the government’s actions but there has been a slow fall in interest rates since. This trend is starting to reverse but no significant movements are anticipated for the next financial year. This position will be carefully monitored however.



Loan Type	31 <sup>st</sup> March 2010 %	31 <sup>st</sup> December 2010 %	Difference %
7 Day Notice	0.30	0.40	0.10
1 Month	0.42	0.45	0.03
PWLB – 1 Year	0.83	1.65	0.82
5 Year	2.89	3.33	0.44
10 Years	4.19	4.58	0.39
25 Years	4.67	5.23	0.56
50 Years	4.70	5.16	0.46

The Bank of England Base Rate has remained at 0.50% since 5<sup>th</sup> March 2009 with little sign that it will be raised in the short term.

### 2.2.2 Long Term Borrowing 2010/2011

The Treasury Management Policy and Strategy Statement for 2010/2011 included a benchmark rate of 4.5% for all long-term borrowing.

The Council's strategy for 2010/2011 is to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Council. In response to the Government's increase in PWLB rates across all PWLB loan periods, the Council's benchmark rate for long-term borrowing was increased to 5.5% for the remainder of 2010/2011.

So far in 2010/2011 £30.50 million of long term borrowing has been undertaken at an average rate of 3.31% (£26.5m in respect of debt rescheduling carried out in earlier years, £3.5m for approved prudential borrowing and £0.5m in respect of a specific loan taken out on behalf of Beamish Museum), details of the new loans are shown below. It is pleasing to report that the replacement borrowing was made before the government unexpectedly and immediately increased borrowing rates by on average 1% across all loan duration periods on 20<sup>th</sup> October 2010, the date of the Spending Review.

Long Term PWLB Borrowing 2010/2011						
Date	Amount £m	Period (Years)	Rate %	Benchmark Rate %	Margin %	Loan Type
11/05/10	0.5	15	3.65	4.50	0.85	EIP*
25/05/10	10.0	4	1.99	4.50	2.51	Maturity
25/05/10	5.0	50	4.29	4.50	0.21	Maturity
<b>27/07/10</b>	5.0	11	3.75	4.50	1.25	Maturity
<b>27/07/10</b>	5.0	12	3.87	4.50	1.13	Maturity
<b>01/09/10</b>	5.0	50	3.96	4.50	0.54	Maturity
	<b>30.5</b>		<b>3.31</b>			

\*This loan was taken out on behalf of Beamish Museum and is an Equal Instalment of Principal (EIP) loan

The Council also has nine market, Lender's Option / Borrower's Option (LOBO's), loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and the Council can either accept the new rate or repay the loan without penalty. If interest rates begin to rise the council will need to consider the potential to have to replace these loans. The following table shows the LOBO's that were subject to a potential rollover in this financial year but have not been replaced as the option was not exercised.

<u>Roll Over Dates</u>	<u>Lender</u>	<u>Amount £m</u>	<u>Rate %</u>	<u>Roll Over Periods</u>
23/04/2010 and 23/10/2010	Barclays	5.0	4.50	Every 6 months (Variable Rate)
14/08/2010	Barclays	5.0	4.45	Every 3 years (Fixed Rate)
<b>Total</b>		<b>10.0</b>		

### 2.2.3 Current Portfolio Position

The Council's treasury portfolio position at 31<sup>st</sup> December 2010 comprised:

		<b>Principal (£m)</b>	<b>Total (£m)</b>	<b>Average Rate (%)</b>
<b>Borrowing</b>				
Fixed Rate Funding	PWLB	138.0		
	Market (LOBO's)	34.5		
	Other	0.4	172.9	3.86
Variable Rate Funding	PWLB	0.0		
	Market (LOBO's)	5.0		
	Temporary/Other	31.1	36.1	0.92
<b>Total Borrowing</b>			<b>209.0</b>	<b>3.35</b>
<b>Total Investments</b>	In House		<b>214.1</b>	<b>1.49</b>
<b>Net Position</b>			<b>(5.1)</b>	

The Council currently has a difference between gross debt and net debt of £5.1 million, however this position is expected to change over the next few years as the Council has to manage its finances with significantly less government grant in both capital and revenue funding which could impact in the form of increased borrowing and possible temporary reductions to reserves, with the result that total borrowing could then exceed investments.

There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable amount of investments.

Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Council is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps the Council to address its Strategic Priorities;
- the Council has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

Risks associated with holding a high level of investments are;

- the Counterparty risk – institutions cannot repay the Council investment placed with them;
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Council.

The Council has mitigated these risks by formulating its Treasury Management Policy that incorporates both a Borrowing Strategy and an Annual Investment Strategy and has also taken prudent action to redeem debt early by temporarily using investments to the benefit of the Council and saving on interest charges when opportunities have arisen.

### 2.3 Borrowing Requirement 2011/2012

The Council's borrowing requirement is as follows:

	2011/12 £m	2012/13 £m	2013/14 £m
1. Capital Borrowing (potential)	47.7	15.0	15.0
2. Replacement borrowing (PWLB)	0.0	5.0	5.0
3. Replacement borrowing (Market)	0.0	0.0	0.0
4. Market LOBO replacement (potential)	19.5	20.0	10.0
<b>TOTAL – KNOWN (2+3)</b>	<b>0.0</b>	<b>5.0</b>	<b>5.0</b>
<b>TOTAL – POTENTIAL (1+4)</b>	<b>67.2</b>	<b>35.0</b>	<b>25.0</b>

### 2.4 Prudential and Treasury Management Indicators for 2011/12 – 2013/14

Prudential and Treasury Indicators (as set out in Appendix 1) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to

ensure that treasury management decisions are taken in accordance with good professional practice.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 20<sup>th</sup> November 2002 and the revised 2009 Code was adopted by the full Council on 3<sup>rd</sup> March 2010. The Council also re-affirms its full adherence to the code annually (as set out in Appendix 5).

## 2.5 Prospects for Interest Rates

The Council's treasury advisors are Sector Treasury Services and part of their service is to assist the Council to formulate a view on interest rates. A number of current City forecasts for short term (Bank Rate) and longer fixed interest rates are set out in Appendix 4. The following gives the Sector Treasury Services Bank Rate forecast for the next 4 financial year ends (March).

- 2010/2011 0.50%
- 2011/2012 1.00%
- 2012/2013 2.25%
- 2013/2014 3.25%

There is a downside risk to these forecasts especially if recovery from the recession proves to be weaker and slower than currently expected and a short term upside risk should inflation pressures increase. A detailed view of the current economic background is contained within Appendix 5 to this report.

## 2.6 Borrowing Strategy

### 2.6.1 Borrowing rates

The Sector forecast in respect of interest rates for loans charged by the PWLB is as follows: -

	M ar-11	Jun-11	Sep-11	Dec-11	M ar-12	M ar-13	M ar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PW LB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr PW LB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PW LB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PW LB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

A more detailed forecast from Sector is included in Appendix 4.

The main sensitivities of the forecast are likely to be;

- if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still relatively cheap.
- if it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around a relapse into recession or, a risk of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

The Council officers, in conjunction with the Council's treasury advisers, will monitor both the prevailing interest rates and the market forecasts.

With long-term interest rate forecasts set to remain around their current levels the Executive Director of Commercial and Corporate Services, taking into account the advice of the Council's treasury adviser considers a benchmark financing rate of 5.50% for any further long-term borrowing for 2011/2012 to be appropriate.

Consideration will be given to various options, including utilising some investment balances to fund the borrowing requirement in 2011/2012. The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required, and flexibility needs to be retained to adapt to any changes that may occur.

The Executive Director of Commercial and Corporate Services, taking advice from the Council's treasury advisers will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow.

## **2.7 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will: -

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits of alternative forms of funding;
- consider alternative interest forecasts available and the most appropriate periods and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

## 2.8 Debt Rescheduling

The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. For example, since November 2008 the Council has rescheduled debt worth £59.5 million with an ongoing reduction in interest costs of just under £1.0 million per annum. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Council.

The latest interest rate projections for 2011/2012 show short term borrowing rates will be considerably cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long term debt to short-term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The Council is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon

expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent policy will be continued.

Any rescheduling undertaken will be reported to Cabinet, as part of the agreed treasury management reporting procedure.

### **3. Annual Investment Policy and Strategy**

#### **3.1 Investment Policy and Objectives**

When considering its investment policy and objectives, the Council has taken regard to the Department of Communities and Local Government's (DCLG) Guidance on Local Government Investments ("the Guidance") and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council's investment objectives are: -

- (a) the security of capital, and
- (b) the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments but commensurate with proper levels of security and liquidity. The risk appetite of the Council is regarded as low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

#### **3.2 Investment Strategy**

This Strategy sets out:

- the procedures for determining the use of each class of investment (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments";
- the maximum periods for which funds may be prudently committed in each class of investment;
- the amount or percentage limit to be invested in each class of investment;
- whether the investment instrument is to be used by the Council's in-house officers and/or by the Council's appointed external fund managers, (if used); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council's treasury advisers;
- the minimum amount to be held in short-term investments (i.e. an investment which the Council may require to be repaid or redeemed within 12 months of making the investment).

### **3.3 Investment Types**

The Council is allowed to invest in two types of investment, namely Specified Investments and Non-specified Investments.

Specified Investments are those investments that are for a period of less than one year, are not classed as capital expenditure, and are placed with high credit rated counterparties.

Non-specified Investments are any investments which are not classified as specified investments. As the Council only uses high credit rated counterparties this means in effect that any investments placed with those counterparties for a period of one year or more will be classed as Non-specified Investments. The Council will not invest in any type of investment that will be classed as capital expenditure (see 3.4 below).

The type of investments to be used by the in-house team will be limited to term deposits, interest bearing accounts, and Money Market Funds and will follow the criteria as set out in Appendix 6.

### **3.4 Investments Defined as Capital Expenditure**

The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments have to be funded out of capital or revenue resources and are classified as 'non-specified investments'.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan has been made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

The Council will not use (or allow any external fund managers it may appoint to use) any investment which will be deemed as capital expenditure.

### **3.5 Investment Limits**

One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the Council's Counterparty criteria set out in Appendix 6.

The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £50 million. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of these short-term investments maturing within 6 months.



A maximum limit of £100 million is to be set for in-house non-specified investments over 364 days up to a maximum period of 2 years. This amount has been calculated by reference to the Council's cash flows, including the potential use of earmarked reserves. The Executive Director of Commercial and Corporate Services will monitor long-term investment rates and identify any investment opportunities if market conditions change.

### **3.6 Provisions for Credit Related Losses**

If any of the Council's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This position has not occurred and the Council mitigates this risk with its prudent investment policy.

### **3.7 Creditworthiness policy**

The creditworthiness policy adopted by this Council takes into account not only the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also, available market data and intelligence, the level of government support to financial institutions and advice from its Treasury Management advisors.

Set out in Appendix 6 is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment.

### **3.8 Monitoring of Credit Ratings**

- All credit ratings are monitored on a daily basis. The Council has access to all three credit ratings agencies and is alerted to changes through its use of the Sector Treasury Services credit worthiness service.
- If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the Council will cease to place funds with that counterparty. The Council will also immediately inform its external fund manager(s), if used, to cease placing funds with that counterparty.
- If a counterparty's rating is downgraded with the result that, their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment

limit and vice versa. The Council will also immediately inform its external fund manager(s), if used, of any such change(s).

Should fund managers be employed by the Council, the Council will establish with its fund manager(s) their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their adherence to the Council's policy.

### 3.9 Past Performance and Current Position

During 2010/2011 the Council did not employ any external fund managers, all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below and compares this with the relevant benchmarks and performance from the previous year:

	<b>2009/10 Return %</b>	<b>2009/10 Benchmark %</b>	<b>2010/11 Return %</b>	<b>2010/11 Benchmark %</b>
			<b>Year to date</b>	<b>Year to date</b>
Council	1.91	0.36	1.49	0.34

During 2010/2011 the Council continues to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place.

### 3.10 Outlook and Proposed Investment Strategy

Based on its cash flow forecasts, the Council anticipates its fund balances in 2011/2012 are likely to range between £150 million and £300 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or re-profiling of spend into future years. In 2011/2012, with short-term interest rates forecast to be materially below long-term rates, it is possible that some investment balances may be used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

The Council is not committed to any investments, which are due to commence in 2011/2012, (i.e. it has not agreed any forward deals).

Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing), will affect cash flow and short term investment balances;
- Any re-profiling of capital expenditure from, and to, other financial years will also affect cash flow, (no re-profiling has been taken into account in current estimates);
- Any unexpected capital receipts or income;

- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

The Executive Director of Commercial and Corporate Services, in conjunction with the Council's treasury adviser Sector Treasury Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

It is proposed that delegated authority continues to be given to the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for Resources, to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively, in accordance with normal Treasury Management reporting procedures.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

### **3.11 External fund managers**

At present the Council does not employ any external fund managers.

Should the Council appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These external fund managers will work to the following parameters:

- The institutions on the Approved Lending list of the external manager must correspond to those agreed with Sunderland City Council (i.e. only institutions on Sunderland City Council's Approved Lending List to be included as shown in Appendix 7);
- they will be allowed to invest in term deposits, Certificates of Deposit (CD's) and government gilt securities;
- An investment limit of £3 million per institution (per manager);
- A maximum limit of 50% fund exposure to government gilts;
- A maximum proportion of the fund invested in instruments carrying rates of interest for periods longer than 364 days shall not exceed 50%. Again, it is proposed to only recommend the use of fixed term deposits up to a maximum of 2 years.

### **3.12 Policy on the use of external service providers**

The Council uses Sector as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their

appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

#### 4. **Scheme of delegation**

- 4.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy (TMS) is approved annually by the full Council and full Council now receive, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30<sup>th</sup> September of the following year. In addition quarterly reports are made to Cabinet and the Audit and Governance Committee and monitoring reports are reviewed by members in both executive and scrutiny functions respectively. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council adopted the following reporting arrangements in accordance with the requirements of the Code: -

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement (revised)	Full Council	Adoption of the new code for 2010/2011 and then as required
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – mid year report	Full Council	Mid year
Treasury Management Strategy / Annual Investment Strategy –updates or revisions at other times	Full Council	As appropriate
Annual Treasury Management Outturn Report	Full Council	Annually by 30/9 after the end of the financial year
Treasury Management Monitoring Reports	Director of Financial Resources	Monthly
Treasury Management Practices	Director of Financial Resources	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly

## 5. **The Treasury Management Role of the Section 151 Officer**

5.1 The Executive Director of Corporate Services is the Council's Section 151 Officer and has specific delegated responsibility in the Council's Constitution to manage the borrowing, financing, and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council. This includes;

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.



## Appendix 4

### Interest Rate Forecasts

#### Introduction

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts from Sector Treasury Services, Capital Economics (an independent forecasting consultancy) and UBS (which represents summarised figures drawn from the population of all major City banks and academic institutions).

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

#### 1. Individual Forecasts

##### Sector:

Interest rate forecast – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

##### Capital Economics:

Interest rate forecast – 12.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

**UBS:**

Interest rate forecast (for quarter ends) – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
<b>Bank rate</b>	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
<b>10yr PWLB rate</b>	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
<b>25yr PWLB rate</b>	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
<b>50yr PWLB rate</b>	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

**2. Survey of Economic Forecasts****HM Treasury January 2011**

The current Q4 2010 and 2011 forecasts are based on the January 2011 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

<b>BANK RATE FORECASTS</b>		<b>quarter ended</b>		<b>annual average Bank Rate</b>			
	<b>actual</b>	<b>Q4 2011</b>		<b>ave. 2011</b>	<b>ave. 2012</b>	<b>ave. 2013</b>	<b>ave. 2014</b>
<b>Median</b>	0.50%	1.00%		0.90%	1.60%	2.40%	3.00%
<b>Highest</b>	0.50%	1.60%		2.10%	3.10%	3.60%	4.50%
<b>Lowest</b>	0.50%	0.50%		0.50%	0.50%	0.60%	1.20%



## Economic Background

### 1.1. Global economy

The economic downturn that began following the global credit crunch of August 2007 has continued into 2011. The sovereign debt crisis peaked in May 2010 prompted by major concerns over the size of the Greek government's total debt and annual deficit. Any default or write down of Greek debt would have a substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland in November 2010, culminated in Ireland also having to take EU support. There is a concern that Portugal will also shortly need to take EU support. That, in turn, would then cause further major concerns as to whether the current size of the support package facility put together by the EU and IMF would be big enough to cope with any crisis involving another major economy.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors. General expectations are for low (but not negative) growth in 2011 in the western economies.

### 1.2 UK economy

Following the general election in May 2010, the coalition government has put in place austerity measures to carry out a 'correction' of the public sector deficit over the next five years. The result of fiscal contraction will be major job losses during this period, in particular, in public sector services. This will have a knock-on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and are declining, all of which indicates that the housing market is likely to be very weak in 2011.

**Economic Growth** – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. Growth in quarter 3 at +0.7% was also unexpectedly high. However, the outlook is for low growth in 2011/2012 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

**Unemployment** – the trend of falling unemployment (on the benefit claimant count) has been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

**Inflation and Bank Rate** – CPI has remained high during 2010. It peaked at 3.7% in April gradually declined to 3.1% in September but has now returned to the level of 3.7% in December (RPI 4.7%). Although inflation

has remained above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, expectations that there could be a second round of quantitative easing in early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.7% and the outcome of the November Inflation Report revising the forecast for short-term inflation sharply upwards.

Sector's view is that there is unlikely to be any increase in the Bank Base Rate until the end of 2011.

**AAA rating** – prior to the general election, credit rating agencies had issued repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's Emergency Budget on 22nd June 2010, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PwLB rates.

### 1.3 Economic Forecast

It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector Treasury Services has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in our major trading partners - the US and EU
- the danger of a currency war and a resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession, creating a downward spiral of falling

demand, falling jobs and falling prices, although this is currently viewed as being a small risk. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.



**Counterparty Criteria**

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

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

<b>Fitch / S&amp;P's Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P's Short Term Rating</b>	<b>Moody's Long Term Rating</b>	<b>Moody's Short Term Rating</b>	<b>Maximum Deposit £m</b>	<b>Maximum Duration</b>
AAA	F1+	A1+	Aaa	P-1	50	2 Years
AA+	F1+	A1+	Aa1	P-1	50	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
<b>Local Authorities</b> (limit for each local authority)					30	364 Days
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £30 million in any one fund.					50	2 Years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA will be applied to that institution to determine the amount the Council can place with that institution.

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

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

## Appendix 6 (continued)

### Country Limit

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

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £300 million will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non UK	40

### Sector Limit

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

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
UK Building Societies	150
Foreign Banks	40

### Group Limit

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

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

Proposed group limits are set out in Appendix 7

## Approved Lending List

## Appendix 7

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
<b>UK</b>	AAA	F1+			Aaa			AAA		300	364 days
<b>Lloyds Banking Group</b> (see Note 1)										<b>Group Limit 50</b>	
Lloyds Banking Group plc	AA-	F1+	C	1	Aa3	-	-	A	A-1	50	364 days
Lloyds TSB Bank Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	50	364 days
Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1	50	364 days
<b>Royal Bank of Scotland Group</b> (See Note 1)										<b>Group Limit 50</b>	
Royal Bank of Scotland Group plc	AA-	F1+	C/D	1	A1	P-1	-	A	A-1	50	364 days
The Royal Bank of Scotland Plc	AA-	F1+	C/D	1	Aa3	P-1	C-	A+	A-1	50	364 days
National Westminster Bank Plc	AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1	50	364 days
Ulster Bank Ltd	A+	F1+	E	1	A2	P-1	D-	A	A-1	50	364 days
<b>Santander Group *</b>										<b>Group Limit 40</b>	
Santander UK plc	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Cater Allen	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Barclays Bank plc *	AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+	40	364 days
HSBC Bank plc *	AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+	40	364 days

Appendix 7(continued)

	Fitch			Moody's				Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	B	1	A2	P-1	C+	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
<b>Top 10 Building Societies (by asset value)</b>											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	5	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	5	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	5	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	5	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	5	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	5	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	5	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	5	Baa2	P-2	D	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	5	6 Months
<b>Foreign Banks have a combined total limit of £40m</b>											
<b>Australia</b>	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+	20	364 Days



**Appendix 7 (continued)**

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
<b>Canada</b>	<b>AAA</b>				<b>Aaa</b>			<b>AAA</b>		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aa1	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										50	2 Years
Prime Rate Stirling Liquidity	AAA MMF							AAAm		30	2 Years
Insight Liquidity Fund					AAA MR1			AAAm		30	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		30	2 Years

**Notes**

**Note 1**

**Nationalised / Part Nationalised**

The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £50 million for a maximum period of 364 days

\* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme

The counterparties in this section will have an AA rating applied to them thus giving them a revised credit limit of £40 million for a maximum period of 364 days

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

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

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



# **Certification of claims and returns - annual report**

**Sunderland City Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims and returns. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** Sunderland City Council receives more than £573.2m funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified eight claims with a total value of £255m. Of these, we carried out a limited review of two claims and a full review of six claims, as required by our guidance. We were able to fully certify all of the claims and we did not need to issue any qualification letters to the grant-paying bodies. We amended two claims for minor errors. Overall, the loss of grant funding to the Council was less than £5k. Appendix 1 sets out a full summary.

**3** The fees I charged for grant certification work in 2009/10 were £40k.

## Significant findings

**4** Our main findings were that the grant claims and returns subject to our review were accurate and well supported by working papers.

5 There were some issues arising related to the £6.2m New Deal for Communities (NDC) claim. Testing on the draft claim showed that amendments were needed for 12 of the programme projects. Council verification visits identified various items of expenditure to the value of £160k that were found to be ineligible. However, eligible expenditure on other projects was available to offset these reductions. The Council still claimed its full grant allocation.

6 Other issues were very minor in nature.

# Background

**7** The Council claims more than £573.2m, £255m of which is subject to external audit and £374k to internal audit, for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

**8** We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by government departments and public bodies to Sunderland City Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**9** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**10** The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.



11 The work that we undertake to certify the Housing Benefits claim for the Department for Work and Pensions (DWP) is slightly different. Because of the high value and high risk nature of the claim, the auditor has to test the entries on a Council's claim form. In doing this we:

- confirm that the subsidy claim has been completed using the recognised software for claim completion;
- undertake an analytical review for a year by year comparison; and
- carry out detailed testing of individual claims for benefit to ensure the Council is calculating benefit entitlement correctly and reporting accurate performance information to the DWP.

# Findings

## Control environment

**12** When assessing the control environment we assess our knowledge of:

- arrangements to ensure claims and returns are completed accurately;
- control arrangements including internal financial control and internal audit;
- quality of supporting working papers;
- expertise and knowledge of preparers, including the adequacy of supervision and review;
- cumulative knowledge of problems associated with the claim; and
- analytical review.

**13** The Council has a grants co-ordinator who monitors the submission of grant claims. Grant claim files have a standard index with referenced working papers, which are quality reviewed by the grants co-ordinator to ensure that appropriate working papers are presented to us.

**14** We have a sound knowledge of financial systems in place within the Council, and we are of the opinion that there are no material weaknesses in control.

**15** We have good relationships with the grants co-ordinator and officers preparing claims, which help us in meeting certification deadlines. Preparers of claims are experienced and have a good knowledge of grant schemes.

**16** Of the seven 2009/10 claims that we certified which were over £500k, we placed reliance upon the control environment in one instance, which was due to:

- not having identified any issues in recent years when carrying out detailed testing;
- the relatively straightforward nature of the scheme; and
- the relatively few in-year transactions.

**17** We have a different approach to the Housing and Council Tax Benefit claim, as set out in paragraph 12 above, and we cannot place reliance on the control environment.

**18** For five of six remaining claims over £500k we did not place reliance on the control environment for 2009/10. The main reason for this is that despite controls being in place, in recent years we have identified a number of issues on claims which have led to various amendments and reporting issues. These have varied from being minor in nature to some where they have been significant. However, our 2009/10 work has highlighted less errors than in previous years and we have not needed to issue any qualification letters.

## Specific claims

### New Deal for Communities

**19** Amendments to the draft claim were needed for 12 of the programme projects. Council verification visits identified various items of expenditure to the value of £160k that were found to be ineligible. However, eligible expenditure on other projects was available to offset these reductions. The Council still claimed its full grant allocation.

**20** We found four errors in the schedules to the claim:

- two of the approval figures did not reflect the latest position; and
- two items had been misclassified between revenue and capital expenditure.

**21** This outcome was a significant improvement on last year. A further improvement would be for officers to complete verification visits prior to preparation of the draft claim.

### Single Programme

**22** A reduction of £4k was made to the claim following a late request by the grant-paying body for a reallocation of savings made due to a project being under budget. The Council is to seek recovery of £2k from the other partner involved in the project.

### Science Excellence in Partnership (Single Programme)

**23** Amendments were made to the claim to reflect:

- incorrect calculations of salary costs; and
- inclusion of eligible audit costs.

**24** Overall, there was a reduction in grant entitlement of £0.5k.

## Appendix 1 – Summary of 2009/10 certified claims

### Claims and returns above de-minimis

Service	Claim	Value £m	* Reliance placed on the control environment	Amendments	Qualification letter
Finance	New Deal for Communities	6.15	No	- £160k (No grant funding loss)	No
Finance	Housing and Council Tax Benefit	136.08	Not permitted (see para 12)	None	No
Finance	National Non Domestic Rates return	76.13	No	None	No
Finance	Teachers' Pensions Return	18.30	No	None	No
Childrens' Services	Sure Start, Early Years and Childcare	14.19	No	None	No
Finance	Single Programme	3.19	No	- £4k (£2k of which is recoverable from a partner)	No
Health, Housing & Adult Serv.	Disabled Facilities Grant	1.01	Yes	None	No
Childrens' Services	Science Excellence Innovation Partnership	0.11	N/A - below £500k	- £0.5k	No

\* Additional detailed testing is carried out where reliance is not placed on the control environment

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- any director/member or officer in their individual capacity; or
- any third party.



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February 2011



**Audit and Governance Committee**

**11 February 2011**

**Audited Statement of Accounts 2009/2010**

**Report of the Executive Director of Commercial and Corporate Services**

**1. Purpose of the Report**

- 1.1 To present the Letter of Representation for 2009/2010 and to receive the Annual Governance Report from the Audit Commission on the findings of the audit of the financial statements for 2009/2010 and their assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.2 To approve the amended Statement of Accounts for 2009/2010, this has been revised to take into account the Auditor's findings.

**2. Description of Decision**

- 2.1 Members are recommended to:
  - Note the contents of the Letter of Representation (Item 7a)
  - Note the contents of the Annual Governance Report (Item 7b);
  - Approve the amended Statement of Accounts for the financial year ended 31st March 2010 after taking into account the above documents (Item 7c).

**3. Background**

- 3.1 Members will be aware that the Audit Commission, as the Council's external auditors, are required to report on the final accounts, and report certain matters to Members prior to an opinion being provided on the Council's accounts.
- 3.2 To conclude the audit, a Letter of Representation is required from the Executive Director of Commercial and Corporate Services, which sets out the principles used in preparing the accounts and which provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 7a** on the agenda).
- 3.3 As members will recall, in September 2010 the Council 'stopped' the public inspection process in connection with the audit with the consent of the District Auditor pending the outcome of the Court of Appeal's decision in Veolia ES v Nottinghamshire County Council (2010) following a request by a member of the

public for full copies of the Council's two PFI contracts. At that time, there was substantial uncertainty in the law regarding the disclosure of contractors' commercially confidential information held by the Council during the public inspection period. The Court of Appeal's decision was subsequently handed down on 28<sup>th</sup> October 2010 and it was held that the public right of inspection under Section 15(1) of the Audit Commission Act 1998 does not provide an absolute or unrestricted right to inspect contract documents in their entirety and there is an inherent exception for any confidential / commercially sensitive information contained within such documents which is closely analogous to the established position under the Freedom of Information Act 2000. The Court of Appeal's decision was consistent with and endorsed the approach taken by the Council during the previous aborted inspection period when it had disclosed redacted copies of the contracts excluding those parts containing the contractors' valuable commercially sensitive information. .

- 3.4 In light of the Court of appeal's decision, the Council and the external auditor then agreed in November 2010 to proceed with the commencement of a new public right of inspection process in order to progress the approval of the Statement of Accounts 2009/2010 and this was reported to this Committee on 26th November 2010. The necessary notification of the audit and public inspection period was advertised in the Sunderland Echo on 18th November 2010, with the public rights of inspection period (20 working days) covering 2<sup>nd</sup> to 31<sup>st</sup> December 2010. The member of the public who had requested the contract documents and the two PFI contractors was also notified in writing of the new public inspection period. The auditor had agreed that the audit date would be 4<sup>th</sup> January 2011 and to date no objection has been received on the accounts to be approved. The Council can also confirm that it has not received any follow up PFI issues raised by the local elector.
- 3.5 The Audit Commission has audited the financial statements of the Council in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.6 Once the Audit and Governance Committee has noted the contents of this communication, (the Committee noted the interim communication at its meeting in September 2010), the Audit Commission can then formally provide an opinion on the Statement of Accounts for the year ended 31<sup>st</sup> March 2010.
- 3.7 In accordance with ISA 260, the Audit Commission has produced an Annual Governance Report, in which the auditor's opinion is that the financial statements present fairly the financial position of the Authority as at 31<sup>st</sup> March 2010, and its income and expenditure for the year then ended. The Annual Governance Report 2009/2010 is included as **Item 7b** on the Agenda.
- 3.8 There are no further adjustments to the Statement of Accounts 2009/2010 to those that were presented and noted by this Committee on 30<sup>th</sup> September 2010



other than to reflect the change in the dates for the accounts to be approved and the fact that Malcolm Page is the Executive Director of Commercial and Corporate Services who has replaced George Blyth the former Director of Financial Resources as the Section 151 Officer to the Council.

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

#### **4. KEY MESSAGES**

- 4.1 The full communication is reported separately but in summary shows that at this stage (subject to change for the reasons set out above) that:

- The external auditors proposes to issue an unqualified audit opinion;
- all non-trifling misstatements have been adjusted by management;
- the external auditors have not identified any material weaknesses in the accounting and internal control systems but have highlighted an issue in relation to journal authorisation that officers have addressed;
- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting, these were addressed in the report to this committee on 30<sup>th</sup> September 2010;
- the external auditors have not identified any matters required by other auditing standards that should be communicated to Members;
- the external auditors have identified three matters relating to the audit that need to be brought to Members attention, which are set out in their Annual Governance Report – these have been agreed and will be addressed;
- the external auditors have reported that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and propose to issue an unqualified value for money conclusion in respect of 2009/2010.

- 4.2 On the basis of the amendments agreed with the external auditors, the Audit Commission can now formally provide an opinion on the amended Statement of Accounts for 2009/2010 once approved by the Committee.



## **ANNUAL ACCOUNTS 2010/2011 – LETTER OF REPRESENTATION**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Sunderland City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009 which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

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

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements we have no other lines of credit arrangements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

I confirm that the contents of this letter have been discussed and agreed by the Audit and Governance Committee on 11 February 2011.

Signed on behalf of Sunderland City Council.

Name            Mr Malcolm Page

Position        Executive Director of Commercial and Corporate Services

Date             11 February 2011



# **Annual governance report**

**Sunderland City Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the results of my audit work for 2009/10.

I presented an Interim Annual Governance Report to the Audit and Governance Committee on 30 September 2010. At that time, I was unable to issue a final report because the public inspection period needed to be re-scheduled. This has now been done and no additional issues have arisen from this process.

My report sets out the key issues that you should consider before I give my audit opinion.

It asks you to:

- consider the matters raised in the report before approving changes to the financial statements (pages 5 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- note my findings in relation to the value for money conclusion (pages 12 to 13);
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Steve Nicklin  
District Auditor

February 2011

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# Key messages

**This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	5
Financial statements free from material error	Yes	5
Adequate internal control environment	Yes	6

  

<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	12

## Audit opinion

**1** During the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. As a consequence, I agreed to arrange for the audit to be 'called' again when the Council was able to meet the requirements of the public inspection period. The position was clarified following the Court of Appeal decision in the Veolia case, and the audit was re-advertised for 4 January 2011.

**2** No additional issues have been raised following the public inspection period.

**3** I expect to issue an unqualified opinion on the financial statements when they have been re-approved by Members.

## Financial statements

**4** My audit identified a number of errors in the statements, which have been amended by officers.

**5** I have identified a need to review working papers supporting the financial statements in future years, and I have also identified the scope for the Council to streamline the financial statements that it produces. It is hoped that both of these measures will improve the quality of the financial statements and reduce overall pressure on officers and on the audit.

## **Objections to the Council's accounts**

**6** Members will be aware that there are outstanding objections to the Council's accounts for 2007/08 and 2008/09. This has meant that I have been unable to issue my certificate for those accounts and that I will be unable to issue my final certificate for the 2009/10 accounts until the objection is decided.

**7** Progress is being made on the objections and I was recently able to share my preliminary views with both the Objector and with the Council's Officers.

## **Value for money**

**8** I have concluded that the Council has adequate arrangements in place to secure value for money, and improvements have been made since my last review.

## **Independence**

**9** There were no relationships giving rise to a threat to independence, objectivity and integrity. However, Members may wish to note that a member of my staff is married to a member of the Council's staff and that arrangements are in place to ensure that independence is maintained.

## Next steps

**This report identifies the key messages that you should consider. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

**10** I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving changes to the financial statements (pages 5 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- note my findings in relation to the value for money conclusion (pages 12 to 13);
- agree your response to the proposed action plan (Appendix 5).

# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

**11** During the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. As a consequence, I agreed to arrange for the audit to be 'called' again when the Council was able to meet the requirements of the public inspection period. The position was clarified following the Court of Appeal decision in the Veolia case, and the audit was re-advertised for 4 January 2011.

**12** No additional issues have been raised following the public inspection period.

**13** I expect to issue an unqualified opinion on the financial statements when they have been re-approved by Members. Appendix 1 contains a copy of my draft audit report.

## Errors in the financial statements

**14** The draft statements were approved before the end of June, allowing us to start our audit as planned.

**15** It is recognised that competing demands on officer time, for example, in year government grant reductions, which could not have been anticipated when the closing of accounts work programme and timetable were produced, had an adverse effect on the production of working papers in respect of the accounts in advance of the audit. However, we have good working relationships with officers, who were always very helpful and ensured that key issues were identified and addressed. Our view is that officers were always able to provide us with information and detailed explanations.

**16** To help to eliminate errors in the accounts, assist in the Council's own quality assurance process and to ensure an efficient audit, the working papers supporting the accounts need to be comprehensive.

**17** A number of amendments were made to the draft statements. None of the amendments were material.

**18** One set of amendments were made to address issues identified by officers which they had intended to be reflected in the draft statements presented to Members at the June Audit Committee, but which were omitted in error.

**19** In addition, a number of amendments were identified as a result of the audit.

**20** All amendments have been discussed and agreed with officers, and are reflected in the revised statements presented for re-approval by officers. We have listed the most significant amendments in Appendix 2, including an amendment that arose in relation to a non-adjusting post balance sheet event.

## Recommendation

**R1** Arrangements need to be reviewed to ensure that the accounts are fully supported by comprehensive working papers in future years.

## Important weaknesses in internal control

**21** I have reported separately on my interim work on the system of internal control.

**22** One of the issues raised in that report is worthy of repetition in this report, and is in relation to controls over journal authorisation.

**23** There are two types of journal entry: online; and mass generated. We found that online journals do not require authorisation for each new journal entry. In addition, there are no higher-level authorisation procedures required for high value journals for both types of journal entry. There is a risk that inappropriate or inaccurate journal entries could be processed without scrutiny, resulting in a potential for material misstatement in the financial statements.

**24** We discussed with officers whether there should be independent authorisation of all journal entries, including online journals and all high value journals. The view expressed by officers was that this would not be an efficient use of officer time, and that there were compensating controls in place, such as the limitation on who can raise journals and in what circumstances, and the wider check of budgetary control. However, officers have agreed to carry out a review of all journals over £500,000 as part of the annual closedown of accounts process. This exercise was carried out for 2009/10 and no issues were arising.

25 To obtain the assurance we needed to give our audit opinion on the financial statements, our response to this control weakness was that we substantively tested journals as part of our post statements work. There were no issues arising from our work.

## Key areas of judgement and audit risk

26 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1: **Key areas of judgement and audit risk**

Issue or risk	Finding
<p>Equal pay</p> <p>Equal pay cases pose a significant financial risk to the Council and represent a large potential financial liability. The liabilities are still not clear, due to legal cases and national issues that need to be resolved.</p>	<p>We have maintained a dialogue with officers in relation to this issue, to ensure that the disclosure made in the financial statements is up-to-date and accurate.</p> <p>I have concluded that it remains appropriate for these potential liabilities to be disclosed as a Contingent Liability, and this is appropriately reflected in the financial statements.</p>



Issue or risk	Finding
<p>Changes in the SORP, including IFRS issues</p> <p>There are changes in the SORP, most notably the implementation of IFRS requirements in relation to IFRIC 12. There are also changes in accounting for elements of council tax and NNDR, and other issues.</p>	<p>Officers have kept us up-to-date with their plans and proposals. Consultants have assisted in relation to IFRIC 12, in respect of bringing PFI assets on to the balance sheet.</p> <p>We substantively tested the accounting entries in relation to PFI. Some amendments were agreed to the statements as a result of our review, although the amendments required were not material in nature.</p> <p>We also tested the other areas of change in this year's accounts, and found that some adjustments needed to be made to NNDR and cash flows to reflect new SORP requirements. In addition, the new disclosures for officers emoluments were initially only included for 2009/10, and comparative figures needed to be added for 2008/09.</p> <p>We have continued our dialogue with officers in relation to full IFRS implementation in the 2010/11 accounts.</p>

Issue or risk	Finding
<p>Accounting for Newcastle International Airport</p> <p>The Council's share of Newcastle International Airport should be included in the balance sheet at fair value. There is a need for a full valuation to be carried out at 31 March 2010.</p>	<p>We reviewed the latest valuation of the airport as part of our post statements work.</p> <p>We noted that there are several appropriate methods for valuing the airport and these were provided by the valuer.</p> <p>We also noted that although the valuer's view was that the lower valuation results were in his view most appropriate, that the Council has reflected the value at the highest end of the valuation.</p> <p>Officers provided us with a rationale for adopting the high end valuation. I have accepted the explanations provided by officers.</p> <p>Given the current economic uncertainties, I recommend that a valuation is once again carried out next year, and that the Council's rationale for the most appropriate valuation method is discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge.</p> <p>Officers will need to discuss this with other partner authorities to ensure consistency among all shareholders in the airport.</p>
<p>Other issues including previous findings and issues arising from interim work</p>	<p>We have discussed progress on issues raised in previous audits and matters arising from our interim work with officers and we followed up improvements made during the post statements audit.</p> <p>I am satisfied with the improvements that have been made.</p>

## Recommendation

**R2** A valuation for Newcastle International Airport should be carried out again next year, and the Council's rationale for the most appropriate valuation method should be discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge. Officers should again discuss this with other partner authorities to ensure consistency among all shareholders in the airport.

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## Accounting practice and financial reporting

**27** I consider other aspects of your financial reporting, and there is one issue I wish to report to Members.

**28** The financial statements are a necessarily complex and detailed document in order to comply with the requirements of the CIPFA SORP 2009. They will become even more complex from 2010/11 with the implementation of International Financial Reporting Standards.

**29** It is for the Council to determine the content of its financial statements, but my view is that there is scope to streamline the existing document to improve its readability and reduce the effort needed by officers to produce them, whilst maintaining compliance with accounting standards. My observation is that in general the statements go beyond the minimum level of disclosure required by the SORP.

**30** The financial statements are extremely comprehensive and detailed, but they are very long at 142 pages, and they also use a particularly small font size. There are some relatively simple measures that could be taken:

- show figure in £000's, not to the nearest £;
- summarise some tables to be more focused and show less detail;
- shorten some notes to be more focused and show less detail; and
- remove the existing duplication of information within the statements by streamlining disclosures.

**31** This is an area worthy of consideration for future years. More streamlined, focused statements that meet the minimum requirements may deliver efficiencies for officers, enable the tight deadlines to be met more easily and make for a smoother audit process.

## Recommendation

**R3** A review should be undertaken to identify the scope for producing a more streamlined and focused set of financial statements for 2010/11.

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## Letter of representation

**32** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

# Value for money

**I am required to assess whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

## Value for money conclusion

**33** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are in Appendix 4.

**34** My findings are that the Council has managed its finances effectively, and has delivered efficiencies and improved outcomes.

**35** The Council continues to demonstrate particular strengths, including:

- The successful integration of service and financial planning which has secured significant efficiency savings in recent years, whilst at the same time investing in corporate priorities and improvements for local people.
- Well established and effective processes for good governance and internal control.

**36** There have been further improvements in the Council's arrangements. These include:

- the development of a single investment plan with the Local Strategic Partnership;
- delivery of major projects but also improved outcomes at an area level in reduced crime, increased youth provision, and improvements in local environmental services; and
- better procurement arrangements that saved money.

**37** The Council has also identified scope for further improvement, including:

- extending effective commissioning and procurement arrangements;
- making efficiencies and savings through better asset management; and
- enhanced workforce management.

**38** The Council recognises that the financial pressures it faces demand more far reaching measures. It is working on transformational change through its overarching Sunderland Way of Working programme. This sets out how the Council does things now, how it is going to operate in the future and promises further significant change over the next few years.

**39** The Council is relatively well placed to meet the future challenges. However, the pressures on public spending are so great that Members will inevitably be faced with difficult choices in relation to future service provision. Future audit work will focus on financial resilience and the way in which the Council balances the delivery of cuts in public spending with the maintenance of effective service provision.

**40** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

# Glossary

## Annual governance statement

**41** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

**42** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

**43** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## Audit closure certificate

**44** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

## Audit opinion

**45** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Qualified

**46** The auditor has some reservations or concerns.

## Unqualified

**47** The auditor does not have any reservations.

## Value for money conclusion

**48** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Appendix 1 Independent auditor's report to Members of Sunderland City Council

## **Opinion on the accounting statements**

I have audited the Council's accounting statements and related notes of Sunderland City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## **Respective responsibilities of the Executive Director of Commercial and Corporate Services and auditor**

The Executive Director of Commercial and Corporate Services responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year. I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the



Council's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Council's Responsibilities**

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

## **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### **Audit Certificate**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Steve Nicklin  
Officer of the Audit Commission

Audit Commission  
Nickalls House  
Metro Centre  
Gateshead NE11 9NH

February 2011

## Appendix 2 Amendments to the draft accounts

**I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.**

Table 2: **Amendments to accounts**

The following amendments were made

Adjusted misstatements	Nature of adjustment	Collection Fund		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Collection Fund	The adjustment for write-offs had been included twice in the Costs of Collection figure. This has a direct effect on the Payment to the Pool figure	944	944	Nil	Nil
Cash Flow Statement	The Increase in Other Liquid Deposits in respect of NNDR had been calculated on an accruals basis instead of a cash basis. There was a difference of £4,843k.	Nil	Nil	Nil	Nil

**49** A number of other adjustments were agreed relating to prior year comparative figures and to notes. These included the following.

- The online version of the draft accounts contained differences to those approved by the Audit and Governance Committee. Restated 2008/09 Balance Sheet Infrastructure assets and the corresponding figure in Note 1 had been increased by £491k, which balanced the restated 2008/09 Balance Sheet. An amendment of £491k was also made to Note 1 restated 2008/09 Debtors figure.
- The restated 2008/09 Cash Flow Statement Increase in Other Liquid Deposits figure in respect of NNDR had been calculated on an accruals basis instead of a cash basis. An adjustment of £1,004k was required.

- The following restated 2008/09 figures in Note 1 did not agree to the statements:
  - Net Cash Flows from Revenue Activities (Cash Flow Statement) differed by £6,862k;
  - Interest Paid (Cash Flow Statement) differed by £3,388k; and
  - General Fund balance carried forward (SMGFB) differed by £285k;
- The restated 2008/09 Capital Financing Requirement required a reclassification within the statement of £1,160k to reflect the prior year MRP adjustment.
- Note 7a did not include the prior year comparative figures for senior officers' remuneration.
- Note 7a did not include all pay bandings and included some incorrect numbers in the details disclosed.
- Note 10 Highways Maintenance agency costs were understated by £5,100k.
- Note 10 Other Payments for agency costs were overstated by £1,000k.
- Note 2 Building Regulations expenditure was overstated by £300k.
- the Certificate of the Director of Financial Resources was amended from 'presents fairly' to presenting a 'true and fair view'.
- the Annual Governance Statement needed to be amended to clarify some issues.
- A number of other minor amendments were required.

#### **Non-adjusting post balance sheet event**

**50** An additional note has been added to the financial statements to reflect a material non-adjusting post balance sheet event.

**51** 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 impact of this is to reduce future pension liabilities as CPI has consistently increased at a slower rate than RPI.

**52** Officers obtained an estimate of the impact on future pensions liabilities from the actuary and this is now disclosed in the revised financial statements.

## Appendix 3 Letter of representation

To: Steve Nicklin  
District Auditor  
Nickalls House  
Metro Centre  
Gateshead  
NE11 9NH

### **Sunderland City Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Sunderland City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

#### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009 which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

#### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

#### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

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

I also confirm that I have disclosed:

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

#### **Law, regulations, contractual arrangements and codes of practice**

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

#### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements.

#### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

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

#### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements we have no other lines of credit arrangements.

#### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Signed on behalf of Sunderland City Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 11 February 2011

Signed

Name Mr Malcolm Page

Position Executive Director of Commercial and Corporate Services

Date 11 February 2011

## Appendix 4 Value for money criteria

VFM criteria	Met	Summary of conclusions to date
Managing finances		
Planning for financial health	Yes	<p>There is a comprehensive medium term financial plan. Service plans, corporate strategies, improvement targets and financial budgets are integrated and set out required staffing resources. There have been no significant overspends in recent years and the Council is well placed in terms of balances and reserves.</p> <p>Improvements last year include: a Single Investment Plan, agreed with the Local Strategic Partnership; revenue budgets and the capital programme reported for each portfolio to improve the robustness of planning; and longer term efficiency planning is in place.</p> <p>The Council recognises that the financial pressures it faces demand more far reaching measures, and it is working towards transformational change through its overarching Sunderland Way of Working (SWOW) programme. This sets out how the Council does things and how it is going to operate in the future. It comprises three corporate programmes (i.e. Business Transformation, Community Leadership and Economic Regeneration) as well as Directorate improvement programmes and promises further significant change over the next few years.</p>



VFM criteria	Met	Summary of conclusions to date
Understanding costs and achieving efficiencies	Yes	<p>The Council has a sound understanding of its costs and performance and has continued to achieve efficiencies. Efficiencies of £9.44 million have been reinvested in priority and lower performing areas to deliver improved outcomes. Cumulative efficiency savings of £22.9 million have been achieved in 2008/2009 and 2009/2010.</p> <p>Overall, costs are mid range and performance is generally good, but some areas perform poorly in comparison with other metropolitan district councils and there are areas of high cost. These are understood by the Council and reflect investment in priority areas. For example, relatively high leisure costs reflect long term investment and improvement to facilities, linked to a number of strategic priorities including reducing health inequalities.</p> <p>Long term plans are in place with partners in the South of Tyne &amp; Wear Waste Partnership. Resources are being earmarked to support the ongoing requirements and local actions implemented to improve both recycling rates and reduce landfill. Short term savings have been achieved on ancillary contracts following a joint approach to procurement and one-off investment in recycling.</p> <p>Resources have been redirected to services for young people not in employment, education or training (NEETs) which has reduced their number. Increased mainstream investment in the Safer Sunderland Partnership has also assisted Sunderland to become one of the safest cities in the North, with overall crime continuing to fall and remaining below the national average, as well as sustained reduction in all major categories.</p>
Financial reporting	Yes	<p>The Council has an integrated approach to collecting and producing both financial and non-financial performance data and it considers financial information alongside related performance information relating to strategic objectives. It promptly identifies variations in financial performance and forecasts financial outturn and takes corrective action where appropriate.</p> <p>The Council's accounts meet statutory requirements and relevant reporting standards. Its website and other information is available in a wide range of formats including foreign languages, and voicetape. The Council used its citizens panel and MORI polls to seek the views of stakeholders about what information is required in its external reporting and tailors it accordingly.</p>

VFM criteria	Met	Summary of conclusions to date
Governing the business		
Commissioning and procurement	Yes	<p>Procurement arrangements continued to improve. Better procurement delivered £863k savings in 2009/10, well ahead of the target of £750k for the year.</p> <p>This has been achieved through a wide range of corporate procurement activity achieving savings such as e-auctions £65k and business travel and accommodation a 10% saving. The Category Manager corporate team has expanded in the last year to include service expertise and the use of e-catalogues is now council wide. Following trials the innovative 'Buy Sunderland First' procurement software is live from April 2010, this improved electronic procurement also assists increased use of local suppliers in the recession.</p> <p>There are examples of good commissioning work with partners such as youth commissioning work and specifically the XL Youth Village that increased youth engagement, reduced ASB and criminal behaviour and improved community cohesion. The Council is seeking to improve consistency in commissioning across its services.</p>
Use of information	Yes	<p>The Council produces relevant and reliable data and works with partners on the quality of data which is relevant to shared priorities. There is a clear corporate statement on the importance of high data quality standards and guidance on the Council's approach to achieving them, against which directorates are required to demonstrate progress. Members recognise the importance of good data quality and a Cabinet member acts as data quality 'champion'.</p> <p>Good progress to improve quality of data and information includes strengthening area arrangements, building key data sets with partners and improved Scrutiny involvement with their recommendations now part of corporate reports. However, it is too early for new Performance Plus software benefits to be realised, as this only went live across all of the Council from April 2010.</p> <p>The Council has developed a consistent corporate framework across all partnership arrangements. This has enabled the Council to assess the performance of its partnerships, and address areas which need to be improved.</p>

VFM criteria	Met	Summary of conclusions to date
Good governance	Yes	<p>The Sunderland Community Strategy sets out a clear vision for the City for 2025. This and the Local Area Agreement (LAA) demonstrated a good understanding of the key issues which needed to be addressed. There is a comprehensive code of practice for partnership working which is subject to annual review.</p> <p>The Council's constitution is regularly updated and clearly describes roles and responsibilities. The Council has adopted codes of conduct for its members and staff that are widely publicised. Policies for whistleblowing and "comments, compliments and complaints" are also up to date and well publicised. The Standards Committee has met regularly throughout the year and has considered a number of Council policies on governance issues as well as receiving and assessing complaints and scrutiny has been strengthened.</p> <p>The Sunderland Community Leadership Programme has included a review of area governance arrangements. The Area Committee Constitution has been changed to provide a clearer focus on implementing local area plans, managing performance and engaging residents. As a result Area Committees are now more responsive and able to target local services. For example, closer ties were made with the police to help to reduce crime and improvements have been made in graffiti removal, refuse collection, litter, dog fouling and grass cutting services, cycle paths and tackling of fly tipping.</p>
Risk management and internal control	Yes	<p>Risk management is fully embedded in corporate processes.</p> <p>The Partnership Code of Practice requires all significant partnerships to have their own risk registers. Demonstrating effective risk management has enabled the Council to reduce insurance premiums, increase insurance cover at no extra cost and extend self insurance schemes.</p> <p>Counter fraud arrangements have been assessed against the newly issued 'red book' from CIPFA. There have been no cases of proven fraud or corruption in recent years, except for Benefits claims. The partnership code of practice clearly sets out expected counter fraud and corruption arrangements for partnerships. The Council has participated in the National Fraud Initiative (NFI) since its inception, and can demonstrate that it is creating a strong deterrent effect through publicity material.</p> <p>The Council has an Audit and Governance Committee which is independently chaired and politically balanced. It includes co-opted members and is proactive. Internal Audit and Audit Commission work has not identified any significant weaknesses in internal controls in recent years. Internal Audit is properly resourced and meeting CIPFA standards. Standing orders, standing financial instructions and a scheme of delegation are in place, well publicised and kept up to date.</p>

VFM criteria	Met	Summary of conclusions to date
<p>The Council regularly reviews the effectiveness of its partnership working and the financial performance of key partnerships using a scorecard approach, summarised in an annual report to Cabinet. The Council can identify clear examples of where good partnership governance has helped to deliver improved outcomes.</p>		
<p>Managing resources</p>		
<p>Natural resources</p>	<p>n/a</p>	<p>Not specified as part of the VFM conclusion this year.</p>
<p>Strategic asset management</p>	<p>Yes</p>	<p>The Council has made progress against its action plan arising from the Audit Commission work undertaken in 2008/09. However although significant progress has been made there is an inevitable time lag between making plans and delivering improved outcomes.</p> <p>There are excellent examples of outcomes from partnership working (eg Primary Care centres at Washington and Bunny Hill), purpose built one stop shops across the City and successful delivery of major projects such as the Aquatic Centre and the BSF programme. Appraisal processes to prioritise capital investment are good, and the Council is successful at securing external sources of capital funding. The estate meets relevant health and safety standards. The Council has not significantly reduced backlog maintenance on buildings, but additional finance has been allocated to address this, and overall backlog levels compare well with similar authorities. The Smarter Working Project will provide an integrated approach to asset, ICT and workforce planning and will implement a corporate policy on modern working arrangements and space utilisation targets. The Council has also started a five year rolling programme of property inspections with some buildings already being identified as surplus.</p> <p>Areas where the Council recognises that further attention is required include market testing of property related services; monitoring project delivery against original cost and time; delivery of a programme to give a 70% planned maintenance spend; and improving coverage of diverse users satisfaction with assets.</p>

VFM criteria	Met	Summary of conclusions to date
Workforce	Yes	<p>The Council's workforce planning is integrated with annual service planning. The introduction of the Sunderland Way of Working has provided the opportunity to further consolidate the corporate, strategic and long term approach to workforce planning. The Council is aiming for transformational change and recognises the importance of its workforce in making a success of this.</p> <p>The Council has a productive and skilled workforce, with a clear commitment to training and development, and there are some innovative examples, including partnership working, such as the Sunderland Leadership Development Programme and investment in apprenticeships. The whole Council has been IIP accredited for 10 years. Corporate IIP status was achieved in 2004.</p> <p>Council policies cover a range of issues pertaining to diversity and good people management. The Council completed Phase I of its job evaluation scheme in 2006, which has been the subject of various legal challenges and resulted in the delay of Phase II.</p>

## Appendix 5 Action plan

### Recommendations

#### Recommendation 1

Arrangements need to be reviewed to ensure that the accounts are fully supported by comprehensive working papers in future years.

<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
-----------------------	---

<b>Priority</b>	High
-----------------	------

<b>Date</b>	For completion of 2010/11 accounts
-------------	------------------------------------

#### Comments

#### Recommendation 2

A valuation for Newcastle International Airport should be carried out again next year, and the Council's rationale for the most appropriate valuation method should be discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge. Officers should again discuss this with other partner authorities to ensure consistency among all shareholders in the airport.

<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
-----------------------	---

<b>Priority</b>	High
-----------------	------

<b>Date</b>	For completion of 2010/11 accounts
-------------	------------------------------------

<b>Comments</b>	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.
-----------------	--

#### Recommendation 3

A review should be undertaken to identify the scope for producing a more streamlined and focused set of financial statements for 2010/11.

<b>Responsibility</b>	Head of Financial Management and Assistant Chief Accountant
-----------------------	---

<b>Priority</b>	High
-----------------	------

<b>Date</b>	For completion of 2010/11 accounts
-------------	------------------------------------

<b>Comments</b>	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.
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January 2011





# **Statement of Accounts**

## **2009/2010**

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## Cabinet 2009/2010

Cabinet membership and responsibilities for the financial year are as set out below:

Member	Portfolio
P. Watson	Leader of the Council
Mrs F. Anderson	Deputy Leader of the Council
D. Allan	Resources
Mrs P. Smith	Children and Learning City
Mrs N. Wright – resigned 19 <sup>th</sup> May 2010 M. Speding – appointed 19 <sup>th</sup> May 2010	Healthy City
J. Blackburn	Attractive and Inclusive City
H. Trueman	Sustainable Communities
Mrs C. Gofton	Responsive Services and Customer Care
B. Charlton	Prosperous City
D. Wilson	Safer City

## Introduction

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

With regard to corporate governance, we are pleased to be able to report that the Council considers an annual review of its Code of Corporate Governance, and Cabinet received the review of 2009/2010 in June 2010. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council has the majority of documentary evidence, processes and measures in place and identified a small number of areas for improvement and development, which will be acted upon during 2010/2011.

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

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

Councillor Paul Watson  
Leader of the Council

Dave Smith  
Chief Executive

Malcolm Page  
Executive Director of Commercial  
and Corporate Services

Dated: 11<sup>th</sup> February 2011

## **Certification of the Statement of Accounts**

As Chairman of the Audit and Governance Committee held on 11<sup>th</sup> February 2011, I hereby acknowledge receipt of the audited Statement of Accounts for 2009/2010 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 11<sup>th</sup> February 2011 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

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

Dated: 11<sup>th</sup> February 2011

## Foreword by the Executive Director of Commercial and Corporate Services

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2009/2010. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009' known more commonly as the SORP. The Code of Practice constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2003 and Amendments to those Regulations in 2006, and the Local Government and Housing Act 1989.

It should be noted that this is the last year the Council's accounts will be produced using the SORP as local authority accounts must comply with the requirements of International Financial Reporting Standards (IFRS) from the accounting year 2010/2011. Full details of all of the changes introduced by compliance with the new reporting standards will be fully explained and set out as appropriate in next year's Statement of Accounts.

Certain financial statements are required to be prepared under the Code of Practice (SORP) and these are detailed below:

**1. A Statement of Accounting Policies**

This discloses the accounting policies that are significant to the understanding of the Statement of Accounts and the Authority's financial position.

**2. Annual Governance Statement**

This statement sets out the principal arrangements that are in place to ensure a sound system of internal control is maintained.

**3. Statement of Responsibilities for the Statement of Accounts**

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

**4. The Core Financial Statements**

**Income and Expenditure Account**

This account brings together the net cost of all Council services and shows how this cost is financed from government grants and income from local taxpayers.

**Statement of the Movement on the General Fund Balance**

This statement summarises the revenue costs that fund Council services and the movement in this fund represents items charged directly to the fund and any surplus or deficit generated from the income and expenditure account that is used in determining the Council's budget requirement and Council Tax demand.

**Statement of Total Recognised Gains and Losses (STRGL)**

This statement shows all of the Council's gains and losses arising in the financial year.

**Balance Sheet**

This shows the balances and reserves available to the Council; its long-term indebtedness; the fixed and net current assets employed in its operations; and summarised information on the fixed assets held.

**Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from all transactions with third parties for revenue and capital purposes.

**5. Notes to the Core Financial Statements**

In addition to the above, further statements are included to show in more detail, the financial position of the Council, including summaries of expenditure which are categorised and accounted for in accordance with the Best Value Accounting Code of Practice (BVACOP) requirements and the accounts of other funds in order to allow comparisons to be made with other similar local authorities.

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

### 6. Supplementary Statements

#### **Housing Revenue Account**

This deals with the provision and maintenance of Council housing. There is a statutory requirement to keep this account separate from the account for other Council services, as defined in Schedule 4 of the Local Government and Housing Act 1989.

The Secretary of State can give his consent to close this account in certain circumstances, one of which is when a Large Scale Voluntary Transfer (LSVT) has taken place and the service is no longer provided by the Council. The Council transferred all of its housing stock to Sunderland Housing Group on 26<sup>th</sup> March 2001 under a LSVT arrangement and from this point has not maintained a Housing Revenue Account as it is no longer required.

#### **Collection Fund Account**

This is a statutory fund, showing transactions in relation to Council Tax and National Non Domestic Rates and illustrates the way in which they have been distributed to both Precepting Authorities and the Council's General Fund.

### **Revenue Expenditure and Income Summary**

The estimated net revenue expenditure for 2009/2010 to be met from Government Grants and local taxpayers was approved at £249.051m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,325.72 for 2009/2010. This represented a Council Tax increase of 2.87% over the 2008/2009 Band D Council Tax of £1,288.75. The Council again set the lowest Council Tax level in the whole of the North East region for 2009/2010 for the second consecutive year and continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

Budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the Council's Cabinet. These detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items including Treasury Management, Prudential Indicators and Balance Sheet items, (such as reserves, delegated balances and grant debtors and creditors etc.).

The table on the next page summarises the financial position for the year 2009/2010 for General Fund Balances, which is made up of the Council's General Reserve and Balances held by Schools under the Local Management Scheme, in accordance with the Statement of Recommended Practice (SORP) and also shows the original budget and the revised budget positions for 2009/2010 as compared to the actual position for 2008/2009.

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

	2009/2010 Original Estimate £'000	2009/2010 Revised Estimate £'000	2009/2010 Actual £'000	Restated 2008/2009 Actual £'000
Expenditure on Services	231,074	241,756	269,444	232,587
Levies and Precepts	18,401	18,401	18,462	18,160
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(637)	(513)
Transfers to / (from) Capital Reserves	0	0	(5,088)	12,954
Transfers to / (from) Revenue Reserves:				
Landfill Allowance Trading Scheme Reserve	0	0	0	(228)
PFI Smoothing Reserve	0	0	(349)	60
Pension Reserve	3,072	(14,301)	(14,990)	350
Insurance Reserve	0	0	(184)	(1,065)
Inward Investment Reserve	0	0	0	(197)
School Meals Consortium Reserve	0	0	(100)	(81)
Service Pressures and Priorities Reserve	0	0	(212)	(1,110)
Repairs and Renewals Reserve	0	0	(714)	136
Economic Development Reserve	0	0	0	(225)
Waste Disposal Reserve	0	0	(430)	85
Energy Costs Reserve	0	0	0	(1,000)
Port Reserve	0	0	63	88
Connexions Related Reserve	0	0	298	220
Commuted Sums Reserve	0	0	37	176
School Community Reserve	0	0	(122)	(357)
Play Areas Reserve	0	0	(273)	(326)
Economic Downturn Reserve	0	0	900	0
WNF - Software City Reserve	0	0	2,600	0
WNF - Junction Improvements Reserve	0	0	600	0
WNF - Visible Workshop and Other Projects Reserve	0	0	3,600	0
Children Placement Strategy Reserve	0	0	900	0
House Sale Income Reserve	0	0	1,250	0
All Other revenue Reserves	0	0	(756)	9,182
Provision for Insurances	0	0	0	(568)
<b>Total Net Expenditure</b>	<b>252,547</b>	<b>245,856</b>	<b>274,299</b>	<b>268,328</b>
Financed by:				
Revenue Support Grant and General Grants	29,000	29,000	58,303	44,162
National Non Domestic rates	125,643	125,643	125,643	132,945
Council Tax Collection Fund Receipts	93,908	93,908	94,769	90,436
Council Tax Surplus	500	500	500	500
<b>Total Net Budget Requirement *</b>	<b>249,051</b>	<b>249,051</b>	<b>* 279,215</b>	<b>268,043</b>
<b>Addition / (Use):</b>				
General Reserve (See Note 1)	(3,496)	3,195	3,195	(455)
Schools LMS Reserve (See Note 2)	0	0	1,721	170
<b>General Fund Balance brought forward:</b>				
General Reserve	11,553	11,553	11,553	12,008
School LMS Reserve	5,772	5,772	5,772	5,601
<b>General Fund Balance carried forward:</b>				
General Reserve	<b>8,057</b>	<b>14,748</b>	<b>14,748</b>	11,553
School LMS Reserve	<b>5,772</b>	<b>5,772</b>	<b>7,493</b>	5,772

\*This figure includes Revenue Support Grant, National Non Domestic Rates, Council Tax Fund Receipts and other General Revenue Grants (Note 13; page 75) and also an increase of £0.861 million due to the adjustment in Council Tax debtors and creditors as per the SORP 2009 as set out in the Accounting Policy 29 on pages 34 and 35.



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

### Note 1 – General Reserve

The above table shows an increase in the general reserve balance of £3.195 million as forecast at the revised estimate stage and is after taking into account the creation of a limited number of reserves reported to Cabinet as part of the outturn report.

The movement in the general reserve balance takes account of the following additions to balances totalling £4.288 million:

- £1.045 million in respect of additional successful applications for VAT refunds achieved after the preparation of the Revised Estimate 2009/2010 was approved by Cabinet in February 2010;
- £0.570 million in respect of savings arising on waste disposal costs as a result of a reduction in volumes sent to landfill;
- £0.405 million in respect of repayment of temporary financing in respect of Rainton Bridge Industrial estate;
- £2.104 million additional debt charge savings primarily as a result of re-profiling capital expenditure and debt restructuring activity in light of market conditions;
- Other net savings in contingencies and non delegated expenditure of £0.164 million;

and the following £4.288 million use of balances;

- £0.623 million in respect of additional costs of winter maintenance following the unexpectedly severe winter conditions in the final quarter of 2009/2010;
- approved earmarking of balances of £0.600 million to support pressures arising in respect of the economic downturn including provisions for reduced income;
- approved earmarking of balances of £0.900 million to support the Children's Placement Strategy review
- approved transfer to the Strategic Investment Reserve of £2.165 million to support invest to save projects which will assist with the future achievement of efficiency savings through the Improvement Programme and Capital Programme priorities for 2011/2012.

### Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the SORP, forms part of the Statement of Movement in General Fund Balances. The movement in school balances during 2009/2010 amounted to a net return to balances of £1.721m (£0.170m net return to balances in 2008/2009), which means that this effectively reduced spending by schools and is reflected in the Statement of Accounts within the Income and Expenditure Account on the Education cost of service line.

As a result, the balance of this reserve as at 31st March 2010 increased to £7.493m compared to £5.772m as at 31st March 2009. Further details are set out in [Note 44 on Page 103 to 104](#).

### Capital Expenditure and Income

Capital Expenditure for the year totalled £99.921m, this is made up of Council expenditure of £96.372m and capital expenditure of £3.549m relating to externally funded schemes where the Council acts as the Accountable Body and must include this in its Statement of Accounts. Expenditure on fixed assets for 2009/2010 was £68.631m whilst expenditure on intangible assets was £0.241m. The remainder of £31.049m represents grants, advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue and expenditure on property not owned by the Authority.

The above total capital expenditure was financed by Supported Capital Expenditure Revenue, SCE(R), which enabled the Council to borrow £7.158m to finance capital expenditure, the balance was financed by Unsupported Borrowing of £0.680m, Capital Receipts of £2.485m, Government Grants of £62.519m, Other Grants and Contributions of £7.863m, Revenue Contributions of £4.058m and Use of Reserves of £15.158m. A summary of the Council's capital expenditure and income is shown in [Note 21 on Page 83](#) to the Balance Sheet.

### Building Schools for the Future

In February 2004, the Council was successful in being selected in the first wave of the government's Building Schools for the Future (BSF) initiative. BSF is intended to rebuild or refurbish all secondary schools in the country over a 15 year timescale to 21<sup>st</sup> century standards.

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

Government approval to the Council's proposals for a 'Sunderland Model' to establish three academies in Wave 1 was received on 6<sup>th</sup> June 2006. The proposals comprise an innovative partnership in a co-sponsoring arrangement with the principal private sector partners, Gentoo, Northumbria Water Limited and the Leighton Group, which will contribute to the strong collaborative working relationship between the Council, secondary schools and other education providers, including Academy Lead Sponsors, through an Education Leadership Board.

The project consists of two procurements:

- A design and build contract for three new academies – Academy 360 (at Pennywell), Red House Academy and Castle View Enterprise Academy - a new build project at Washington school and major refurbishments at St Robert of Newminster and Biddick schools; Oxclose school also benefited from a 'Quick Win' project under the BSF programme which involved a £11m refurbishment that was completed in May 2007 and,
- An ICT managed service contract which will provide services to the above schools / academies, plus Sandhill View school.

Balfour Beatty Construction Limited (BBCL) was selected as the preferred bidder for the design and build project. Contracts were signed with BBCL on 13<sup>th</sup> March 2008 for the provision of Academy 360, Castle View Enterprise Academy and Washington School. Contracts were signed for Red House Academy on 18<sup>th</sup> April 2008 and for the two major refurbishments at Biddick and St Robert of Newminster schools, these contracts were signed on 15<sup>th</sup> August 2008 and 20<sup>th</sup> February 2009 respectively. Five of the schools have now been completed. Academy 360, Castle View Enterprise Academy, Red House Academy and Washington School all opened in September 2009 and Biddick School in April 2010. St Robert's of Newminster RC School is planned to be handed over by the contractors in June 2010 with an opening date of September 2010

Research Machines Limited (RM) was selected as the preferred bidder for the ICT Managed Service project. Contracts were signed on 13<sup>th</sup> March 2008. Full service operation has been implemented as the new schools / academies have opened.

Following the submission of an Expression of Interest in November 2008, the Council was invited by Partnerships for Schools to make a Readiness to Deliver submission by 8<sup>th</sup> May 2009 for the remaining 9 secondary and 5 secondary special schools in the city. This was the subject of a report to Cabinet on 8<sup>th</sup> April 2009. The submission consisted of 2 follow on phases to complete the programme for the secondary school estate. The submission was successful and the Council was invited to an assessment panel in June 2009, following which it was confirmed that both of the planned follow on phases were approved to move forward to the next stage. Council officers were duly invited to attend a Remit Meeting in October 2009, which resulted in formal entry into the national programme. The Strategy for Change was approved by Cabinet in March 2010 and submitted to Partnerships for Schools. Confirmation of the status of the project is not now expected until after the Coalition Government's autumn Comprehensive Spending Review.

### **Euro**

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

### **Accounting for Pensions**

The accounts continue to be fully compliant with Financial Reporting Standard 17 (FRS17). Although FRS17 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the Pension Fund.

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

The last full actuarial valuation of the Pension Fund was carried out as at 31<sup>st</sup> March 2007 and has been updated by independent actuaries to take into account the requirements of FRS17 in order to assess liabilities as at 31<sup>st</sup> March 2010. The Council as such continues to comply fully with this Standard and the Accounting Policy on **Pages 27 to 29** and the Notes to Core Financial Statements provide details of the necessary disclosures required.

The net overall impact of FRS17 accounting entries is neutral in the accounts, and, in reality, as the Council is making the necessary pension deficiency payments to address any assessed shortfall in the pension fund by the Actuary over time, then the Balance Sheet net worth is in effect reporting future years deficits, which are being addressed.

The financial health of the Council is consequently being affected by the accounting requirements in respect of FRS17. However, the Pension Fund Reserve Deficit reflected in the Balance Sheet (**page 47**), as assessed by the Actuary, as at 31<sup>st</sup> March 2010, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

### Cost of Pensions

The cost of pensions to the Council continues to increase year on year and has now become one of the major items of expenditure the Council has to meet each year but over which it has very little control. The previous labour government has recently completed a review of the public sector pension arrangements and implemented changes in light of that review designed to modernise the arrangements whilst seeking to ensure that they are more affordable. The new coalition government has indicated that it is to carry out a further review in the next year to ensure that future pension costs for public sector workers are affordable and will take appropriate measures to address the position.

### The Council's Improvement Agenda

The Council is embarking on the Sunderland Way of Working which encompasses all improvement activity across the organisation and will be delivered by three corporate and four directorate programmes:

- The Council established during 2009/2010 the **Business Transformation Programme (BTP)** to deliver a new business operating model to achieve sustainable and rapid progression in delivering excellent services and customer service whilst dealing with the expected, significant cuts to public spending over the next four years by delivering very significant efficiency savings. The BTP will deliver a new business operating model and improve the Council's understanding of where they can work smarter, adopt partnership approaches as required, empower staff and making better use of ICT where necessary. The BTP is the 'engine room' for business improvement across the Council and acknowledges that significant re-engineering of services and adopting a new operating model is critical moving forward, particularly in the way the Council delivers customer contact and care.
- The **Community Leadership Programme (CLP)** aims to accelerate the development and embedding of the 'One Council, One Sunderland' approach which is necessary to successfully deliver the Council's and customer's priorities. Successful implementation will impact not only upon actual quality of life within the City, but also upon customer satisfaction with the Council and its services. Through their community leadership roles at all levels of the Local Strategic Partnership (LSP) as champions of performance improvement, elected members will provide the key link to problem solving and 'getting things done'. It is designed to strengthen the community leadership capacity and approach within the City which is necessary to achieve the delivery of excellent services.
- The **Economic Regeneration Programme (ERP)** is to prioritise and deliver a range of projects that will improve the city's economic prosperity, physical infrastructure and attractiveness. The ERP will be determined through the emerging economic master plan and to date the programme consists of projects and interventions to improve the city centre, through an increased programme of events and

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

festivals, including enhancement to Christmas Lights, and improvements in pavements and street furniture.

- Each of the council's four Directorates has set up an Improvement Board, to manage, monitor and review the Directorate's improvements and provide strategic oversight and direction for the Directorate
- Programme, this is to ensure that benefits are adequately monitored and fully realised. Directorate improvement projects include: Safeguarding, Review of Street Scene, Barnes Park Regeneration, Supporting People with Complex needs at Home and Smart Sunderland.

### Efficiency

The Council's approach to securing efficiency and Value for Money is encapsulated in the Council's Value for Money Framework - 'Driving Improvement in Services and Value for Money'.

The duty to continually examine, evaluate, and realise efficiency gains is embedded within the Council's approach to Corporate and Service strategies and plans, cross Council processes and within its Partnership Arrangements.

The Council continues to seek and achieve efficiency savings in its budget and spending plans and has an excellent past record of achievement of efficiencies and improving services by using resources effectively.

The Council has embraced and responded very positively to the requirements presented through the government's efficiency requirements set out in the Comprehensive Spending Review 2007 (CSR07) and updated as part of the Government's April 2009 Budget Report. The budget for 2009/2010 was set taking account of efficiency savings of £11.681million.

In order to ensure a successful response to the efficiency requirements of the CSR07, the Council's Cabinet agreed an update to the Efficiency Strategy 2009/2010 to 2013/2014 in October 2009. This set out the strategy by which the Council aimed to satisfy the Government's expectations at that time for achieving efficiency within the public sector and recognised the need for longer term planning for efficiency savings. It also reinforced the need for the Council wide Improvement Programme.

Given the anticipated significant long term pressure on public finances and the reduction in resources that are to be made available to local government over the medium to long term, the Budget Planning Framework, approved in October 2009, recognised the need to plan for savings over a longer period and contains annual targets for the period through to 2013/2014. These targets were to be reviewed as future Government spending plans become known and are currently being reviewed in light of government funding announcements. The Council's Improvement Programme will play a key role in contributing significant efficiency savings to meet these targets.

### Changes to the Statement of Recommended Practice (SORP) 2009

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2009 (SORP) introduced some changes to the Statement of Accounts for 2009/2010. This is the last set of accounts to be prepared using the SORP, as from 2010/2011 local authority accounts are required to comply with International Financial Reporting Standards (IFRS) rather than United Kingdom Generally Accepted Accounting Practice (UK GAAP). To assist with the transition CIPFA has introduced a series of changes in the SORP 2009 which are designed to adopt some of the IFRS requirements one year earlier than required to help phase in the changes between UK GAAP and IFRS reporting requirements. The main changes are set out below for information:

#### Council Tax

Council Tax income included in the Income and Expenditure Account is to be accrued for the whole 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 is to be accounted for in the Collection Fund Adjustment Account which will be included as a reconciling item in the Statement of Movement on the General Fund Balance.

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

Council Tax income is essentially viewed as an agency arrangement, whereby the cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and its major preceptors (Police Authority and Fire and Rescue Authority). There is, therefore, a debtor / creditor position between the billing authority and each major preceptor that needs to be recognised in the accounts, as the net cash paid to each major preceptor in the year will not be equal to its share of the total cash collected from Council Taxpayers.

Full details of this change and the required restatement of the 2008/2009 comparative figures are set out in Note 1 to the Statement of Accounts on [pages 49 to 60](#).

### National Non Domestic Rates (Business Rates)

Billing authorities collect NNDR under what is in effect an agency arrangement with the Government. The SORP specifies that:

NNDR income is not the income of the billing authority and should not be included in its Income and Expenditure Account as was the case previously. The cost of collection allowance received by billing authorities is the billing authority's income and is to be included in the Income and Expenditure Account.

NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not however regarded as assets and liabilities of the billing authority and as such are no longer to be recognised in the billing authority's Balance Sheet.

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 must 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 must now be included in the Balance Sheet as a debtor.

Cash collected from NNDR taxpayers by a billing authority is collected on behalf of the Government and is therefore not a revenue activity of the billing authority and should 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 explained above. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and will 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 is to be included in management of liquid resources as a net increase / decrease in other liquid resources.

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 is income to the billing authority.

Full details of this change and the required restatement of the 2008/2009 comparative figures are set out in Note 1 to the Statement of Accounts on [pages 49 to 60](#).

### Private Finance Initiative (PFI)

The SORP 2009 requires that PFI Transactions and Similar Contracts are accounted for in a manner that is consistent with the adoption of IFRIC 12 'Service Concession Arrangements'. PFI contracts typically involve a private sector entity 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 Council has two such contracts, Sandhill View School and Community and Learning Centre and Street Lighting and Road Traffic Signs.

Property used in a PFI and similar contract is to be recognised as an asset or assets of the local authority. A related liability is also to be recognised at the same time. According to the SORP an asset is recognised by the Authority when the asset is made available for use. In accordance with the SORP, assets are recognised separately in respect of land and buildings where appropriate. The related liability is initially 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.

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

Full details of this very complex change and the required restatement of the 2008/2009 comparative figures are set out in Note 1 to the Statement of Accounts on [pages 49 to 60](#). The above changes have a neutral impact on the council's accounts.

### Removal of several notes to the Statement of Accounts

In 2008/2009 CIPFA carried out a 'Back to Basics' review of the Statement of Accounts for Local Authorities. In this review several Disclosure Notes to the Statement of Accounts were identified as not adding value to the document and as such could be removed. The items that are to be removed according to the SORP 2009 are as follows:

- Expenditure on Publicity.
- Local Authority (Goods and Services) Act 1970.
- Building Regulations Charging Account.
- Discretionary Expenditure (S137)
- Business Improvement District Schemes

The disclosure notes to the Council's accounts for 2009/2010 therefore exclude these items.

### Officer Emoluments

The Department for Communities and Local Government (CLG) has issued disclosure requirements in respect of officer emoluments that are required to be included in the Statement of Accounts for 2009/2010. These include:

- An analysis of the number of employees, whose remuneration, excluding pension contributions, is £50,000 or more in bands of £5,000.
- The specific remuneration information in relation to 'Senior' officers is detailed below:
  - 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 note, for all identified 'senior' officers, is to be reported for both 2009/2010 and 2008/2009 and must include all of the following categories:

- salaries, fees and allowances;
- bonuses;
- expenses allowances;
- compensation for loss of employment;
- benefits in kind;
- employees pension contributions.

Full details of this change are set out in [Note 7](#) to the Statement of Accounts on [pages 68 to 70](#).

Finally, the Statement of Accounts for 2009/2010 complies with the Statement of Recommended Practice 2009 except where departures from the SORP are noted, including reasons for these departures.

### Major Acquisitions, Capital Works and Disposals during 2009/2010

The Council spent £2.269m on the purchase of land and property during 2009/2010 in respect of the new Southwick Primary School.

The Council is involved in a number of major projects, known as capital works.

The main schemes are listed below for information, and show the amounts of expenditure incurred during 2009/2010, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

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

Scheme / Project	Expenditure during 2009/2010 £'000	Total Currently Estimated Gross Cost £'000	Completed / In Progress as at 31 March 2010
Biddick School BSF	9,097	16,175	In Progress
St Roberts of Newminster BSF	8,897	15,832	In Progress
BSF ICT Contract	8,270	10,442	In Progress
Area Swimming Pools at Hetton and Silksworth	6,151	10,500	Completed
Sunderland Strategic Transport Corridor *	4,451	133,068	In Progress
Pennywell Academy 360 BSF	4,221	23,285	Completed
Washington BSF	3,588	19,157	Completed
Hylton Red House BSF	3,210	12,440	Completed
Castle View Academy BSF	2,737	15,994	Completed

\* The project in the above table has received programme entry approval from the Department for Transport (DfT) but the Council is still awaiting conditional approval for the scheme. It is important to note that the council has recently received notification from the new Coalition government that "all schemes that were granted Conditional Approval or Programme Entry by the previous Government are to be reviewed as part of the government's Spending Review in the autumn. Until then, the current Government can give no assurances on funding support for any of these schemes".

There was one major asset disposal (over £500,000) made during the year. This was in respect of the sale of land at Farrington Row for £825,000 to aid regeneration of the area which is where the new Courts Complex is to be sited.

### Authority's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 4th March 2009 detailed the 2009/2010 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Authority is required to set borrowing limits for the following three financial years. The limits for 2009/2010 were as follows:

- Authorised Limit for External Debt for 2009/2010 of £333.322m.
- Operational Boundary for External Debt for 2009/2010 of £292.481m. (This was increased by the Council on 3<sup>rd</sup> March 2010 to £327.301m to incorporate IFRS accounting changes).

As part of the Authority's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2009/2010.

The highest level of external debt incurred by the Council in respect of the above limits, during 2009/2010, was £259.569m for the period 13<sup>th</sup> October 2009 to 31<sup>st</sup> October 2009.

### Economic downturn

The economic downturn continued during 2009/2010 and the council has responded throughout the year by taking actions to ensure that resources have been directed to those service areas most affected reflecting the position taken at the time the 2009/2010 budget was set. The following factors taken into account include:

- The volatility of financial markets and continued low interest rates have had a major impact on the financial return on the Council's deposits, leading to reduced levels of income available to support the Council's Revenue Budget

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

- The ability to generate capital receipts from the sale of surplus assets as demand for development sites has reduced significantly with only very minor receipts of £949,000 being achieved in 2009/2010. The reduced capacity to generate capital receipts continues to have a direct impact on the resources available for the Council's capital programme and this position is expected to continue into 2010/2011.
- The impact of the economic downturn on the generation of income from fees and charges for Council services.

The Council has also acted positively in a number of ways to try and mitigate the impact of the economic downturn on both the businesses and people of Sunderland. A few of the many examples include: the Council has developed and issued a 10 point guide to businesses providing tips on how to beat the recession; the Council has a campaign currently under way to maximise take up of the small business rate relief scheme which is proving highly effective and which helps to reduce the costs faced by business; the council has developed its information and access to benefits for those who have recently lost their jobs and is improving and increasing service provision to where it is most needed.

Finally, in preparing the final accounts for 2009/2010 consideration has been given to the ongoing potential impact of the downturn resulting in some limited earmarking of resources.

### Treasury Management

In line with the best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full council each year. The Policy for 2009/2010 is included in detail within the Accounting policies, on [Page 34](#) for information.

The financial markets have continued to experience significant volatility over the financial year as the world economies generally have struggled to come out of recession and there has been the added concern over the Eurozone economies particularly the austerity measures that have been introduced in Greece, Spain, Portugal and Eire to deal with their debt problems and the risk that this situation could spread wider. The current uncertainty is continuing into 2010/2011 and a double dip recession can not be ruled out at this stage. The Council has had to operate its Treasury Management function within these very challenging and uncertain times by carefully managing the Council's cash resources and the Council continues to operate a prudent and cautious approach to Treasury Management. The Council follows professional standards and best practice in this specialist area and continues to develop its Treasury Management expertise and knowledge in order to safeguard the Council resources and thereby reducing the risks that inevitably exist in this complex area.

In January 2010, £24.0m of loans from the Public Works Loan Board (PWLB) with an average rate of 4.2% interest were prematurely repaid by temporarily using investments. This action was considered appropriate for the following reasons. Firstly, PWLB interest rates for new borrowing were forecast to fall below the current rates applicable on these loans, secondly the net premium (cost) of the transaction at the time was only £222 and was almost cost neutral to the Council and finally average investment returns for the year were 1.9% which is significantly lower than the interest cost of the repaid borrowing (4.2%). The result of this action produced a saving to the Council by reducing net interest payments by approximately 2.3% until such time as the loans are replaced from the PWLB which was expected to be some time during 2010/2011 when interest rates are considered advantageous. The saving in a full year equates to approximately £0.817m and the in year saving for 2009/2010 was £0.175m and helps to show how proactive Treasury Management can have significant positive effects on the Council's resources. This action was in line with the Councils' agreed Treasury Management Policy and Strategy for 2009/2010.

### Single Status

In 2005/2006 the Council introduced a new Pay and Grading Structure for all staff graded up to a maximum of spinal column point 17 in order to implement the first phase of the Single Status Agreement 1997 and Implementation Agreement 2004 which is applicable to all employees employed in accordance with the National Joint Council's Green Book terms and conditions. The implementation for the Authority's remaining staff graded spinal column point 18 to 49 (phase 2), continues to be progressed by the Council and the Council has included limited provision for the potential costs of the new scheme within its financial plans.



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

### **Equal Pay claims**

Both prior to and during 2009/2010, the Council has received a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Whilst a large number of claims have been settled, a large number of other claims remain outstanding where the legal advice is that offers of settlement should not be made. These claims will be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

### **Insurance Provision**

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself and this is one of the main reasons why it is possible to return provisions for insurance costs to Council balances in 2009/2010.

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

### **Airport Revaluation**

The Council holds a 9.41% share in Newcastle International Airport Limited through a Holding Company arrangement and the value of these shares has to be reviewed each year, in order to reflect the fair value of the shareholding in the Council's accounts, in accordance with best accounting practice. The valuation of £1.503m included in the Council's accounts for 2008/2009 reflected a valuation carried out by independent assessors based on a mid range net overall entity value of £15.975m for the Airport as at 31<sup>st</sup> March 2009.

As the economic downturn continued into 2009/2010 it was considered prudent to have a further review of the valuation of the Airport as this business sector was adversely affected by the economic conditions experienced during the year. The Airport business valuation was consequently reviewed by independent valuers (Grant Thornton) using a range of well established business models to assess the fair value of the Airport as at 31<sup>st</sup> March 2010.

Consequently the Council's share of the revised valuation based on the income discounted cash flow methodology has seen its shareholding worth reduce by £0.708m to a valuation of £0.795m in 2009/2010 and this figure is 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 over £323m), and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been impaired over recent years, (fallen in value), as a direct result of the economic downturn and the continued depressed state of the economy during 2009/2010.

It is important to note however that the valuation included in the accounts can only act as an indicator of the value of the Council's shares in the Airport and the only way of assessing the true value of its shareholding would be if the Council were ever to sell its shares on the open market. It is expected that the value of the shares and the Council's interests would begin to improve as the country comes out of recession and the Airport sees an upturn in both its business operations and an increased value of its main assets.

### **Area Based Grant**

Area Based Grant replaced Local Area Agreement Grant from the financial year 2008/2009. At the same time the Government also transferred numerous specific grants into the new Area Based Grant to provide Local Authorities with more flexibility in the use of this funding, as Councils can spend the Area Based Grant as they see fit, in order to support the delivery of local, regional and national priorities in their areas including the achievement of Local Area Agreement targets.

The introduction of the Area Based Grant provides more flexibility in how this funding can be used by the Council, each of the grants that originally transferred into the new Area Based Grant came with clear grant

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

conditions and performance expectations. It was considered that in the majority of cases, that these performance expectations remained and were consistent with the Sunderland Strategy and Local Area Agreement and other service based inspections.

Accordingly, the Council initially 'passported' Area Based Grants to their host Portfolio / Directorate for 2008/2009 and a full review was undertaken during 2008/2009 to ensure value for money and the appropriateness of the expenditure in light of changes in priority and performance targets. This review identified efficiency savings of £1.946m which was taken into account when balancing the 2009/2010 budget.

The Council's allocation for Area Based Grant for 2009/2010 was almost £28.9m which can be compared to an equivalent grant total for 2008/2009 of £25.4 million. The main reason for the increase of £3.5 million between the years was that the Working Neighbourhoods Fund Grant was increased by £2.7m and the grant allocated to meet the costs of setting up extended schools was increased by £0.4 million. There was also a net overall increase in most other grants included within the Area Based Grant total of £0.4 million. The Council carried out a further similar review of the grant to be allocated in 2009/2010 which identified further efficiency savings of £1.041m which was taken into account when balancing the 2010/2011 mainstream budget.

This more flexible form of grant funding is welcomed by the Council and continues to help the Council to re-direct resources into its service priority areas in order to improve the key services provided to the people of Sunderland. The grant is fully accounted for within the accounts of the Authority in accordance with government guidelines and forms part of [Note 13 on page 75](#).

### South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Sunderland, Gateshead and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. The Partnership has been provisionally awarded £73.5m of PFI Credits by the Department for Environment, Food and Rural Affairs (Defra) following the approval of the Outline Business Case in July 2008. The Partnership, led by Gateshead Council, has progressed to the final stages of the procurement process and it is anticipated that this will be completed by November 2010 with the waste treatment facility being operational by 2014.

### Coalition Government Funding Position

The current coalition government announced in June 2010 that it is reducing public spending by £6.2 billion of which local government is to contribute £1.2 billion of the total reductions mainly through reductions in government grant funding in 2010/2011. Latest indications are that this measure alone means that the Council is to receive less government grant in 2010/2011 of almost £6 million. This measure and other announcements show that the government is determined to reduce the national debt position as quickly as it can and is prepared to make major cuts to public spending. The prospects for the next 3 year local government grant settlement is not yet known but indications are that the Council will be faced with further significant reductions in its grant funding over this period (2011/2012 to 2013/2014). The Council has however already put actions in place to help manage this situation through its Business Transformation Programme, its planned efficiency measures and other actions to try and ensure that wherever possible front line services are protected as much as possible for the people of Sunderland in what is expected to be a very challenging period for local government.

### Further Information

This publication provides a review of the financial performance of the Council for 2009/2010. A summary set of accounts, which forms part of the Council's Annual Report for 2009/2010, is also available on the Council's website at <http://www.sunderland.gov.uk/index.aspx?articleid=652>

Malcolm Page CPFA  
Executive Director of Commercial and Corporate Services  
11<sup>th</sup> February 2011

## **Statement of Responsibilities for the Statement of Accounts**

### **The Authority's Responsibilities**

The Authority is required:

1. To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Executive Director of Commercial and Corporate Services.
2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### **The Executive Director of Commercial and Corporate Services Responsibilities**

The Executive Director of Commercial and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2010.

### **Authorised for Issue Date**

The accounts are authorised for issue on 3rd February 2011.

## **Certificate of the Executive Director of Commercial and Corporate Services**

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

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

*I have also:*

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

*The accounts set out in the following pages present a true and fair view of the financial position of the City of Sunderland Council as at 31st March 2010 and its income and expenditure for the year then ended.*

**Malcolm Page CPFA  
Executive Director of Commercial and Corporate Services**

**3rd February 2011**

## **Independent auditor's report to the Members of Sunderland City Council**

### **Opinion on the accounting statements**

I have audited the Council's accounting statements and related notes of Sunderland City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Executive Director of Commercial and Corporate Services and auditor**

The Executive Director of Commercial and Corporate Services responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of

the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Council's Responsibilities**

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

#### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### **Audit Certificate**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

**Signature:**

**Date: 11<sup>th</sup> February 2011**

**Name: Mr S. Nicklin**

**District Auditor – Audit Commission**

**Address: Nickalls House,  
Metro Centre  
Gateshead. NE11 9NH**

# Statement of Accounting Policies

## 1. General Principles

The accounts have been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) 2009 issued by the Chartered Institute of Public Finance and Accountancy except where disclosed below. The analysis of service expenditure included in the Income and Expenditure Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level. The accounting convention adopted is mainly historical cost, modified by the revaluation of certain categories of tangible fixed assets and stores.

## 2. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis

### Recognition

All expenditure on the acquisition, creation or enhancement of fixed assets is accounted for on an accruals basis and capitalised in the Balance Sheet, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of the asset, (e.g. repairs and maintenance), is charged to revenue in the year it is incurred.

### Measurement

Fixed assets are initially valued at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then included in the Balance Sheet using the measurement bases recommended by CIPFA and in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors. Different categories of fixed asset have been valued on different bases as follows:

Operational land and buildings have been valued on the basis of:

- Depreciated Replacement Cost where an asset is of a specialised nature or where there is no evidence of market value of suitable comparable properties. This method estimates the market value for the existing use of land, plus the current gross replacement costs of improvement, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation; or
- Existing Use Value where there is sufficient evidence of market transactions for that use to support the value of the asset.

Non-operational assets are fixed assets not directly occupied, used, or consumed in the delivery of services, including investment properties and assets surplus to requirements. They have been included in the balance sheet on an open market value basis.

Infrastructure assets and vehicles, plant, furniture and equipment have been included at historical cost, net of depreciation. **Community assets which are not used in the direct provision of services and are intended to be held in perpetuity have been assessed as having no financial value to the council.**

A de-minimis level of £20,000 has been applied for assets included in the Balance Sheet.

Capital projects that are still in progress are classed as 'fixed assets under construction' and are shown in the balance sheet as non-operational assets on an historic cost basis. These historic values are transferred to operational assets once the capital scheme has been completed. For material capital schemes an assessment is undertaken by the Head of Land and Property to determine any change the capital scheme has made to an asset's value.

### Revaluation Gains and Impairments

All assets are revalued by the Head of Land and Property at a minimum of every five years under a rolling programme. Material changes to asset valuations are adjusted in the interim, as they occur. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, in future years, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

## Statement of Accounting Policies (Continued)

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Asset values may decrease following a review of asset categories for reductions in value, following revaluation or following a reassessment of an asset's value once the historic cost of capital projects has been added to the 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 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.

All assets not subject to depreciation are assessed, in accordance with FRS 11, by the Council's Valuer each year for any material impairment. No material impairment was assessed in 2009/2010, however any such impairment would be charged to revenue in the year that it occurred.

As part of the revaluation programme the valuer makes an assessment of the asset life, the gross value of each asset and also determines a value for use in determining the depreciable amount. The assessment of the depreciable amount is solely carried out to enable depreciation to be calculated and charged to the Income and Expenditure Account. The movement in the gross value of the asset (rather than the value of individual elements that make up the asset value) is used to assess revaluation gains and impairment losses.

### Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. A proportion of receipts relating to housing disposals (75% relating to mortgages given by the council for dwellings) is payable to the government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are reflected in both the Capital Adjustment Account shown on the Balance Sheet and also in the Statement of Movement on the General Fund Balance.

### Depreciation

Depreciation is provided on all assets with a determinable finite life (except for non-depreciated land and non-operational investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. This approach complies with the SORP requirements.

Depreciation on all operational assets has been calculated on a straight line basis by taking the net asset value at 1<sup>st</sup> April 2009 divided by the future life expectancy.

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 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 their anticipated useful lives, generally 40 years.

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



## Statement of Accounting Policies (Continued)

### Grants and Contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Grants and Contributions Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

### 3. Intangible Assets

Intangible assets are defined in FRS10 – Goodwill and Intangible Assets – as being non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. For Sunderland City Council the only category of intangible assets are software licences. These assets are included at cost and are amortised to services over the life of the software licences purchased. These have been assessed as having a life of 10 years on average and are amortised to services based on their opening net book value.

### 4. Revenue Expenditure Funded from Capital under Statute

Revenue Expenditure Funded from Capital under Statute represents expenditure, which may properly be capitalised, but does not result in the creation of tangible assets to the Council. They include grants made to other bodies or individuals e.g. improvement grants and smoke control grants to householders. Expenditure and associated income is charged to service revenue accounts over a period of time appropriate to the benefit received, generally in the year in which the expenditure is incurred. Revenue Expenditure Funded from Capital under Statute is not revenue based and is reversed out in the appropriations section of the Statement of Movement in the General Fund Balance in accordance with accounting conventions. Revenue Expenditure Funded from Capital under Statute therefore has a neutral impact on the amounts required to be raised from local taxation.

### 5. Charges to Revenue for Fixed Assets

General Fund service revenue accounts, central support services and trading accounts are charged with a capital charge for all fixed assets used in the provision of the service.

- Depreciation attributable to the assets used by the relevant service.
- A credit to reflect government grants used in financing the asset, which is held in Government Grants Deferred Account, during the useful life of the asset, to match the depreciation of the asset to which it relates.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible assets attributable to the service.

In order to disclose the Authority's corporate net operating expenditure, revenue expenditure funded from capital under statute, grants and contributions deferred credits, impairment losses and amortisation charges need to be reversed out and replaced by the Minimum Revenue Provision (MRP) in the Statement of the Movement on the General Fund Balance. External interest payable is also shown in the Income and Expenditure Account.

The Council, on 4<sup>th</sup> March 2009, adopted a policy for calculating MRP whereby all borrowing as at 31<sup>st</sup> March 2008 and any new borrowing supported by the Government since that date is calculated by using regulation 28 of the Capital Financing regulations of the Local Government Act 2003 (this is 4% of the Council's opening credit ceiling balance) and any new unsupported borrowing taken out in since 1<sup>st</sup> April 2008 will be calculated based on the life of the asset the borrowing is used to enhance or create. In addition the Council makes voluntary MRP payments where appropriate to accelerate the payback period for any borrowing taken out in regard to invest to save schemes and where a full option appraisal process shows financing by borrowing offers better value for money to the council than leasing.

On 3<sup>rd</sup> March 2010 the Council revised its MRP policy to accommodate changes to the way in which PFI transactions are required to be reflected in the accounts for 2009/2010. The amended MRP statement is set out below:

- a) For all government supported borrowing the Council will adopt Option 1 as set out in the government's guidance which is a continuation of the basis upon which the Council currently calculates MRP.

## Statement of Accounting Policies (Continued)

- b) For all unsupported borrowing the Council will adopt Option 3 and make MRP repayments using the equal instalment method with the estimated useful life of an asset being assessed by the Executive Director of Commercial and Corporate Services in consultation with appropriate officers.
- c) For MRP payments in relation to finance leases and PFI contracts previously held off-balance sheet but now included on-balance sheet to comply with IFRS requirements, the amount of MRP to be made will be set to ensure that the finance charge and MRP for finance leases and on-balance sheet PFI schemes is equal to the rental or service charge payable in the income and expenditure account for the year, which writes down the balance sheet liability of those assets. The Council will therefore follow DCLG guidance which states:

'IFRS requires these changes to be accounted for retrospectively, with the result that an element of the rental or service charge payable in previous years (and previously charged to the revenue accounts) will be taken to the balance sheet to reduce the liability. On its own, this change in the accounting arrangements would result in a one-off increase to the capital financing requirement, and an equal increase in revenue account balances. This is not seen as a prudent course of action, and guidance aims to ensure that authorities are in the same position as if the change had not occurred. It does this by recommending the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year'.

Following the above DCLG guidance will ensure that, if the impending move to IFRS in local government has the effect of bringing more PFI schemes and leases on balance sheet, there will be no effect on the charge to the revenue account and no impact on council taxpayers arising from changes made to accounting standards that must be followed by the Council.

- d) The Council will make additional voluntary MRP payments to that indicated by the adoption of Option 3, with reference to the Council's existing framework as detailed in 6.6 above, in order to make an increased voluntary MRP where this is considered to be both prudent and affordable. This requirement may be relaxed by the Executive Director of Commercial and Corporate Services where appropriate, in particular for any unsupported borrowing taken out on behalf of trading services, which are subject to market pressures.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed separately as appropriations in the Statement of Movement on the General Fund Balance. Depreciation charges reflected in service costs therefore have a neutral impact on the amounts required to be raised from local taxation

### 6. Debtors and Creditors

Revenue transactions are recorded on a system of receipts and payments during the year.

The treatment of expenditure and income, which relates to periods which span the 31st March year, requires further explanation:

#### a) Periodical Payments Relating to Periods Not Ending on 31st March

In these cases the charges made in the financial year reflect a 12 monthly charge for the service provided e.g. four quarter's accounts are included for gas and electricity.

#### b) Debtors

The debtors in the balance sheet represent sums due to the Council which had not been paid by the year end and which are regarded as collectable.

#### c) Creditors

The Council uses a procurement module, within its Financial Management System, to account for the bulk of its creditors each year. This means that all orders for goods and services must be processed through the system with the effect that the system records and identifies all creditors as being both commitments (where the goods have been received by 31<sup>st</sup> March 2010 but not yet invoiced) and creditor payments (where the goods have been received and invoiced but not paid until the following financial year), automatically. This means that there is a significant reduction in the need for manual intervention. The method of accounting for creditors is an important aspect of the Statement of Accounts and the policy adopted by the Council complies fully with the SORP.

## Statement of Accounting Policies (Continued)

### 7. Stocks, Stores and Work in Progress

All work in progress, stocks and stores at the year-end are valued at cost price, with the exception of stores held by Building and Highways Maintenance Divisions within the Community and Cultural Services Directorate and salt stock, which are valued at latest price. All works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.

### 8. Cost of Support Services

Support Services costs are allocated to services. The Civic Centre and Area Offices costs are allocated on the basis of floor area occupied. Financial Resources, Personnel, Legal Services and Property Services operate Service Level Agreements for allocating the costs of services to their customers. All other central service departments allocate their costs based on either estimated time or actual time spent.

### 9. Provisions and Reserves

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. The provision is charged to the appropriate service revenue account in the year the Council becomes aware of the obligation, based upon the best estimate of the likely settlement amount. When payments are made these are charged directly to the provision set up in the Balance Sheet. Provisions, however, by their nature, are estimates and these are reviewed annually by the Council to ensure they are adequate to meet the anticipated liabilities. Any amount subsequently not required is credited back to the appropriate service revenue account.

The Notes on the provisions made by the Council are reflected in [Notes 38 and 39, Page 100 and 101](#). The provisions are based on the full known estimated costs and in the case of the level of the Insurance Provision as at 31<sup>st</sup> March 2010, this has been verified as appropriate by independent risk valuers.

A reserve is created by an appropriation "below the line" and features in the Statement of Movement on the General Fund Balance after the Surplus or Deficit of the Income and Expenditure Account has been calculated.

When expenditure is incurred for which the reserve was created, the expenditure is charged to the cost of service in the Income and Expenditure Account and the reserve is credited in appropriations in the statement of Movement in the General Fund Balance, ("below the line"), to finance the expenditure. Reserves include earmarked reserves set aside for specific policy purposes and balances, which represent resources, set aside for purposes such as general contingencies and cash flow management.

The Notes on the level of reserves held by the Council as at 31<sup>st</sup> March 2010 and their purpose are reflected in [Note 48, Pages 112 to 117](#).

### 10. Internal Interest

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

### 11. Delegated Budgets

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

### 12. Pension Costs

The pension costs that are charged to the Council's accounts can be divided into two types of pension arrangements, both of which have different accounting treatments and are set out below for information:

## Statement of Accounting Policies (Continued)

### a) Local Government Pension Scheme

All green book employees of the Council have the right to join the Local Government Pension Scheme (LGPS) which South Tyneside Council administers on behalf of all of the Tyne and Wear local authorities and other admitted bodies.

The scheme is classified as a Defined Benefit Scheme based on final pensionable pay and as such must comply with a new reporting standard called FRS17. This requires the Council to disclose certain information concerning assets, liabilities, income and expenditure related to the LGPS for its employees.

The liabilities of the pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 6.6% (based on the indicative rate of return on high quality corporate bonds).

The assets of the pension fund attributable to the council are included in the Balance Sheet, at their fair value:

- Quoted Securities – current bid price.
- Unquoted Securities – professional estimate.
- Unitised Securities – current bid price.
- Property – market value.

The change in the net pension's liability is required to be analysed into seven components, these include:

**Current Service Costs** – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.

**Past Service Costs** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

**Interest Costs** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.

**Expected Return on Assets** – the annual investment return on the fund assets attributable to the council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account.

**Gains / Losses on settlements and curtailments** – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Service in the Income and Expenditure Accounts as part of Non Distributed Costs.

**Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.

**Contributions paid to the pension fund** – cash paid as employers contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits to reflect the cash actually paid to the pension fund together with any amount payable to the fund but unpaid at the year end.

Further details can be found in [Notes 6b on Page 65 and 37a on Pages 96 to 99](#).

## Statement of Accounting Policies (Continued)

### b) Teachers Pension Scheme

The pension costs relating to Teachers are classified as a Defined Contribution Scheme which is an 'un-funded' scheme administered nationally by Capita Teachers Pensions (CTP) on behalf of the Department for Children, Schools and Families (DCSF). The CPT uses a notional fund as the basis for calculating the employers' contribution rate paid by each local education 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. This means in effect the scheme is not subject to the requirements of Financial Reporting Standard 17 (FRS17) and that the Council only accounts for actual pension costs made in the financial year in accordance with the prescribed rate notified by the CPT within its revenue accounts and no earmarked balances are required to be shown on the balance sheet. The cost of the Teachers Pension Scheme for 2009/2010 is shown in [Note 6a, Page 65](#) to Income and Expenditure section of the Notes to the Core Financial Statements. The Council, however, is also 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 in the pensions liability described in [Note 37b, Page 99](#) to the Balance Sheet section of the Notes to the Core Financial Statements in accordance with FRS17.

### c) Discretionary Benefits

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

## 13. Government Grants

Government grants are accrued and credited to income in the same period in which the related expenditure was charged. Where the precise amount is not known at the accounting date they are estimated and provided for in the accounts based on all known facts available. Where grants are received in advance they are treated as capital grants unapplied and capital grants received in advance and no account is made in the revenue account until the conditions of the grants have been satisfied.

General Government grants not aligned to any particular service are now included as a separate line on the Income and Expenditure Account. This includes Revenue Support Grant (RSG), any RSG Amending Reports, Local Authority Business Growth Incentive Grant, LPSA Reward Grant and Area Based Grant. National Non Domestic Rates Redistribution more commonly known as Business Rates is disclosed separately in the Income and Expenditure Account in accordance with the SORP requirements.

Grants relating to capital expenditure are treated in accordance with the SORP, where the grant is treated as a deferred credit, this is then written off to the Income and Expenditure Account over the useful life of the asset.

## 14. Area Based Grant

Area Based Grant (ABG) replaced Local Area Agreement Grant (LAA) from the financial year 2008/2009 and all ring fencing was removed. At the same time the Government transferred numerous specific grants into the new ABG to provide Local Authorities with more flexibility in the use of this funding and can spend the ABG however they see fit, in order to support the delivery of local, regional and national priorities in their areas including the achievement of LAA targets.

ABG is a general grant, which in line with the SORP is included in the Income & Expenditure Account within General Government Grants. An analysis of these grants is shown in [Note 13, Page 75](#) of the notes to the core financial statements.

## 15. External Interest

All interest payable on external borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

## 16. Redemption of Debt

The Council complies with the accounting requirements of the SORP and in accordance with the Local Government Act 2003 is required to set aside a Minimum Revenue Provision (MRP) for the repayment of debt. All amounts set aside for the repayment of external loans and to finance capital expenditure are disclosed separately in the Income and Expenditure Account below net operating expenditure.

## Statement of Accounting Policies (Continued)

For 2009/2010 the Minimum Revenue Provision (MRP) comprises a statutory element under regulation 28 of the Capital Financing Regulations of the Local Government Act 2003. Under this regulation, borrowing is increased by contributions the Council voluntarily makes to this provision. The Statement of Accounts for 2009/2010 has been prepared to fully comply with statutory and Prudential Code requirements which [Note 9](#) to the Core Financial Statements refers to on [Page 72](#). Reference should also be made to the changes in the MRP policy in respect of PFI schemes of the Council coming 'on Balance Sheet' set out on [page 30 and 31](#), which will impact the level of MRP reported in the accounts.

### 17. Accounting for Leases

Rental payments under operating leases are fully charged to service revenue accounts in the year that they are incurred based on a fixed amount rental basis. The Council currently has no finance leases. See [Note 22, Pages 87 and 88](#) to the Balance Sheet.

### 18. Related Companies and Group Accounts

The Council has financial relationships with a number of related companies, joint ventures and joint arrangements. Details of the Council's interest in these organisations and the nature of the relationships are disclosed in [Note 49, Pages 117 to 121](#) to the Balance Sheet.

There are a number of criteria by which the Council must determine whether the Council's interests in such companies, joint ventures and joint arrangements are significant enough to be included in the Council's accounts. After consideration of these criteria the Council has determined that the consolidation of all related companies would not have a material effect on the Council's financial position. Consequently, no group accounts have been prepared.

### 19. Other Investments

Investments in companies and in marketable securities are shown in the balance sheet at cost. Provision for losses in value is made where appropriate in accordance with the SORP. No such provisions have been considered necessary at this time.

### 20. Long Term Contracts – Private Finance Initiatives

PFI contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. The relevant note and information relating to the Council's two PFI schemes is detailed in [Note 11 on pages 73 to 74](#).

The revised accounting treatment of the councils PFI schemes has been amended to reflect the requirements of the SORP 2009 and the main component changes are set out below for information:

#### Recognising assets and liabilities

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

#### 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.

## Statement of Accounting Policies (Continued)

### 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.

### Capital financing requirement

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

## 21. Estimation

The accounts include two areas where estimation techniques have been used, these are:

### a) Pension Liabilities

Pensions Liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll forward method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Pension Fund liabilities have been assessed by Hewitt LLP, an independent firm of actuaries, who also estimate the Pension Fund position as at 31<sup>st</sup> March 2010 based on their last full valuation of the scheme carried out as at 31st March 2007 and also includes their assessment of future movements in the return on pension assets and future pension liabilities as at 31<sup>st</sup> March 2010. See Note 6c, Pages 65 to 67, and Notes 37a / 37b on Pages 96 and 99.

### b) Utility Costs

Utility costs contained within the Service Expenditure Analysis are calculated using estimation. The final period charge for the financial year is estimated based upon the previous year's consumption for the same period multiplied by the latest price information. An adjustment is made for any significant variances when the actual utility bills are received.

## 22. Landfill Allowances Trading Scheme (LATS)

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 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 - Note 32, Page 93 to 94.

## Statement of Accounting Policies (Continued)

### 23. Value Added Tax (VAT)

The Income and Expenditure Account excludes VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

### 24. Financial Instruments

With effect from 1 April 2007, local authorities were required to adopt FRS25, 26 and 29 and this represented a major change in the way they reported and accounted for financial instruments. These changes were reflected in the accounting policies and the accounts for 2007/2008 for the first time. The Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2009, issued by the Chartered Institute of Public Finance and Accountancy, continues to require these disclosures as they conform to International Accounting Standards.

Local authorities now account for financial instruments (all loan and investment transactions), soft loans (loans made to third parties below market value) and financial guarantees, in order to present a higher quality of information on financial instruments, in line with the private sector. In addition, in order to help identify, quantify and inform on the exposure to and the management of risk, new “fair value” disclosure requirements are also reported. This requirement was mainly due to the high profile failure of a number of financial institutions e.g. Barings, Enron, World Com which would have been exposed had these accounting standards been in place.

#### Amortised Cost

Most financial instruments (whether borrowing or investment) have been valued on an amortised cost basis using the Effective Interest Rate (EIR) method.

#### Fair Value

Financial instruments are also required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

#### Compliance

This authority continues to adopt the CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

### 25. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. All PWLB loans reflect fair value as calculated by reference to the 'premature repayment' set of rates in force as at 31<sup>st</sup> March 2010 and for all other market debt the rates were taken from the market on 31<sup>st</sup> March 2010 using bid prices where applicable, any discount rate used reflects the rates available for an instrument with the same terms as for a comparable lender. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the Effective Rate of Interest for the instrument. For most borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Financial Guarantees are initially recognised at fair value, which is the value of the guarantee multiplied by the likelihood of the guarantee being called.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase / settlement. However where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the Effective Interest Rate.

Where premia and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of that remaining on the loan against which the premium was payable or the discount was receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account



## Statement of Accounting Policies (Continued)

with the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

### 26. Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market;
- **Available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

#### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the amount of interest receivable for the year is credited to the Income and Expenditure Account.

#### Soft Loans

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the 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. This charge is then reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on Council Tax.

#### Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised costs of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

Changes in the fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the Income and Expenditure Account.

Any gains/losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses for the asset previously recognised in the STRGL.

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

#### Instruments entered into before 1<sup>st</sup> April 2006

The Council entered into a number of financial guarantee instruments that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that a Contingent Liability note has been included in [Note 50 pages 121 and 122](#) to the Balance Sheet.

## Statement of Accounting Policies (Continued)

### 27. Treasury Management

The Council continued to fully comply with CIPFA Code of Practice for Treasury Management in the Public Services which was issued on 20 November 2002. A major requirement of this Code related to the need to have in place a Treasury Management Policy Statement (TMPS), which is approved by full Council in March of each year.

During 2009, and in response to the demise of the Icelandic Banks and the banking crisis in 2008, CIPFA published a revised Treasury Management Code of Practice to further strengthen arrangements to be complied with by local authorities. The Council responded positively and proactively by the early adoption of the key recommendations of the new Code and has since fully embraced all of the additional requirements of the new Code.

Under the TMPS for 2009/2010 which the Council approved on the 4<sup>th</sup> March 2009, the policies and objectives of treasury management and this was further updated to reflect formal adoption of the revised Treasury Management Code of Practice on 3<sup>rd</sup> March 2010 (the words in the brackets show the minor changes to the original statement) and was as follows:

a) Treasury Management activities are defined as:

“The management of the authority’s (investments and) cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

b) The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of (its) treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

Further information relating to the Council’s Treasury management policy and strategy can be found on the Council’s website at: <http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=16395>

and information on the measures the Council adopted in 2009/2010 in advance of the Revised CIPFA Treasury Management Code of Practice in the Public Sector (2009) can be found on the Council’s website at: <http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=11934>

### 28. Events after the Balance Sheet Date

Where an event, after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date occurs, (an adjusting event), the amounts recognised in the Statement of Accounts have to be adjusted to take into account any new information about that adjusting event.

**Note 53 on pages 123 and 124** to the accounts includes details of such adjusting events that have occurred after the Balance Sheet date which need to be disclosed in accordance with the SORP but are not recognised in the Statement of Accounts as they are regarded as non-adjusting events.

### 29. Council Tax Accounting

The SORP 2009 made changes to way the Council must account for the Council Tax it collects and the income included in the Income and Expenditure Account is to be accrued for the whole 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 is to be accounted for in the Collection Fund Adjustment Account which will be included as a reconciling item in the Statement of Movement on the General Fund Balance.

Council Tax income is essentially viewed as an agency arrangement, whereby the cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and its major preceptors (Police and Fire and Rescue Authority’s). There is, therefore, a debtor / creditor position between the billing authority and

## Statement of Accounting Policies (Continued)

each major preceptor that needs to be recognised in the accounts, as the net cash paid to each major preceptor in the year will not be equal to its share of the total 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 shall recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall 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 shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year and the major preceptor shall 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 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.

Any residual community charge income 'adjustments' (losses or gains) are also required to be included in the Collection Fund. Such adjustments, which will now often be nil or negligible, are borne wholly by the billing authority and are excluded from the Collection Fund surplus or deficit in calculating the amount that is shared between the billing authority and major preceptors. The community charge adjustment for the year shall be taken to the Income and Expenditure Account; and the difference between this and the amount required by regulation to be taken to the General Fund (i.e. the previous year's community charge adjustment) shall be taken to the Collection Fund Adjustment Account.

The Council fully complies with the above requirements.

### 30. National Non Domestic Rates (NNDR) Accounting

The SORP 2009 made changes to way the Council must account for NNDR income its collects on the basis that billing authorities collect NNDR under what is in effect an agency arrangement with the Government. The SORP specifies that:

NNDR income is not the income of the billing authority and should not be included in its Income and Expenditure Account as was the case previously. The cost of collection allowance received by billing authorities is the billing authority's income and is to be included in the Income and Expenditure Account.

NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are however regarded as assets and liabilities of the billing authority and as such are no longer to be recognised in the billing authority's Balance Sheet.

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 must 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 must now be included in the Balance Sheet as a debtor.

Cash collected from NNDR taxpayers by a billing authority is collected on behalf of the Government and is therefore not a revenue activity of the billing authority and should 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 explained above. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and will 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 is to be included in management of liquid resources as a net increase / decrease in other liquid resources.

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 is income to the billing authority.

The Council fully complies with the above requirements.

# Annual Governance Statement

## SCOPE OF RESPONSIBILITY

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. A copy of the Code is on the Council's website at <http://www.sunderland.gov.uk/CHttpHandler.ashx?id=2504&p=0> or can be obtained from the Executive Director of Commercial and Corporate Services or the Head of Law and Governance.

This Statement explains how the Council has complied with the SOLACE/CIPFA Framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2010 and up to the date of approval of the Annual Report and Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

**There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:**

The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

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

Delivery of the Vision is underpinned by the following Strategic Priorities:

- Prosperous City;
- Healthy City;
- Safe City;
- Learning City;
- Attractive and Inclusive City

Underpinning the Sunderland Strategy is a comprehensive needs analysis, Sunderland Strategy Delivery Plans, including the Local Area Agreement and a set of Local Area Plans. The Delivery Plans which have life-spans of three years, identify the short term detailed and focused targets which will help to achieve the longer term key objectives set out in the Sunderland Strategy.

## Annual Governance Statement (Continued)

The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios, including the estimated Revenue Budgets for the financial year and the Capital Programme for 2009/10 to 2012/13. The CIP gives a broad overview of what the Council is doing in respect of its Corporate Improvement Priorities, what actions it intends to take over the next three years.

To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:

- CIO1 Customer focused services
- CIO2 One Council
- CIO3 Efficient and effective council
- CIO4 Improving partnership working

The Strategic Priorities set out in the Sunderland Strategy and CIOs have been combined to create the council's Corporate Improvement Priorities, to provide an increased focus on improvement activity and to reflect the fact that internal and external improvement activities are inter-related with each resulting from, contributing to and dependant upon the other.

Communication of objectives to staff and stakeholders takes place through the following means:

- Wide distribution of the Corporate Improvement Plan, including on the Council's website and intranet;
- Through the Council's corporate Investors in People (IIP) processes;
- Sunrise magazine, issued to all residents.

### **Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:**

Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.

There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

### **Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:**

There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.

There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Scrutiny Committees.

Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

### **The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:**

A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.

A system of scrutiny is in place which allows Scrutiny Committees to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;

## Annual Governance Statement (Continued)

- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- Directorates have established delegation schemes, although these may require updating in some areas to reflect recent organisational changes.

**Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:**

The following are in place:

- Members' Codes of Conduct;
- Employees' Code of Conduct;
- Protocol on Member/Employee Relations;
- Protocol for Members in Relation to Development Control Matters;
- Whistleblowing Policy;
- Protocol for the use of Civic Cars;
- Protocol for Members in Relation to Licensing Matters;
- Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
- Guidance for Members in Relation to the Use of Council ICT Facilities;
- Protocol for Use of Member Website;
- Data Protection: Guidance for Councillors;
- Remote Intranet/Internet Access for Members;
- Protocol in Relation to Members' Dealings with the Council;
- Registers of Interests, Gifts and Hospitality.

**Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:**

The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision making, and is responsible for the proper administration of the Council's financial affairs.

The Head of Law and Governance is the Council's Monitoring Officer who has maintained an up to date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.

The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.

Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Codes of Conduct;
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Procurement Codes of Practice;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

There are robust and well embedded risk management processes in place, including;

- Member Risk Champion;

## Annual Governance Statement (Continued)

- Risk Management Policy and Strategy Statement;
- Nominated Head of Service lead for Risk Management;
- Corporate Risk Profile;
- Corporate and Directorate Risk Management Staff and Groups;
- Risk Profiles for major projects and significant partnerships;
- Risk Management Training Programme;
- Establishment and operation of a risk management fund;
- Nominated Directorate risk management champions;
- Risk Management Advisors for each Directorate.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- Business Continuity Plans are in place, which are subject to ongoing review and development. The arrangements in place in relation to ICT disaster recovery were satisfactory overall with further enhancement required in relation to some key applications and action is being taken to address this.
- There are clearly defined capital expenditure guidelines in place.
- Appropriate project management disciplines are utilised.
- The Council participates in the National Fraud Initiative.
- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.
- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

### **The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).**

The Executive Director of Commercial and Corporate Services fulfils this role through the following:

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

The person specification for the post of Executive Director of Commercial and Corporate Services requires that the post holder be professionally qualified and suitably experienced.

### **The core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities, are undertaken by members.**

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

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

## Annual Governance Statement (Continued)

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

### **Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:**

The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards.

### **Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:**

The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.

The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.

Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

### **Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:**

The Council has a Members Training and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of training and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Council strategic objectives. In addition Members have access to a Personal Development Plan, which sets out the skills, knowledge, expertise and competence required to carry out the role as an Elected Member and confirms their personal responsibility for continuous professional development.



## Annual Governance Statement (Continued)

The Elected Member Training and Development Strategy aims to:

- provide a comprehensive Member Development programme;
- ensure that all newly Elected Members are properly inducted into the Council;
- encourage all Members to undertake a personal development plan to identify their individual needs and learning styles;
- ensure that all emerging needs for both individuals and across the board are identified and addressed;
- ensure that resources available for Member Development are effectively used.

A programme is in place in order to support Councillors in fulfilling their community leadership role.

The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

**Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**

The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

The strategy is complemented by the Hard to Reach Framework which outlines the council's approach to consulting with minority and vulnerable sectors of society.

**Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:**

The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

A Register of Partnerships is maintained. Significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.

An annual report of those partnerships classified as significant is presented to Cabinet.

### REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Councillors and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

The role of the Council:

- Councillors have participated in the annual review of the Council's Corporate Governance arrangements;
- The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

The role of the executive:

- The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

## Annual Governance Statement (Continued)

The role of the Audit and Governance Committee:

- The findings of the Annual Governance Review have been reported to Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

There is a system of scrutiny which allows Review Committees to:

- review decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented.

The role of the Council's Standards Committee includes the following:

- promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
- monitoring the operation of the Members' Code of Conduct;
- monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
- considering reports and complaints relating to the conduct of Members of the Council;
- supporting the Monitoring Officer in his role.

The Executive Director of Commercial and Corporate Services has directed, co-ordinated and overseen the review.

All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based audit work and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

The Organisational Assessment of the **latest Comprehensive** Area Assessment states that:

- Overall, Sunderland City Council performs well.
- The Council's **2008/2009** use of resources **was** good and scored 3 out of 4 overall.
- The Council manages its finances well, particularly financial planning and there have been no significant overspends in recent years. The Council has appropriate levels of balances and reserves.
- Governance of the business is good.
- Risk Management is excellent and has been used to especially good effect on the Building Schools for the Future project and in preparing the medium term financial plan.
- Despite strong leadership and a number of ongoing projects, there is still a need to ensure the careful use of natural resources is fully included in all of the Council's activities and plans.
- The Council manages performance well, scoring 3 out of 4.
- The Council with partners have developed a clear long term vision for Sunderland in the year 2025. This is based on a good understanding of needs and priorities of residents. The Council's Corporate Improvement Plan reflects the Sunderland Partnership's priorities for the City, set out in the Sunderland Strategy, and the Council has also identified four corporate improvement objectives to ensure a greater focus on efficiency and effectiveness.

Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

## Annual Governance Statement (Continued)

Cabinet and the Audit and Governance Committee have advised us that the review of the effectiveness of the governance framework concluded that the Council continues to have robust and effective governance and control arrangements in place. An improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

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

Paul Watson  
Leader of the Council

Dave Smith  
Chief Executive

Malcolm Page  
Executive Director of Commercial and  
Corporate Services

Dated 11<sup>th</sup> February 2011



## 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>	(11,176,168)	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>	53,517	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>	(5,844,379)	(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>	2,740,769	(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>	(25,390,215)	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	Gross Income	Net	2008/2009
	Expenditure		Expenditure	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 Executive Director of Commercial and Corporate Services, 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>	(188)

## 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>			<b>(74,301,448)</b>		<b>(24,818,312)</b>



## 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 Executive Director of Commercial and Corporate Services 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 Executive Director of Commercial and Corporate Services. 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
		<b>45,657,950</b>		<b>40,658,138</b>
<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)
		<b>40,953,770</b>		<b>35,144,725</b>

### 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>	<b>(84,021,920)</b>

## 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>	139,092,938
<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>	139,092,938

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	<b>252,812,369</b>	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

\* Guarantee 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 Executive Director of Commercial and Corporate Services 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	<b>8,915,621</b>	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	<b>11,543,088</b>	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	<b>4,489,385</b>	4,576,836	Usable capital receipts set aside to fund future capital projects previously approved.
Children's Social Care Capital Reserves	<b>195,150</b>	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	<b>123,396</b>	123,065	Established with contributions from ship owners in 1987/1988 towards the replacement of the pilot cutter vessels.
Highways Maintenance Service Pressures Reserve	<b>120,000</b>	185,000	This reserve has been established to meet future Highways maintenance service pressures in 2009/2010.
Civil Parking Enforcement Reserve	<b>100,653</b>	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	<b>416,032</b>	416,032	The reserve was set up to fund the one off transitional costs associated with the Adult Services Modernisation Programme.
Residential Homes Reserve	<b>182,350</b>	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	<b>800,000</b>	800,000	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care.
Inward Investment Reserve	<b>1,626</b>	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	<b>1,104,241</b>	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	<b>766,502</b>	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 Executive Director of Commercial and Corporate Services, 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 (2008/2009 £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>(1,975,368)</b>	(56,370,602)
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>	10,590,326	8,622,948
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 2009/2010 £	Restated Movement 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	<b>43,785.07</b>	43,816.67
B	<b>11,095.10</b>	11,139.31
C	<b>12,441.86</b>	12,318.17
D	<b>7,317.66</b>	7,283.61
E	<b>3,223.22</b>	3,268.73
F	<b>1,307.26</b>	1,298.77
G	<b>893.03</b>	886.90
H	<b>25.48</b>	23.52
	<b>80,088.68</b>	80,035.68

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	<b>81,286,065</b>	79,642,683
Council Tax Benefits	<b>26,187,513</b>	24,012,624
<b>Total</b>	<b>107,473,578</b>	103,655,307

## 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 48.1pence 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.



# Glossary of Terms

## **Accrual**

A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

## **Accounting Policies**

Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

## **Acquired Operation**

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

## **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

## **Agency Services**

Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

## **Assets**

Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

## **Audit Commission**

Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

## **Balance Sheet**

A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

## **Balances**

The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

## **BVACOP**

The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
- b) Facilitate accurate comparison between both services and authorities.
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
- d) Represent best practice.

## Glossary of Terms (Continued)

### **Capital Charge**

The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

### **Capital Expenditure**

Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

### **Capital Financing Charges**

The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

### **Capital Financing Requirement**

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

### **Capital Grants**

Grants received towards capital expenditure on a particular service or project.

### **Capital Receipts**

Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

### **Class of Fixed Assets**

The classes of fixed assets required to be included in the accounting statements are:

#### Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

#### Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

### **Collection Fund**

The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

### **Community Assets**

These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

### **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## Glossary of Terms (Continued)

### **Constructive Obligation**

An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### **Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

### **Contingent Liability**

A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

### **Contingencies**

Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

### **Corporate and Democratic Core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **Council Tax**

The form of local taxation operated from April 1993, based on properties.

### **Credit Approvals**

The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

**Basic Credit Approvals** - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

**Supplementary Credit Approvals** - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

### **Creditors**

Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

### **Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

### **Curtailment**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

## Glossary of Terms (Continued)

### ***Debt Outstanding***

Amounts borrowed to finance capital expenditure that are still to be repaid.

### ***Debtors***

Sums of money due to the City Council but not received at the date of the balance sheet.

### ***Defined Benefit Scheme***

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### ***Defined Contribution Scheme***

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### ***Depreciation***

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

### ***Direct Service Organisation (DSO)***

The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

### ***Discontinued Operations***

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

### ***Discretionary Benefits***

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

### ***Emoluments***

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.



## Glossary of Terms (Continued)

### ***Estimation Techniques***

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

### ***Exceptional Items***

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### ***Expected Rate of Return on Pension Assets***

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### ***Expenditure***

Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

### ***Extraordinary Items***

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

### ***Fair Value***

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

### ***Fees and Charges***

Income arising from the provision of services, e.g. for the use of recreation facilities.

### ***Formula Spending Shares (FSS's)***

This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

### ***FRS 1 – Cash Flow Statements***

Requires the Authority to prepare a cash flow statement in a manner prescribed by the FRS. Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

### ***FRS 3 – Reporting Financial Performance***

The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

## Glossary of Terms (Continued)

### ***FRS 4 – Capital Instruments***

This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the Council's sources of finance and associated costs, commitments and potential commitments.

### ***FRS 8 – Related Party Disclosures***

FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transaction with them.

### ***FRS 11 – Impairment of Fixed Assets***

FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

### ***FRS 12 - Provisions, Contingent Liabilities and Contingent Assets***

The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the notes to the accounts.

### ***FRS 15 – Tangible Fixed Assets***

This standard sets out the principles of accounting for tangible fixed assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

### ***FRS 17 – Retirement Benefits***

FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs. For 2004/2005 the Consolidated Revenue Account shows the effects of over/under funding of pension liabilities within the net cost of services.

### ***FRS 18 – Accounting Policies***

This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

### ***General Fund***

This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

### ***Going Concern***

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### ***Government Grants***

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

### ***IFRIC – International Financial Reporting Interpretations Committee***

### ***Impairment***

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

## Glossary of Terms (Continued)

### ***Income***

Amounts due to the City Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the City Council).

### ***Infrastructure Assets***

These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.

Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

### ***Intangible Fixed Assets***

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

### ***Interest Cost (Pension)***

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

### ***Investments (Pension Fund)***

The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

### ***Investment Properties***

Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

### ***Investments (Non-Pensions Fund)***

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

### ***Large Scale Voluntary Transfer (LSVT)***

The voluntary transfer of public sector housing tenancies to other bodies, usually to a Registered Social Landlord, which may be a Housing Company or Housing Association.

### ***Leasing***

The method of financing the provision of various capital assets to discharge the City Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

***Operating Leases*** - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

***Finance Leases*** - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## Glossary of Terms (Continued)

### ***Lender Option Borrower Option Loans (LOBO)***

Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

### ***Liabilities***

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

### ***Liquid Resources***

Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

### ***Loans Outstanding***

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

### ***London Inter Bank Bid Rate (LIBID)***

The rates of interest being bid on the London Money Market for various time periods.

### ***Long Term Contracts***

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

### ***Minimum Revenue Provision***

Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

### ***National Non-Domestic Rate (NDR)***

With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

### ***Net Book Value***

The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

### ***Net Current Replacement Cost***

The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### ***Net Debt***

The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

### ***Net Realisable Value***

The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

## Glossary of Terms (Continued)

### ***Non-Operational Assets***

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### ***Operational Assets***

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### ***Past Service Costs***

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### ***Post Balance Sheet Events***

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### ***Precept***

The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear District Councils on their behalf.

### ***Prior Year Adjustments***

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### ***Projected Unit Method***

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowings where appropriate for future increases and;
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

### ***Provisions***

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

### ***Private Finance Initiatives (PFI)***

PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

### ***Prudence***

The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

## Glossary of Terms (Continued)

### ***Prudential Framework***

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

### ***Public Works Loan Board (PWLB)***

A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

### ***Rate of Return on Capital***

The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

### ***Related Parties***

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

## Glossary of Terms (Continued)

### **Related Party Transaction**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The Materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

### **Renewals Accounting**

Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

### **Research and Development**

Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

### **Reserves**

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

### **Residual Value**

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Revenue Balances**

These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

### **Revenue Contributions**

The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

### **Revenue Expenditure**

Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

## Glossary of Terms (Continued)

### **Revenue Expenditure Funded by Capital under Statute**

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. *Revenue Expenditure Funded by Capital under Statute* is charged to revenue in the year in which the expenditure is incurred.

### **Revenue Support Grant (RSG)**

A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

### **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Settlement**

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### **Specific Grants**

Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

### **Statements of Recommended Practice (SORPs)**

Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

### **Statements of Standard Accounting Practice (SSAPs)**

Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

### **Stocks**

Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

### **Supported Capital Expenditure**

Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

### **Total Cost**

The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.



## Glossary of Terms (Continued)

### ***Trust Funds***

Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

### ***Unapportionable Central Overheads***

These are overheads for which no user benefits and should not be apportioned to services.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

### ***Useful Life***

The period over which the authority will derive benefits from the use of a fixed asset.

### ***Vested Rights***

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

