



Statement of Accounts

2008/2009

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Cabinet 2008/2009

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's Services
E. Timmins	Adults Services
J. Blackburn	Planning and Transportation
H. Trueman	Housing and Public Health
Ms K. Rolph	Neighbourhood and Street Services
B. Charlton	Regeneration and Community Cohesion
M. Speding	Culture and Leisure

On 13th May 2009 the Cabinet was restructured as part of a wider corporate restructure aimed at improving the quality of services delivered by the Council. The Cabinet Structure from 13th May 2009 is set out overleaf:

Cabinet from 13th May 2009

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	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 2008/2009 in June 2009. 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 2009/2010.

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 such areas as 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, a Statement Reporting Reviews on Internal Control and Internal Financial Control has been included, which replaces the Annual Governance Statement. This Statement confirms that there are sound systems in place. We will 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

Keith Beardmore
Director of Financial Resources

Dated: 29th September 2009

Certification of the Statement of Accounts

As Chairman of the Audit and Governance Committee held on 29th September 2009, I hereby acknowledge receipt of the audited Statement of Accounts for 2008/2009 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 29th September 2009 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: 29th September 2009

Foreword by the Director of Financial Resources

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2008/2009. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2008'. 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.

Certain financial statements are required to be prepared under the Code of Practice 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. Statement Reporting Reviews on Internal Control and Internal Financial Control

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.

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.

Foreword by the Director of Financial Resources (Continued)

The Secretary of State can however, 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 26th 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 2008/2009 to be met from Government Grants and local taxpayers was approved at £243.153m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts and including both the Police and Fire and Rescue Authority precepts, was set at £1,288.75 for 2008/2009. This represented a Council Tax increase of 3.39% over the 2007/2008 Band D Council Tax of £1,246.52. The Council again set the lowest Council Tax level in the whole of the North East region for 2008/2009 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 key 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 2008/2009 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 shows the original budget and the revised budget positions for 2008/2009 as compared to the actual position for 2007/2008.

Foreword by the Director of Financial Resources (Continued)

	2008/2009 Original Estimate £'000	2008/2009 Revised Estimate £'000	2008/2009 Actual £'000	2007/2008 Actual £'000
Expenditure on Services	224,189	213,672	233,522	200,696
Levies and Precepts	18,173	18,173	18,160	17,682
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(513)	(54)
Transfers to / (from) Capital Reserves	0	0	12,954	15,864
Transfers to / (from) Revenue Reserves:				
Landfill Allowance Trading Scheme Reserve	0	0	(228)	(350)
Standards Fund Reserve	0	0	0	(5,704)
PFI Smoothing Reserve	0	0	60	1,053
Pension Reserve	4,840	11,820	350	(8,100)
Insurance Reserve	0	0	(1,065)	350
Inward Investment Reserve	0	0	(197)	(199)
School Meals Consortium Reserve	0	0	(81)	(58)
Service Pressures and Priorities Reserve	0	0	(1,110)	(975)
Repairs and Renewals Reserve	0	0	136	1,288
Economic Development Reserve	0	0	(225)	1,225
Waste Disposal Reserve	0	0	85	345
Energy Costs Reserve	0	0	(1,000)	1,000
Port Reserve	0	0	88	380
Connexions Related Reserve	0	0	220	897
Commutated Sums Reserve	0	0	176	1,898
School Community Reserve	0	0	(357)	2,323
Amenity Areas Reserve	0	0	0	764
Play Areas Reserve	0	0	(326)	1,703
All Other revenue Reserves	0	0	9,182	1,410
Other - Exceptional Items				
Provision (net) for Equal Pay Future payments	0	0	0	(305)
Provision for Insurances	0	0	(568)	(1,285)
Total Net Expenditure	247,202	243,665	269,263	231,848
Financed by:				
Revenue Support Grant and General Grants	18,507	18,507	44,162	20,610
National Non Domestic rates	132,945	132,945	132,945	120,983
Council Tax Collection Fund Receipts	91,201	91,201	91,201	87,789
Council Tax Surplus	500	500	500	500
Total Net Budget Requirement	243,153	243,153	268,808	229,882
Addition / (Use):				
General Reserve (See Note 1)	(4,049)	(512)	(455)	(3,396)
Schools LMS Reserve (See Note 2)	0	0	170	1,429
General Fund Balance brought forward:				
General Reserve	12,008	12,008	12,008	15,404
School LMS Reserve	5,601	5,601	5,601	4,172
General Fund Balance carried forward:				
General Reserve	7,959	11,496	11,553	12,008
School LMS Reserve	5,601	5,601	5,771	5,601

Foreword by the Director of Financial Resources (Continued)

Note 1– General Reserve

The above table shows a decrease in the general reserve balance of £0.455 million. This differs to the forecast at the revised estimate stage by £0.057 million 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:

- £1.764 million transfer to balances from the Council's Insurance Provisions and Reserves following the annual actuarial review;
- £1.493 million debt charge savings primarily as a result of re-profiling capital expenditure and debt restructuring in light of falling interest rates;
- £1.793 million working neighbourhoods funding earmarked at the time of the revised estimate to support mainstream economic development services;
- £1.450 million in respect of a review of existing specific reserves and the likely need to call on those reserves in the future;
- £0.306 million in respect of unutilised contingencies after approved earmarking of unutilised contingencies where expenditure will, or is very likely, to be incurred in 2009/2010 and other underspendings on non- delegated budgets.

and the following use of balances;

- approved earmarking of balances of £1.749 million to assist in addressing the economic downturn, enable investment in the Councils Improvement Agenda and to meet the Council funding requirements associated with special programmes;
- approved transfer to the Strategic Investment Reserve of £3.000 million to provide for capital programme pressures, and potential equal pay / single status issues;
- approved transfer of the Strategic Investment Plan of £2.000 million to assist in funding capital investment needs associated with the waste disposal strategic solution.

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 2008/2009 amounted to a net return to balances of £0.170m (£1.429m net return to balances in 2007/2008), 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 2009 increased to £5.771m compared to £5.601m as at 31st March 2008. Further details are set out in [Note 48 on Page 90](#).

Capital Expenditure and Income

Capital Expenditure for the year totalled £123.531m, this is made up of Council expenditure of £102.193m and capital expenditure of £21.338m 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 2008/2009 was £101.879m whilst expenditure on intangible assets was £0.314m. The remainder of £21.338m represents grants, advances to other organisation for capital purposes, de-minimis expenditure transferred to revenue and expenditure on property not owned by the Authority. Supported Capital Expenditure Revenue, SCE(R), enabled the Council to borrow £8.807m to finance capital expenditure, the balance being financed by Unsupported Borrowing of £0.913m, Capital Receipts of £8.020m, Government Grants of £88.814m, Other Grants and Contributions of £4.683m, Revenue Contributions of £4.190m and Use of Reserves of £8.104m. A summary of the Council's capital expenditure and income is shown in [Note 24 on Pages 67 to 72](#) to the Balance Sheet.

Foreword by the Director of Financial Resources (Continued)

Euro

The adaptation of operational and information systems to accommodate the Euro is likely to become a priority for local authorities at some stage in the future. The Council continues to assess the euro's impact on its business affairs. The Council's Financial Management System is euro compliant.

Comprehensive Performance Assessment (CPA)

The result of the Council's Comprehensive Performance Assessment (CPA) 2008, was released in March 2009 and it is pleasing to report that, for the seventh year in succession, the Council scored '4' (the highest score possible) and is one of only 13 Councils to achieve the top rating since the CPA was first introduced.

This is an outstanding achievement for the Council as the requirements of the CPA process continue to be progressively more demanding each year. The Council has also set an action plan to make further improvements to the services it provides.

The Council also scored the top score of '4 out of 4' in its Use of Resources Assessment, which only the top 10% of Councils across the whole country managed to achieve. This also demonstrates that the Council's finances are considered to be well managed by external independent assessors.

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 21st century standards.

Government approval to the Council's proposals for a 'Sunderland Model' to establish three academies in Wave 1 was received on 6th 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; and,
- An ICT managed service contract which will provide services to the above six schools/academies, plus Sandhill View and Oxclose schools. Oxclose school benefited from a 'Quick Win' project under the BSF programme which involved a £11m refurbishment that was completed in May 2007.

Balfour Beatty Construction Limited (BBCL) was selected as the preferred bidder for the design and build project. Contracts were signed with BBCL on 13th March 2008 for the provision of Academy 360, Castle View Enterprise Academy and Washington School.

Contracts were signed for Red House Academy on 18th April 2008 and for the two major refurbishments at Biddick and St Robert of Newminster schools, these contracts were signed on 15th August 2008 and 20th February 2009 respectively. The three new academies and Washington School are due to open in September 2009. Biddick School is due for completion in March 2010 whilst St Robert's of Newminster School will be complete for the Autumn 2010 term.

Research Machines Limited (RM) was selected as the preferred bidder for the ICT Managed Service project. Contracts were signed on 13th March 2008. Full service operation will be implemented from the opening dates of the new schools/academies. Interim services will be provided in the build up to full service commencement.

Foreword by the Director of Financial Resources (Continued)

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 8th 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 8th April 2009. The submission will consist of 2 follow on projects to complete the programme for the secondary school estate. If the submission is successful the Council will be invited to an assessment panel in June 2009, and if deemed to be 'ready' a Remit Meeting will follow in October 2009, which will mark formal entry into the programme.

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.

The Council continues to comply fully with this Standard and the Accounting Policy on [Pages 26 and 27](#) 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 44](#)), as assessed by the Actuary, as at 31st March 2009, 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. The date of the next actuarial review is 31st March 2010.

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 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.

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 embraced and responded very positively to the requirements presented through the government's national efficiency review (Gershon Review) for the period of the Comprehensive Spending Review 2004. The cumulative achievement to the end of 2007/2008 was £33.195m, (13.2%), which compared very favourably to the Department for Communities and Local Government (DCLG) cumulative target of £18.856m or 7.5%. Of this amount £22.637m relates to cumulative ongoing cashable efficiency savings (9.0%).

Foreword by the Director of Financial Resources (Continued)

The Comprehensive Spending Review 2007 (CSR07) set a national efficiency target for local government of £4.9 billion by the end of 2010/2011 equating to 3% cash releasing savings per annum.

In order to ensure a successful response to the efficiency requirements of the CSR07, the Council's Cabinet agreed the Efficiency Strategy 2008/2009 to 2010/2011 in July 2008. This set out the strategy by which the Council aims to achieve cash releasing efficiencies of £8.9 million and non-cash releasing efficiencies of £1.8m in each year covered by the Comprehensive Spending Review (CSR) 2007 (i.e. 2008/2009 to 2010/2011). The in year targets for 2008/2009 have been achieved.

In March 2009 the government announced as part of their 2009 Budget the expectation that Local Authorities will deliver increased efficiency gains in 2010/2011 as part of their contribution to the increased efficiency target for the public sector as a whole. In light of the Government's new efficiency requirements and in order to fully reflect and take into account the Council's Improvement Agenda, the approach to efficiency is currently being reviewed.

The Council's Improvement Agenda

The Council has developed a range of Improvement programmes and projects that are aimed at delivering improved services whilst generating efficiencies. These include:

- **The Business Improvement Programme** includes projects intended to improve resolution of customer queries at the first point of contact, and generate efficiency savings through re-engineering of services and as a result reducing transaction costs. The projects include development of the Customer Service Network, which saw the opening of three new facilities in 2008/2009, meaning there are now 10 Customer Service Centres and 1 mobile unit operational across the city. These new facilities bring together Customer Service Centres with health, wellness and Children's services into one location to give a joined up service that will best fit local need.
- **The Corporate Efficiency Projects Programme** including procurement, Voice Over Internet Protocol (VOIP), transport, e-commerce and energy management.
- **Investment in ICT** to reduce costs and improve service e.g. Services Management System and new procurement software and processes.

The Council's Improvement Agenda is being further developed to ensure that a whole organisation approach is taken to deliver efficient and effective customer focussed services.

Changes to the Statement of Recommended Practice (SORP) 2008

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2008 (SORP) introduced some changes to the Statement of Accounts for 2008/2009. The substantive changes are set out below for information, with most changes affecting the Council's Statement of Accounts for 2008/2009.

- Financial Reporting Standard 17 (FRS17) has been amended to align its disclosure requirements more closely with the requirements of International Accounting Standard 19 (IAS19) Employee Benefits. There are significant changes to the disclosure requirements as well as a change to the basis on which the value of quoted securities are measured, these changes are fully reflected in the Statement of Accounts for both 2007/2008 and 2008/2009.
- From 1st April 2008 Area Based Grant (ABG) replaced Local Area Agreement (LAA) Grant. Whereas LAA Grant was restricted to support the achievement of LAA targets, ABG is a non-ring-fenced general grant provided by the Government which allows Council's full control over how this funding is used. Details of general grants, which Council's can determine how to spend, are now to be included as an additional note to the core financial statements.
- The Cash Flow Statement can now be constructed using the indirect method whereby the net revenue cash flow from operating activities for the financial year is derived by means of a reconciliation from the surplus / deficit on the Income and Expenditure Account for the year. Previously the direct method was used where major gross cash receipts and payments are disclosed in total to calculate the net revenue cash flow from operating activities for the financial year.

Foreword by the Director of Financial Resources (Continued)

- The Annual Governance Statement has been changed and renamed as the “Statement Reporting Reviews on Internal Control and Internal Financial Controls”. This brings the statement in line with the CIPFA framework issued in 2007, “Delivering Good Governance in Local Government: Framework”.
- The Application of Accounting Standards has been updated for changes in Accounting Standards, Financial Reporting Standards (FRS's) and Urgent Issue Task Force (UITF) Abstracts.

The Statement of Accounts (Subject to Audit) for 2008/2009 complies with the Statement of Recommended Practice 2008 except where departures from the SORP are noted, including reasons for departure.

Major Acquisitions, Capital Works and Disposals during 2008/2009

The Council has not made any major acquisitions of either land or property during 2008/2009.

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 2008/2009, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

Scheme / Project	Expenditure during 2008/2009 £'000	Total Currently Estimated Gross Cost £'000	Completed / In Progress as at 31 March 2009
Southwick Primary School	5,469	7,413	Completed
Hetton Lyons Primary School	2,774	5,563	Completed
Washington BSF	14,731	19,101	In Progress
Castle View Academy BSF	12,420	16,021	In Progress
Pennywell Academy 360 BSF	17,734	23,072	In Progress
Hylton Red House BSF	9,134	12,426	In Progress
Biddick School BSF	5,039	15,863	In Progress
Area Swimming Pools at Hetton and Silksworth	3,718	10,500	In Progress

There was one major asset disposal (over £500,000) made during the year, in relation to land at Houghton Sports Complex for £0.600m.

Tangible Fixed Asset Impairments

In recognition of the economic downturn and in particular the dramatic fall in the property market, the Council's entire land and buildings portfolio has been re-assessed by the valuer for impairment. The total value of impairment as a result of the economic conditions prevalent at 31 March 2009 is £150.729m, representing a 13% reduction in the total land and buildings portfolio value.

Due to the volatility of the property market, this is an exercise that will be undertaken annually until more stable conditions prevail.

Economic downturn

Over the last year the economic crisis has presented a unique set of circumstances to which the Council has had to respond. Throughout 2008/2009, in planning for the short and medium term, consideration has been given to the need to ensure that services directed at, and needed to address the impact of the economic downturn, have the necessary resources to proactively tackle the emerging issues. This has included the need to take into account the impact on the council's domestic financial position. Issues which have needed to be considered include:

- The volatility of financial markets which have had a major impact on the return on council deposits, which impacts on the level of income available to support the Council's Revenue Budget

Foreword by the Director of Financial Resources (Continued)

- The impact of the economic downturn on the Council's ability to generate capital receipts from the sale of surplus assets as demand for development sites has reduced significantly. The reduced capacity to generate capital receipts has a direct impact on the resources available for the Council's capital programme.
- 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 2008/2009 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 agreed by full council each year and this Policy for 2008/2009 is now included in detail within the Accounting policies, on [Page 32](#).

The economic downturn and unprecedented global crisis has meant great uncertainty within the financial markets over the past year and this uncertainty is continuing into 2009/2010. The Council has had to navigate these very difficult times by carefully managing the council cash resources and I am pleased to report that the Council was not affected by the Icelandic Banks collapse in October 2008 and has, and 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 reduce the risks that inevitably exist in this complex area.

In January 2009, £30.0m of loans from the Public Works Loan Board (PWLb) with an average rate of 4.2% interest were prematurely repaid. This action was considered appropriate for the following reasons. Firstly, PWLB interest rates for new borrowing were forecast to fall to below the current rates applicable on the loans being repaid, secondly the net premium (cost) of £8,326 was almost neutral to the Council for repaying the loans early and finally as investment returns were averaging only 1.8% at the time a cash saving or reduced interest payment would accrue to the council equating to approximately 2.4% until such time as the loans are replaced. It was therefore considered prudent to use investments to temporarily fund the loan rescheduling with a view to replacing these loans from the PWLB during 2009/2010 when interest rates are advantageous. The saving in a full year would be approximately £1m and helps to show how proactive Treasury Management can have significant positive effects on the Council's resources. The action was in line with the Councils' agreed Treasury Management Strategy for 2008/2009.

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 2008/2009 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 2008/2009 were as follows:

- Authorised Limit for External Debt for 2008/2009 of £301.702m.
- Operational Boundary for External Debt for 2008/2009 of £223.278m.

Foreword by the Director of Financial Resources (Continued)

As part of the Authority's Treasury Management operation, these two Prudential Indicators have been monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2008/2009.

The highest level of external debt incurred by the Council in respect of the above limits, during 2008/2009, was £201.559m for the period 5th August 2008 to 7th September 2008.

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.

Equal Pay claims

Both prior to and during 2008/2009, 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. Following the receipt of legal advice from leading Counsel, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. 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 which aim to embed risk management throughout the organisation. 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 2008/2009.

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 now to be re-assessed 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 £12.609m previously shown in the Council's accounts reflected the Council's share of the last full Airport valuation carried out some years ago, (December 2001 – where the Airport was valued at £134m in total). A revised valuation, based on its mid range Equity value of £15.975m for the Airport in total as at 31st December 2008, has been derived from information supplied by independent valuers ([Deloitte](#)) which reflects a number of indicators used to assess the Airports fair value.

The Council's share of this new valuation has therefore seen its shareholding worth reduce significantly by £11.106m to a valuation of £1.503m in 2008/2009 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 net refinancing debt totalling almost £300m), and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been significantly impaired, (fallen in value), as a direct result of the economic downturn and the depressed state of the financial markets during 2008/2009.

Foreword by the Director of Financial Resources (Continued)

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.

Whilst 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 have been transferred into the new Area Based Grant came with clear grant conditions and performance expectations and these have been applied to date accordingly. It is considered that in the majority of instances, that these performance expectations will remain and are consistent with the Sunderland Strategy and Local Area Agreement and will be considered through the Comprehensive Area Assessment and other service based inspections in the future.

Accordingly, the Council 'passported' Area Based Grants to their host Portfolio / Directorate for 2008/2009 and a full review has been undertaken during 2008/2009 to ensure value for money and the appropriateness of 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 initial allocation for Area Based Grant for 2008/2009 was £25.2 million and this amount was subsequently increased in November 2008 to almost £25.4m which can be compared to an equivalent grant total of specific grants (which were ring-fenced to spend on specific service areas) for 2007/2008 of £23.0 million.

This initiative was welcomed by the Council and will help to allow 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.

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, is being led by Gateshead Council, who is currently carrying out the procurement and tendering processes which are anticipated will be completed by September 2010.

Further Information

This publication provides a review of the financial performance of the Council for 2008/09. A summary set of accounts, which forms part of the Council's Annual Report for 2008/2009, is also available on the Council's website at www.sunderland.gov.uk/Public/Editable/Themes/CityCouncil/corporate/Annualreports.asp.

Keith Beardmore CPFA
Director of Financial Resources
29th September 2009

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

The Director of Financial Resources Responsibilities

The Director of Financial Resources 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 2009.

**Certificate
of the
Director of Financial Resources**

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 fairly present the financial position of the City of Sunderland Council at 31st March 2009 and its income and expenditure for the year then ended.

Keith Beardmore CPFA
Director of Financial Resources

29th September 2009

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sunderland City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the City Treasurer and auditor

The City Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial 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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority 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 financial 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 Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority 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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority'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 Authority 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 Authority accounting statements and related notes.

Independent auditor's report to the Members of Sunderland City Council (Continued)

Opinion

In my opinion, the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

The Authority 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 Authority 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 specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority'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 December 2006, 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 ending 31 March 2009.

Best Value Performance Plan

We have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2008/09 on XX XXXX 2009. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

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:

September, 2009

Name: Mr S. Nicklin

Address:

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

District Auditor – Audit Commission

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) 2008 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, (eg repairs and maintenance), is charged to revenue as 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, community assets and vehicles, plant, furniture and equipment have been included at historical cost, net of depreciation.

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. However due to the economic downturn experienced over 2008/2009 and the dramatic fall in property values, all assets were re-assessed for impairment. 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 1st 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. As mentioned earlier, the Council has seen its asset valuations significantly impaired because of the economic downturn and most of the impairments are included within net cost of service in the Income and Expenditure Account in accordance with the SORP.

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 1st April 2007 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 5th March 2008, adopted a policy for calculating MRP whereby all borrowing as at 31st March 2008 and any new borrowing supported by the Government 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 2008/2009 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.

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.

Statement of Accounting Policies (Continued)

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 31st March 2009 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.

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 42 and 43, Page 86 and 87](#). The provisions are based on the full known estimated costs and in the case of the level of the Insurance Provision as at 31st March 2009, 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.

Statement of Accounting Policies (Continued)

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 31st March 2009 and their purpose are reflected in [Note 52, Pages 98 to 102.](#)

10. Internal Interest

Interest is credited to the General Fund from the Capital 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:

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 projections of projected earnings for current employees.

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

The assets of the 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.

Statement of Accounting Policies (Continued)

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 un-paid at the year end.

Further details can be found in [Notes 8b on Page 52 and 41a on Pages 81 to 85](#).

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 2008/2009 is shown in [Note 8a, Page 52](#) 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 41b, Page 85](#) 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 receipts in advance and no account is made in the revenue account until the conditions of the grants have been satisfied.

Statement of Accounting Policies (Continued)

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 should be included in the Income & Expenditure Account within General Government Grants. An analysis of these grants is shown in [Note 16, Pages 60 and 61](#) 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.

For 2008/2009 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 repaid at 4% of the debt outstanding within the Council's Consolidated Advances and Borrowing Pool. The MRP is increased by contributions the Council voluntarily makes to this provision. The Statement of Accounts for 2008/2009 has been prepared to fully comply with statutory and Prudential Code requirements which [Note 11](#) to the Core Financial Statements refers to on [Page 56](#).

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 25, Pages 72 and 73](#) 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 53, Pages 103 and 106](#) 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.

Statement of Accounting Policies (Continued)

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

The amounts of any outstanding un-discharged obligations arising from long term contracts such as the Private Finance Initiative (PFI) are required to be included as a separate note to the Core Financial Statements. The relevant note and information relating to the Council's PFI schemes is detailed in [Note 14, Pages 58 and 59](#) to the Income and Expenditure Account.

As part of the reforms to Local Authority PFI Grant announced by the government, the Authority took the opportunity offered in relation to both the Sandhill Centre and the Street Lighting Schemes to move to the annuity method of calculation of grant entitlement. This became effective from the 1st April 2005 and the information set out in the accounts reflects the changes to Government Grant contributions.

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 Associates Ltd, an independent firm of actuaries, who also estimate the Pension Fund position as at 31st March 2009 based on their latest full valuation of the scheme carried out as at 31st March 2007 and also their assessments of future movements in the return on pension assets and future pension liabilities as at 31st March 2009. [See Note 8c, Pages 52 and 53, and Notes 41a / 41b on Pages 81 and 85.](#)

b) Utility Costs

Utilities 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 utilities 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. 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 the 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.

The value of these 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 these allowances in the first year of the scheme. As trading commenced 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 to £5.00. The fair value of the LATS assets can only be established by examining the market for their trading value, in 2008/2009 LATS assets were trading at between £Nil and £0.10 as all unused allowances Council's hold at the end of 2008/2009 are forfeited in accordance with government guidelines consequently they have no or little value. The allowances have been

written down to zero in the accounts. The accounts remain fully compliant with the accounting treatment and disclosure notes for LATS set out in the SORP 2008 in [Note 36, Page 79.](#)

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 their accounting policies and their 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 2008, issued by the Chartered Institute of Public Finance and Accountancy, continues to require these disclosures as they conform with 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 31st March 2009 and for all other market debt the rates were taken from the market on 31st March 2009 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.

Statement of Accounting Policies (Continued)

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 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 2008, 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 (eg 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.

Statement of Accounting Policies (Continued)

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

Instruments entered into before 1st 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 54 pages 106 and 107** to the Balance Sheet.

27. Treasury Management

The Council adopted the revised C.I.P.F.A. Code of Practice for Treasury Management in the Public Services on 20 November 2002. A major requirement of this Code relates to the need to have in place a Treasury Management Policy Statement (TMPS), which is approved by full council in March of each year.

Under the TMPS for 2008/2009 which the Council approved on the 5th March 2008, the policies and objectives of treasury management were set out as follows:

a) Treasury Management activities are defined as:

“The management of the authority’s 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 are the prime criteria by which the effectiveness of 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 supports the achievement of the council’s business and service objectives. Consequently, there must be commitment to the principles of achieving best value in treasury management, and to employing suitable 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://cmis/CMISWebPublic/Binary.ashx?Document=7802>

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 57 to the accounts includes details of one such adjusting event and sets out a number of 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.

Statement Reporting Reviews on Internal Control and Internal Financial Controls

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 Code of Corporate Governance in place 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/Public/Editable/Themes/CityCouncil/corporate/corporategovernance/codeofcorporategovernance.pdf> or can be obtained from the Director of Financial Resources or the Chief Solicitor.

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 31st March 2009 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:

In 2008/2009 the City of Sunderland Local Strategic Partnership (the Sunderland Partnership) published the Sunderland Strategy – the city's sustainable community strategy for the period 2008 - 2025. It sets out a vision for the city, drawing upon extensive consultation and taking into account the views of residents, businesses and partners from all sectors, and many other contributors. The Sunderland Strategy sets out the following priority areas for action:

SP1: Prosperous City

SP2: Healthy City

SP3: Safe City

SP4: Learning City

SP5: Attractive and Inclusive City

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

The Council's Corporate Improvement Plan (CIP) 2008/2009 to 2010/2011 is the Council's overarching plan for how it will deliver services and work towards achieving the vision for Sunderland. The full CIP combines the plans for each of the council's portfolios, including estimate revenue budgets for the financial year and the capital programme for 2008/2009, detailing planned capital expenditure.

The Council has also published a document entitled 'Improvement Priorities for 2008/2009', which incorporates the Corporate Improvement Plan Summary. This document is aimed at assisting all members of staff to understand their contribution to delivering the priorities and objectives, thereby improving performance and service delivery.

It is also an important summary document in demonstrating the council's commitment and planned improvement activity in relation to delivering against both the priorities set within the Sunderland Strategy 2008-2025 and in relation to the council's Corporate Improvement Objectives.

Production of the Council's Improvement Priorities for 2008/2009 (incorporating the Corporate Improvement Plan Summary 2008/2009) has been endorsed by the Audit Commission as an appropriate means of articulating the key messages from the full CIP to a wider audience.

Communication of objectives to staff and stakeholders takes place through the following means:

- Wide distribution of the Corporate Improvement Plan, as well as a summary version, including on the Council's website and intranet;
- Issuing of an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been;
- 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:

During 2008/2009, the Sunderland Strategy and its priorities were reviewed to provide a longer-term focus for the Sunderland Partnership and the city.

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 Review Committees.

Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

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 Review Committees to:

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

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;
- 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 Director of Financial Resources 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 Chief Solicitor 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 based upon CIPFA's Treasury Management Codes;
- Directorate / department budget management schemes.

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

There are robust and well embedded risk management processes in place, including;

- Risk Management Strategy and Policy Statement;
- Corporate Risk Profile;
- Risk Management Manual;
- Nominated Head of Risk Management;
- Corporate and Directorate Risk Management Staff and Groups;
- Risk Management Training Programme;
- Discrete Risk Profiles produced for certain major initiatives/projects and significant partnerships;
- Partnerships Risk Register;
- Establishment and operation of a risk management fund;
- Nominated Directorate risk management champions;
- Risk Management Annual Report;
- Member Risk Champion;
- 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 and subsequent investigations.

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 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 anticorruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

- 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 or comments 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 reports are considered for legal issues before submission to members:

The Chief Solicitor 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. Internal audit work is planned on the basis of risk.

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 serious 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 Chief Solicitor 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.

The Elected Member Training and Development Strategy aims:

- To provide a comprehensive Member Development programme;
- To ensure that all newly Elected Members are properly inducted into the Council;
- To encourage all Members to undertake a personal development plan to identify their individual needs and learning styles;
- To ensure that all emerging needs for both individuals and across the board are identified and addressed;
- To 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.

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

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 Director of Financial Resources have overseen the review and signed the Statement Reporting Reviews on Internal Control and Internal Financial Controls.

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 Statement Reporting Reviews on Internal Control and Internal Financial Controls.

Statement Reporting Reviews on Internal Control and Internal Financial Controls (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 Statement Reporting Reviews on Internal Control and Internal Financial Controls, 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.

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 all 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 Council has secured the highest rating (currently 4 Star) for each year of the Comprehensive Performance Assessment. The most recent corporate assessment states that:

- the Council is improving well;
- the Council continues to improve outcomes for local people;
- prosperity is being enhanced through the development of most key regeneration sites. Services for children and young people are all good, with education attainment improving at most key stages.
- people are healthier, fewer people smoke, and the new Aquatic Centre is helping vulnerable groups become healthier.
- services for adults are excellent with increasing numbers being helped to live at home.
- crime is reducing, fewer young people are re-offending, and domestic violence is being actively tackled. Streets are cleaner and the recycling and composting rates have improved, although remaining below average.
- the Council's strategies and objectives reflect those of the Sunderland Community Strategy and Local Area Agreement, with local partners positive about their interaction with the Council.

Statement Reporting Reviews on Internal Control and Internal Financial Controls (Continued)

- the Council has good capacity to sustain improvement, delivers good value for money and has significant revenue and capital reserves allocated to improvement projects.
- it has invested in training for Councillors and staff to improve their ability to deliver change, with better project management skills in place; and a greater understanding of diversity, equality and community cohesion issues.
- The Council has secured the highest rating (4 out of 4) for the Use of Resources element of the Comprehensive Performance Assessment.
- Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and 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 of effectiveness and will monitor their implementation and operation as part of the next annual review.

Councillor Paul Watson
Leader of the Council

Dave Smith
Chief Executive

Keith Beardmore
Director of Financial Resources

Dated: 29th September 2009