Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Thursday 30 September 2010 at 1.30pm

This information can be made available on request in other languages.
If you require this, please telephone Gillian Warnes on 0191 561 1041

R C RAYNER
Chief Solicitor

Civic Centre
SUNDERLAND

22 September 2010

Sunderland City Council

Item No. 3

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 29 JUNE 2010 at 1.30pm.

Present:-

Mr G N Cook in the Chair

Councillors Allan, M Forbes and Mr J P Paterson.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Rolph, Tate and T Wright.

Minutes

10. RESOLVED that the minutes of the Committee held on 28 May 2010 be confirmed and signed as a correct record.

Annual Report on the Work of the Committee 2009/2010

The Director of Financial Resources and the Chief Solicitor submitted a report providing a summary of the work undertaken by the Audit and Governance Committee and how the Committee has fulfilled its role during 2009/2010.

Following the assessment of the remit and effectiveness of the Audit and Governance Committee which took place in July 2009, it was agreed that an annual report would be prepared on the work of the Committee. The report would also be presented to the Cabinet following consideration by the Committee.

The report sets out the role of the Committee and the matters which have been considered during the course of the year. These included the Internal Audit Strategy and Operational Plan, the Annual Audit Letter, Corporate Risk Profile and the Annual Governance Review.

It also highlighted areas where the Committee had been proactively monitoring performance and requesting improvement including the ICT Disaster Recovery arrangements, Strategic Asset Management and the implementation of agreed audit recommendations.

The Chairman commented that the content of the report highlighted the active interest the Committee were undertaking in their governing role and drew Members attention to appendix 1 which identified the areas that had been covered during the municipal year 2009/2010.

Having given consideration to the Annual Report, it was:-

11. RESOLVED that the report be approved and referred to the Cabinet.

Treasury Management – Review of Performance 2009/2010

The Director of Financial Resources submitted a report outlining the borrowing and investment performance for 2009/2010.

The Borrowing Strategy had been agreed by Council in March 2009 and the basis of the Strategy was to:-

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds when market conditions were favourable;
- use a benchmark financing rate of 4% for long-term borrowing;
- take advantage of debt rescheduling opportunities, as appropriate.

The Audit and Governance Committee had reviewed the Borrowing Strategy in November 2009 and February 2010 and it was reaffirmed on both occasions. The report also incorporated the requirements of the revised CIPFA Code of Practice on Treasury Management which was formally adopted on 3 March 2010.

George Blyth, Director of Financial Resources, presented the report to the Committee advising that due to current financial markets investments were unable to get the returns they had previously but that the return made on investments for 2009/2010 was 1.91% which far exceeded the benchmark that had been set of 0.36% and represented a very good achievement for the Council in a year that had seen a great deal of uncertainty and volatility in the financial markets.

The Chairman commented that this was a very positive report and asked that the team be congratulated on their continuous achievements and ongoing work, and it was:-

12. RESOLVED that the Treasury Management performance for 2009/2010 be noted.

Statement of Accounts 2009/2010 (Subject to Audit)

The Director of Financial Resources submitted a report presenting the Statement of Accounts for the year 2009/2010 to the Committee for approval, subject to audit.

Members' attention was drawn to the changes to the Statement of Recommended Practice (SORP) which had introduced some significant changes in accounting requirements for the 2009/2010 Statement of Accounts. These changes include changes in the accounting requirements for Private Finance Initiatives (PFI), technical changes to the way Authorities have to account for the Council Tax income and National Non Domestic Rates they collect and changes to disclosure notes to the accounts.

It was highlighted that from 1 April 2010, Local Authority accounts had to be compliant with the International Financial Reporting Standards (IFRS) and the Council was making good progress towards this requirement.

The Chairman advised that he had received an offer of free training for Committee Members on the new compliances and the IFRS and that any Members who wished to secure a place on it should contact the Democratic Services' Officer.

Members were then referred to the main financial issues highlighted in the Foreword to the Statement of Accounts 2009/2010 (subject to Audit) and the Director of Financial Resources highlighted the following:-

Revenue Expenditure and Income Summary – the budget requirement for 2009/2010 had been estimated at £249.051 million with a contribution from Balances of £3.946 million, whilst the actual outturn position had resulted in a contribution to balance of £3.195 million.

General Reserve – this had increased by £3.195 million.

Additions to balances had been achieved through successful applications for VAT refunds (£1.045 million), savings on waste disposal costs (£0.570 million), repayment of temporary financing in respect of Rainton Bridge Industrial Estate (£0.405 million), net savings in contingencies and non delegated budgets (£0.164 million), and £2.104 million debt charge savings. Balances of £0.623 million had been earmarked for the additional costs of winter maintenance (£0.623 million), £0.600 million to support the pressures of the economic downturn, £0.900 million to support the Children's Placement Strategy review and the approved transfer of £2.165m to the Strategic Investment Reserve to support invest to save projects through the Improvement Programme and Capital Programme for 2011/2012.

Movement on Locally Managed Schools Reserve – this had been increased from £5.772 million at 31st March, 2009 to £7.493 million at 31st March, 2010.

Capital Expenditure and Income – this had totalled £99.921 million for the year.

Building Schools for the Future – The status of the Council's second phase to BSF to complete the modernisation of the secondary school estate is awaited.

Cost of Pensions – this continues to increase year on year over which the Council has little control. The coalition government will review public sector pensions in the next year and this will have an impact on future costs for the Council.

Efficiency – the budget for 2009/2010 was set taking into account efficiency savings of £11.681 million.

Major Acquisitions, Capital Works and Disposals during 2009/2010 – schemes highlighted included BSF projects at Biddick, Washington, Hylton Red House, Castle View and Academy 360, swimming pools at Hetton and Silksworth and the Sunderland Strategic Transport Corridor. There was one major asset disposal during the year in respect of the sale of land at Farringdon Row for £825,000.

Capital Borrowing – statutory limits had not been exceeded.

Single Status – Phase 2 of the scheme continues to be progressed by the Council and there was limited provision for the potential costs of the new scheme within its financial plans.

Equal Pay Claims – the outstanding claims would be defended and periodically reviewed to ensure timely and appropriate action was taken where necessary.

Insurance Provision – the Council continues to benefit from reduced insurance premia by successfully managing some insurance risks itself and had been able to return provisions for insurance costs to Council balances in 2009/2010.

Airport Revaluation – the revised valuation has seen the Council's shareholding reduce by £0.708m to a valuation of £0.795m.

South of Tyne and Wear Waste Management Partnership – the Partnership has been awarded £73.5m of PFI credits and has proceeded to the final stages of the procurement process.

Coalition Government Funding Position – Local Government is expected to contribute £1.2 billion to the Government's planned £6.2 billion reduction in public spending. This is to be achieved through reductions in government grant funding and the Council will be faced with significant reductions over forthcoming years. The Council has already put actions in place to help manage this situation and will try to ensure that frontline services are protected as much as possible for the people of Sunderland.

In relation to budget reductions, Mr Blyth responded to a query from the Chairman, advising that there were two stages, managing in year reductions and then addressing longer term reductions of 25-30%. A report will be submitted to the Management Scrutiny Committee for their comment and then submitted to a meeting of the Cabinet for consideration and following the executive decision being made and future actions agreed there would be clarity with regard to the extent of the cuts needing to be made and how it will affect Sunderland and there will be further information and detail for the next meeting of this Committee.

Cuts in public spending had been expected and consequently the Chief Executive had put the Sunderland Way of Working programme in place to address the need for major efficiency savings but this in itself is unlikely to be sufficient to meet the expected 25-33% government grant reductions.

The Chairman thanked Officers for their update and asked that this Committee continue to be updated.

Councillor Forbes referred to the Local Government Pensions Scheme and asked for figures on the cost of pensions as a percentage of Council Tax, to which Mr Blyth advised he would provide the information in a written response to Committee members.

Councillor Forbes went on to comment that if there was a move towards freezing Council Tax in the future, it would be important to know what proportion of the tax related to the pension fund. Mr Blyth commented that the latest understanding from Government was that a freeze to Council Tax may not be applied across all local authorities and may be voluntary. Indications were that it would apply to low spending authorities who may wish to consider freezing their Council Tax levels and a modest amount of funding would be available to support a freeze.

With regard to page 63 of the report and the industrial loan given at a subsidised rate of interest, Councillor Forbes asked if there are criteria which had to be met by companies applying for the loans and if so, what are they. Mr Blyth advised that he would make enquiries and circulate details to Members. Mr Rayner advised that each application was determined on its individual merits and that the loans were to be given as a timely intervention to try and save businesses under threat of closing down or encourage growth.

When asked how businesses found out about the scheme, Members were advised that they could be referred from places such as TWEDCO or the Business Investment Team and all partner agencies of the Council were aware that the scheme was in place. Mr Blyth advised that the Business Investment Team website had packages offering help and support to local businesses which would include signposting to details of the scheme.

Councillor Forbes referred to page 71 of the report and commented that under Agency Services there was a sum £2.1m in respect of the Health Trust and a sum of £4.6 million in respect of 'Other Payments' and asked for a breakdown of what the figures referred to in detail. Mr Blyth advised he would gather the information and forward it to Members.

In reference to page 86 of the report and the operating leases of vehicles, Councillor Forbes asked what kind of vehicles the £455,718 was in relation to. Mr Blyth advised that this figure covered the cost of a variety of vehicles including day to day general purpose vans, refuse collection vehicles and did not cover the cost of officer leased vehicles, although he advised he would circulate a more detailed breakdown to the Committee for their information.

Following discussions, it was:-

13. RESOLVED that the Statement of Accounts for the financial year 2009/2010 be approved subject to audit and that the extra information as detailed be circulated to Members of the Committee.

(Signed) G N COOK
Chairman

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **30 September 2010**

TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2010/2011

Report of the Director of Financial Resources

1. Purpose of Report

1.1 To report on the borrowing and investment strategy and Treasury Management performance for 2010/2011 to date which incorporates the first and second quarterly Treasury Management reviews.

2. Description of Decision

2.1 The Committee is requested to note the Treasury Management performance for 2010/2011 to date.

3. Introduction

3.1 This report sets out the borrowing and investment performance for the financial year 2010/2011, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by the Council on 3rd March 2010 which complies fully with the CIPFA Treasury Management in the Public Services Code of Practice.

4. Review of the Prudential Indicators and Treasury Management Strategy for 2010/2011 – Quarter 1.

4.1 The Prudential Indicators for 2010/2011 were approved by the full Council on the 3rd March 2010 and are regularly reviewed to ensure that:

- the Council remains within it's Authorised Borrowing Limit for External Debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and the current Council Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

4.2 Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Council. At this stage, the Council is operating within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and there are no areas for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2010/2011

4.3 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2010 at the time the Treasury Management Policy and Strategy was drafted was that the Bank Base Rate was expected to increase over the next three financial years from its current level of 0.50% to 1.50% by March 2011, and to 4.50% by March 2013. It was anticipated that PWLB borrowing rates would steadily increase throughout 2010/2011 across all periods with the 5 year PWLB rate forecast to be 3.6% by March 2011, and the 25 year and 50 year to be around the 5.0% level.

The change of government, who indicated that they intended to adopt a more aggressive programme of deficit reduction, and recent events within the Eurozone, in particular the sovereign debt crisis impacting on Greece, Portugal and Spain, is likely to depress growth and cause a compensating reduction in the speed of monetary policy implementation. Consequently, forecasters were predicting that base rates would remain low for a longer period, increasing to 0.75% by March 2011, and to 3.75% by March 2013. Similarly PWLB borrowing rates will remain lower than forecast in February 2010 with the 5 years PWLB forecast to be 3.15% by March 2011, and the 25 year and 50 year to be around the 4.80% mark.

4.4 The Council's strategy for 2010/2011 is to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2010/2011.

4.5 The Council constantly monitors market conditions and has secured the following loans when rates were favourable:

a) a £0.500 million PWLB loan over 15 years at 3.65% on behalf of Beamish Museum, who are to fully repay this over the term of the loan arrangement.
b) replacement debt of £15 million, taken out on 21st May 2010 and made up of, £10 million over 4 years at an interest rate of 1.99% and £5 million over 50 years at an interest rate of 4.29%. These loans were taken out as market rates fell to their lowest point for some considerable period of time. All debt was within the target rate of 4.5%.

4.6 Included in the borrowing strategy was provision for debt rescheduling. At this stage, no debt rescheduling had been undertaken in 2010/2011 as rates had not been considered sufficiently advantageous to do so.

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

Investment Strategy for 2010/2011

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

4.9 As at 21st May 2010, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.43% compared with the benchmark rate (i.e. the 7 day rate) of 0.40%. Performance is significantly above the benchmark rate, whilst the treasury management function continues to adhere to the prudent policy agreed by the Council.

4.10 The investment policy is currently being monitored to ensure it has flexibility to take full advantage of changes in market conditions. The following amendments were consequently made to the existing Investment Strategy:

- the following UK registered institutions were added as counterparties to the Council's Lending List : Sumitomo Mitsui Banking Corporation Europe Ltd (Japan) and HFC Bank (subsidiary of HSBC);
- a number of highly rated foreign institutions based in Australia and Canada, both subject to high sovereign/country credit ratings, were added as counterparties to the Council's Lending List as set out in Appendix B;
- the addition of the possible use of AAA MR1+ rated Money Market Funds to increase the flexibility for placing funds was agreed.

4.11 In view of the economic climate at that time and the situation with the financial markets, the Director of Financial Resources, in consultation with Sunderland City Council's Cabinet Portfolio Holder for Resources, was given delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate. This delegation was approved on the basis that any necessary changes would be reported to Committee retrospectively, in accordance with normal Treasury Management reporting procedures.

On 17th May 2010 the Director of Financial Resources, after consultation with the Council's Cabinet Portfolio Holder for Resources, agreed to increase the maximum investment limit for institutions with long term credit ratings of AAA from £40 million to £50 million, and for institutions with long term credit ratings of AA from £30 million to £40 million. The above changes were reported to and agreed by this Committee on 28th May 2010.

4.12 The revised investment criteria are set out in Appendix A and the amended Lending List is set out in Appendix B for information. These appendices also include the changes set out in paragraphs 4.10 and 4.11 above.

5. Review of the Prudential Indicators and Treasury Management Strategy for 2010/2011 – Quarter 2

Borrowing Performance - 2010/2011 – Quarter 2

5.1 The Bank of England Inflation Report in August downgraded growth forecasts for 2011 from 3.4% to 2.8% and for 2012 from 3.5% to 3.2%. These forecasts are widely seen by forecasters as being optimistic given that the UK economy is facing a government fiscal squeeze, the likely resultant increase in unemployment, reductions in consumer and business confidence which are showing a downward trend and weak recovery among the major countries that the UK exports to. This all adds up to a picture of a slow recovery in the UK, and although still possible, a future double dip recession is still thought to be unlikely at the current time.

Recent statistics show that the US economy appears to have returned to a trend of ongoing increases in unemployment. The overall view on the US economy is now one of a slower and weaker economic recovery.

Consequently, for the above reasons, forecasters are now predicting that base rates in the UK will remain low for a longer period, remaining at 0.5% for the rest of this financial year before slowly increasing to 1.25% by March 2012 and to 3.00% by March 2013.

Similarly PWLB borrowing rates are expected to remain lower than forecast in February 2010 with the 5 year PWLB rate forecast to be 2.20% by March 2011, 3.00% in March 2012 and 4.10% by March 2013. Lower increases than previously estimated are forecast for the both the 25 year PWLB and 50 year PWLB rates (4.30% in March 2011, 4.70% in March 2012 and 5.00% in March 2013).

The table below shows the average borrowing rates for Q1 and Q2 in 2010/2011.

2010/2011	**Qtr 1 (Apr - June) %**	**Qtr 2 (up to 31/08/2010) %**
7 days notice	0.40	0.30
1 year	0.75	0.71
5 year	2.60	2.19
10 year	3.89	3.45
25 year	4.48	4.26
50 year	4.48	4.25

5.2 The strategy for 2010/2011 was to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2010/2011.

5.3 The Borrowing Strategy for 2010/2011 made provision for debt rescheduling but also stated that because of the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long term debt it would be difficult to refinance long term loans at interest rates lower than those already in place.

At this stage, no debt rescheduling has been undertaken during 2010/2011 as rates have not been considered sufficiently favourable for rescheduling.

The strategy for the remainder of 2010/2011 is to continue to monitor market conditions and secure early debt redemption as and when appropriate opportunities arise. Any rescheduling undertaken will be reported to this Committee in due course in line with the current Treasury Management reporting procedures.

The Council's Treasury Management Team having monitored and reviewed market conditions and having discussed the options with its advisors took out the following loans, totalling £30.5 million, in the current financial year to date as rates were regarded as very favourable across a range of debt periods:

Long Term Borrowing 2010/2011							
Date	**Lender**	**Amount £m**	**Period (Years)**	**Rate %**	**Benchmark Rate %**	**Margin %**	**Loan Type**
11/05/10	PWLB	0.50	15	3.65	4.50	0.85	EIP *
25/05/10	PWLB	10.00	4	1.99	4.50	2.51	Maturity
25/05/10	PWLB	5.00	50	4.29	4.50	0.21	Maturity
27/07/10	PWLB	5.00	11	3.75	4.50	1.25	Maturity
27/07/10	PWLB	5.00	12	3.87	4.50	1.13	Maturity
01/09/10	PWLB	5.00	50	3.96	4.50	0.54	Maturity
		30.50		**3.31**			
*This loan relates to Beamish Museum (an Equal Instalment of Principal (EIP) loan).							

The total sums borrowed of £30.5m were in respect of the following:

	£m
Replacement of debt rescheduling carried out in January 2010	24.00
Replacement of 11.75% Stock (Balance)	2.50
Loan in respect of other bodies (Beamish)	0.50
Approved Prudential Borrowing	3.50
Total	**30.50**

All borrowing was undertaken within the Council's target rate of 4.50%.

The Council's treasury portfolio, which includes the position at 1st September 2010, is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	138.0		
	Market	29.5		
	Other	0.3	167.8	3.84
Variable Rate Funding	PWLB	0.0		
	Market	10.0		
	Temporary/ Other	30.7	40.7	1.13
Total Borrowing			**208.5**	**3.31**

6 Treasury Management Prudential Indicators – 2010/2011

6.1 All external borrowing and investments undertaken in 2010/2011 have been subject to the monitoring requirements of the Prudential Code. Under the code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must report on the Council's performance for all of the other TM Prudential Indicators.

6.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2010/2011 as follows:

	£m
Borrowing	323.990
Other Long Term Liabilities	91.558
Total	**415.548**

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

	£m
Borrowing	235.743
Other Long Term Liabilities	91.558
Total	**327.301**

The maximum external debt in respect of borrowing in 2010/2011 (to 1st September 2010) was £208.534 million and is well within the borrowing limits set by both of the above indicators.

6.3 The table below shows that all other Treasury Management prudential indicators set by the Council has also been complied with.

Prudential Indicators	**2010/2011 (to 01/09/2010)**	
	Limit £'000	**Actual £'000**
P10 Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	90,000	32,366
P11 Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	50,000	7,794
P13 Upper limit for total principal sums invested for over 364 days	100,000	35,000

6.4 The Council is currently within the limits set for all of its TM Prudential Indicators.

7. Investment Strategy – 2010/2011

7.1 The Investment Strategy for 2010/2011 was approved by full Council on 3rd March 2010. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

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

7.2 As at 31st August 2010 the funds managed by the Council's in-house team amounted to £215.988 million and all investments complied with the Annual Investment Strategy. The table below shows the return received on these investments as compared with the Council's benchmark rate (i.e. the 7 day rate).

	2010/2011 Actual %	**2010/2011 Benchmark %**
Return on investments (to 31st August 2010)	1.45	0.36

7.3 Investments placed in 2010/2011 have been made in accordance with the approved Investment Strategy and comply with the counterparty criteria used to identify organisations on the Approved Lending List.

7.4 As investment levels have increased temporarily in the current financial year, it is proposed to increase the country limit for the UK by £50 million to £300 million. It is also necessary to increase the Sector Limits for Central Government, Local Government, and the Banks by £50 million to £300 million. These increases have been incorporated into the Lending List Criteria shown in Appendix A.

7.5 In view of the present economic climate and the current situation with the financial markets the Director of Financial Resources, in consultation with the Council's Cabinet Portfolio Holder for Resources, was given delegated authority to vary the Lending List Criteria and the Lending List itself should circumstances dictate, on the basis that changes be reported to this Committee and Cabinet retrospectively, in accordance with agreed Treasury Management reporting procedures. There have been no further delegated decisions taken which affect the Lending List Criteria or the Approved Lending List since the Treasury Management Review was reported to this Committee on 28th May 2010 (see paragraph 4.11 of this report).

7.6 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. The Counterparty Criteria is shown in Appendix A and the Approved Lending List is shown in Appendix B which includes changes from recent mergers in the Building Society sector.

7.7 In accordance with the revised Treasury Management best practice a risk analysis of the Treasury Management functions has been carried out and included in Appendix C for information which sets out how the Council manages the risks associated with the Treasury Management function for information.

Background Papers

Sector CityWatch (Monthly) and weekly credit rating list
Sector / Capital Economics / UBS Economic forecasts
Local Government Act 2003
CIPFA Treasury Management Code of Practice 2009
Financial Times

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

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

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

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

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

Country Limit

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

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

Country	Limit £m
UK	300
Non UK	40

Sector Limit

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

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

Group Limit

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

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

Current group limits are set out in Appendix B

Approved Lending List

Appendix B

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

Appendix B (continued)

	Fitch			Moody's				Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1	40	364 days
Standard Chartered Bank *	A+	F1	B	1	A2	P-1	C+	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
Top 10 Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	3	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	3	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	3	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	3	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	3	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	3	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	3	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	3	Baa2	P-2	D	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	5	6 Months

Appendix B (continued)

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Foreign Banks have a combined total limit of £40m											
Australia	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+	20	364 Days
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Canada	**AAA**				**Aaa**			**AAA**		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										50	2 Years
Prime Rate Stirling Liquidity	AAA MMF							AAAm		10	2 Years
Insight Liquidity Fund					AAA MR1+			AAAm		10	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		10	2 Years

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £50 million for a maximum period of 364 days

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

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

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

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

APPENDIX C

Risk Management Review of Treasury Management

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

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

guidance and Government fiscal policy.

A pro-active approach is taken by the Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.

3. Exchange Rate Risk

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk.

This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.

4. Inflation Risk

There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.

Economic data such as pay, commodities, housing and other prices are monitored by the treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Authority's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance.

Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.

5. Counterparty Risk

The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.

The prime objective of the treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited.

	The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Authority's Treasury Management Policy and Strategy Statement. The Director of Financial Resources has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are agreed with the Cabinet portfolio holder and reported to the relevant Committee at the next available opportunity. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, the Financial Times, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved Lending List up to date and fully informed, using the latest available information.
6. Capital Financing and Refinancing Risk There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB). PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. If this is the case then the council would maximise its use of the PWLB funds and then use the money market as appropriate.
7. Statutory and Regulatory Risk There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.	The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full

	compliance with the CIPFA Treasury Management Code of Practice (2009). All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Revised Code of Practice and this is reported to and agreed by the Council through existing and well established reporting mechanisms. As a response to the credit crunch and the banking sector crisis, CIPFA put forward proposals to amend the Treasury Management Code of Practice to strengthen the arrangements adopted by local government in response to the Audit Commission's 'Risk and Return Report – recommendations published on 26th March 2009 culminating an amended Treasury Management Code of Practice in the public sector in December 2009 The Council responded positively and proactively to all such changes and fully complies with the new Code of Practice.
8. Treasury Management Arrangements Risk There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.	This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has access to a well established Treasury Management team that operates under the Director of Financial Resources and is staffed appropriately with a good mix of both well experienced and qualified staff. Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE 30 September 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – PROGRESS REPORT

Report of the Director of Financial Resources

1. Purpose of the Report

1.1 To provide Members with an update on the Council's progress towards compliance with International Financial Reporting Standards (IFRS) since the last report to this Committee on 26th March 2010.

1.2 To set out the updated project outline (Appendix 1).

2. Reason for the Decision

2.1 The Committee is recommended to note the report and the progress made to date.

3. Progress made to date

3.1 **Budget 2010/2011**

There were no budgetary implications as a result of technical accounting changes brought about by the convergence to IFRS for 2010/2011. All accounting changes that could impact upon the Council's budget and level of Council Tax are neutralised by government legislation.

3.2 **Timetable for Compliance**

The workload and timetable for IFRS has been divided into three manageable phases reflecting the three financial years IFRS will impact upon the Council before becoming effective:

- Phase 1 – Restatement of the 2008/2009 transition balance sheet.
- Phase 2 – Full restatement of the 2009/2010 accounts into IFRS compliant accounts.
- Phase 3 – Production of IFRS compliant accounts for 2010/2011 (with comparisons for 2009/2010).

A detailed plan of actions and key tasks was drawn up to complete the work required in Phase 1, which was completed by the 31st July 2010.

A detailed timetable for Phase 2 is about to be finalised, with phase 3 being managed through the final accounts closure timetable for 2010/2011, which will be reported to Committee once finalised.

3.3 **Phase 1 – Restatement of the 2008/2009 transition balance sheet**.

The restatement of the 2008/2009 transition balance sheet is now complete. The key elements included:

- Private Finance Initiative (PFI).
- Council Tax
- National Non Domestic Rates (NNDR)
- Employee Benefits
- Equipment Leases
- Property Leases
- Government Grants

3.3.1 Private Finance Initiative (PFI)

PriceWaterhouseCoopers (PWC) was engaged to deliver the required accounting adjustments in respect of PFI due to its highly complex technical nature. This area of work is now complete and a report has been produced which provides the agreed PFI model along with the accounting entries in respect of the PFI scheme for the remaining life of the Councils two PFI assets.

The 2008/2009 accounting adjustments have been completed in respect of the Council's PFI schemes.

3.3.2 Council Tax

The 2008/2009 accounting adjustments in respect of Council Tax have now been completed.

3.3.3 NNDR

The 2008/2009 accounting adjustments in respect of NNDR have now been completed.

3.3.4 Employee Benefits

The required accounting adjustments have been made to the 2008/2009 restated balance sheet in respect of the IFRS requirements in relation to employee benefits.

3.3.5 Leases

The vehicle and equipment leases held by the Council have been reviewed by the Council's leasing advisers to ensure that they all comply with IFRS requirements. Several leases have been reclassified from operating leases to finance leases. The 2008/2009 balance sheet has been amended to reflect this change.

3.3.6 Property Leases

All property leases have now been reviewed under IFRS criteria and limited specialist advice has been used in a number of complex cases to review the proposed accounting treatment to be adopted. Several leases currently treated as operating leases have been reclassified as finance leases, the 2008/2009 balance sheet has been amended to reflect these changes.

3.3.7 Government Grants

The 2008/2009 balance sheet has been restated to reflect the accounting changes in respect of government grants.

3.4 **Phase 2 – Full restatement of the 2009/2010 accounts.**

A detailed timetable is in place to restate the 2009/2010 accounts into an IFRS format. Most of the data required to do this was captured as part of the 2009/2010 final accounts process. Embedding IFRS into the final accounts closure process at an early stage will ensure the timely and accurate provision of information for future years.

The timescale for restating the 2009/2010 Statement of Accounts is set out in Appendix 1.

The main area of concern is that final guidance on the format of the 2009/2010 IFRS accounts has yet to be released by CIPFA, and it is envisaged that the details will not be made generally available until just prior to Christmas. Any delay would result in a delay to the timetable identified by officers in Appendix 1.

3.5 **Phase 3 – Production of IFRS compliant accounts for 2010/2011.**

The final stage of the convergence process will see production of the 2010/2011 Statement of Accounts under IFRS which must show and be compared with the previous year's accounts in the same format. A detailed timetable to achieve this final stage of the process will be prepared in December 2010.

During this stage it is intended to provide detailed training for both members and officers on the specific requirements of IFRS to enable appropriate scrutiny of the revised Statement of Accounts to be presented to this Committee at its meeting on 30th June 2011.

4. General Issues

4.1 A project team has been established led by Financial Management Services. Relevant officers from across the Council have responded well to requests for information and co-operation has been excellent.

4.2 The external auditor (Audit Commission) has been consulted throughout the process and to date their comments have been very positive and helpful.

5. Conclusions

5.1 Progress to date has been good and within the detailed timetable set for Stage 1 of the process. No deviations from the timetable are anticipated at this time.

5.2 Regular progress reports will continue to be provided to members of this Committee.

5.3 Awareness and specific training will be given to all relevant staff and members as part of the final stage of the project.

6. Recommendation

6.1 The Committee is recommended to note the report and the project outline set out in Appendix 1.

7. Background Papers

Audit and Governance Committee – IFRS report 26th March 2010
Statement of Recommended Practice 2009 (SORP2009)
Draft IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom
Local Authority Accounting Panel (LAAP) Bulletin 81 – Implementation of IFRS

Appendix 1

IFRS Outline project plan

	Step	**Dependency**	**Dates**	**Progress**	**Areas for Discussion with External Audit**
1	Carry out high level impact assessment using information on CIPFA web site (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Other Areas Carry out		As soon as possible; but no later than end of September 2009	Completed 31.08.09	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.
2	Identify changes to accounting policies	In parallel with step 1	As soon as possible; but no later than end of September 2009	Completed 31.08.09	
3	Identify key staff (finance, legal, property, HR, other) Assess whether resources are adequate Allocate	Based on impact analysis in step 1	As soon as possible; but no later than end of August 2009.	Completed 31.08.09	

	responsibilities Develop detailed project plan				
4	Key staff trained on IFRS transition		At an early opportunity, then ongoing throughout project	Ongoing. Key staff have received training.	
5	Identify systems and procedural changes (including Chart of Accounts changes) required		September 2009 - end October 2009	Completed 31.10.09	
6	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts		September 2009 – December 2009	Completed 31.12.09	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	September 2009 – December 2009 (assumes CIPFA/LASAAC have agreed formats by end of August 2009)	Revised date 31.12.10 – Final Formats not agreed until December 2010.	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc

8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	September 2009 – December 2009	Completed 31.12.09	
9	Identify likely impact on budgets (if any)		September 2009 – November 2009	Completed 31.12.09	
10	Implement systems and procedural changes	Identified in step 5	September 2009 – February 2010	Completed 31.10.09	
11	Training for all relevant staff and members		Ongoing from August 2009	Ongoing	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	Revised – 30.08.10	Complete 31.07.10	Auditors will wish to consider the implications for reviewing balance sheet and / or processes and arrangement s
13	Compile 2010/11 and later budgets on IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on General Fund /	Impact from step 9	October 2009 – February 2010	Completed 28.02.10	No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors are involved at an early date

	HRA				
14	Testing of systems and procedural changes	Follows on from step 10	September 2009 – March 2010	Complete 31.03.10	Auditors will wish to consider the implications for relevant work on systems
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 – December 2010	Target date 31.12.10	Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS compliant basis		April 2011 – June 2011	Target date 30.06.11	Normal audit procedures – accounts signed by 30 September 2011

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **30 September 2010**

CORPORATE RISK PROFILE

Report of the Director of Financial Resources

1. Purpose of the Report

1.1 This report informs the Audit and Governance Committee of the updated Corporate Risk Profile and amendments that have taken place since the last report in March 2010.

1.2 The report provides information in relation to:

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

Previously the whole Profile including all of the actions were provided to the Audit and Governance Committee covering 120 pages of detail. The process for developing and reviewing the Profile is currently under review, including reporting arrangements. It is considered that it is more useful to provide this high level summary information, rather than the full Profile, as this provides the key information to allow the Audit and Governance Committee to assure itself that the major risks have been identified and assessed, and that they are being managed effectively.

2. Background

2.1 Risk Profiling is a systematic risk identification and evaluation process designed to provide an organisation with a clear focus on the major risk issues it faces. The Profile identifies measures to assist in ensuring those risks are managed, appropriate opportunities are taken advantage of, targets are achieved and service delivery improved.

2.2 The Corporate Risk Management Group (which includes a range of Heads of Service, senior managers from across the Council and the corporate risk management team) carries out a six monthly review of the Corporate Risk Profile, the results of which are reviewed by the Executive Management Team and then reported to Cabinet and the Audit and Governance Committee. The Profile reflects the substantial changes and challenges the Council faces in its ambitious agenda for the future.

2.3 The latest review confirmed that the Corporate Risk Profile identifies and details the major risks facing the Council. However, it can be seen from table 3 in paragraph 3.3 that a number or risk scores have increased. It is considered that this reflects the fact that the review has been undertaken at a time when there is great uncertainty over public expenditure reductions and numerous Coalition Government policy announcements have been made and remain unresolved. In addition, some scores have increased to reflect the wider scope of those risks that have been consolidated as referred to in table 2, in paragraph 3.2.

2.4 The risks are scored as set out in the table below.

IMPACT	Critical	4	4	8	12	16
	Significant	3	3	6	9	12
	Moderate	2	2	4	6	8
	Minor	1	1	2	3	4
Risk Rating Matrix			1 Unlikely	2 Possible	3 Likely	4 Almost Certain
			LIKELIHOOD			

The scoring methodology was revisited as part of the review, retaining the 4 x 4 matrix, but using whole numbers. This has resulted in minor adjustments to the current risk scores.

A Projected Risk Score is provided in table 3 to reflect the assessment of risk assuming all of the proposed mitigating actions for the forthcoming 12 month period are implemented on time.

3. Changes to Corporate Risk Profile

3.1 The latest review confirmed that the Corporate Risk Profile identifies and details the major risks facing the Council. It was considered that there was an overlap between some risks and where appropriate these were amalgamated. Changes were made to the risk descriptions to better reflect the areas covered. The changes made to the Risk Descriptions are shown below in Table 1.

Table 1 - Corporate Risk Profile – Changes to Risk Descriptions

Ref	Original Risk Description (April 2009)	New Risk Description
1	Difficulties in managing/delivering services that meet the changing patterns of housing availability, suitability and demand heightened by the economic downturn.	Failure to meet the housing needs of the city.
4	Failure of the Council to support Elected Members to deliver their relevant community leadership role.	Failure of the Council to deliver its Community Leadership Role.
10	Failure to establish and embed an integrated approach to the management of crime and fear of crime.	Failure to embed an integrated approach to the management of crime and fear of crime.
13	Adverse outcome of current legal considerations in relation to Single Status and Equal Pay.	Adverse outcome in relation to Single Status and Equal Pay.
15	Failures within the Council to identify/ develop/ implement changes that enable it to meet the challenges of value for money and efficiency savings.	Failure to secure significant productivity gains to address potential public expenditure reductions.
17	Difficulties in achieving health inequality targets and closing the gap on related performance targets / standards in relation to high profile areas.	Failure to meet health inequalities targets.
21	Difficulties in ensuring that Sunderland's viewpoint is expressed, recognised and acknowledged international, national, regional and/or sub regional forums.	Failure to build and maintain an effective public affairs programme and therefore the ability to influence at Westminster and Whitehall.

Ref	Original Risk Description (April 2009)	New Risk Description
24	Failure of the Council to deliver the Sunderland Strategic Transport Corridor (SSTC) in a timely and effective manner.	Failure of the Council to deliver major transport infrastructure schemes in a timely and effective manner, including the SSTC: New Wear Crossing and the Central Route.
25	Failure to deliver the key physical regeneration projects (including the City Centre and the Sea Front).	Failure to deliver the key regeneration priorities as set out in the Economic Masterplan.
29	Failure to corporately implement the Local Government Data Handling Guidelines.	Failure to effectively manage, use and secure data to help the Council achieve its key priorities (with partners).
30	Inadequate resilience to / communication on major incidents.	Inadequate resilience for Business Continuity.
32	Failure to provide a fit for purpose integrated infrastructure to ensure safe and effective travel in the city.	Failure to provide a safe and adequately maintained highway network to ensure the expeditious movement of goods and people.
33	Failure to maximise the benefits and opportunities of partnership working.	Failure to maximise and demonstrate the benefits and opportunities of partnership working.
35	Inability to find and implement an effective solution for the future management of the Port of Sunderland.	Inability to implement an effective solution for the future management of the Port of Sunderland.

3.2 Two new risks were added and 11 were consolidated / closed / moved. Details are set out below.

Table 2 – Corporate Risk Profile – Additional / Closed Risks

ID	Status	Risk Description	Risk Owner
Additional Risks - Added for 2010/2011			
36	Open	Inadequate arrangements in place to manage the new responsibilities in relation to commissioning 16-19 learning.	Keith Moore, Acting Executive Director of Children's Services
37	Open	Failure to identify, prioritise and deliver programmes and projects to achieve improvement priorities.	Helen Paterson, Strategic Director of Transformation
Closed Risks			
3	Consolidated with Risk 21	Continuing lack of recognition of / support for / involvement in Sunderland as one City.	Dave Smith Chief Executive
5	Consolidated with Risks 2 & 4	Continuing difficulties in addressing the perception gap between the services the Council currently delivers and the overall evaluation of the Council.	Dave Smith, Chief Executive
6	Consolidated with Risks 2 & 4	Difficulties in implementing effective engagement and consultation with communities.	Dave Smith, Chief Executive
7	Consolidated with Risk 37	Failure to utilise the corporate programme / project methodology to deliver Council programmes and projects on time, on budget and to quality.	Dave Smith, Chief Executive
8	Consolidated with Risk 15	Failure to deliver a major business improvement project in timely and cost effective manner.	Dave Smith, Chief Executive
11	Consolidated with Risk 15	Failure to manage financial pressures.	Director of Financial Resources
14	Closed	Governance arrangements are not adequate to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.	Director of Financial Resources

ID	Status	Risk Description	Risk Owner
18	Moved to Children's Services Risk Register	Fail to fundamentally reduce child poverty levels in Sunderland.	Keith Moore, Acting Executive Director of Children's Services
22	Consolidated with Risk 19	Failure by the Council and/or its strategic partners to fully engage and maximise the advantages from working in partnership with the Third Sector to deliver the outcomes of the Sunderland Strategy and Local Area Agreements.	Ron Odunaiya, Executive Director City Services
23	Closed	Inadequate preparation to support the transfer of responsibility for 16-19 funding from the Learning and Skills Council (LSC) to Local Authorities in 2010.	Keith Moore, Acting Executive Director of Children's Services
26	Consolidated with Risk 25	The Economic Master Plan and/or Single Investment Plan is not fit for purpose.	Dave Smith, Chief Executive

3.3 Table 3 below shows all of the risks that remain on the Corporate Risk Profile, the Risk Owner, movement in Risk Score and reason for movement. The scoring methodology was revisited, retaining the 4 x 4 matrix, but using whole numbers. This has resulted in minor adjustments to the current risk scores. A Projected Risk Score is provided to reflect the assessment of risk assuming all of the proposed mitigating actions for the forthcoming 12 month period are implemented on time.

It can be seen from the table that a number or risk scores have increased. It is considered that this reflects that the review has been undertaken at a time when there is great uncertainty over public expenditure reductions and the need to promptly implement the Sunderland Way of Working. In addition, some scores have increased to reflect the widening scope of the risks following consolidation.

Table 3 - Risk Movement (Previous Risk Score to Current Risk Score)

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>1</td><td>↑</td><td>Failure to meet the housing needs of the city.</td><td>Neil Revely, Executive Director of Health Housing & Adult Services</td><td>6.09</td><td>12
(3x 4)</td><td>9
(3x3)</td></tr>
<tr><td colspan="7">Increased to reflect criticality of Homes and Communities Agency (HCA) funding decision due August 2010. Local Investment Plan being developed. Funding frozen by HCA, together with a general freeze in relation to new capital funding initiatives. In addition there is no commissioning plan in place for the Supporting People programme and the ring fenced funding will end 31st March 2011.</td></tr>
<tr><td>2</td><td>→</td><td>Difficulties in developing and delivering an effective strategy and plan for social inclusion, community cohesion and equality.</td><td>Sarah Reed, Assistant Chief Executive</td><td>5.82</td><td>6
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Technical increase due to using whole numbers for scoring.</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>4</td><td>↑</td><td>Failure of the Council to deliver its Community Leadership Role.</td><td>Dave Smith, Chief Executive</td><td>4.91</td><td>12
(4x3)</td><td>8
(4x2)</td></tr>
<tr><td colspan="7">Risk changed: This was previously “Failure of the Council to support Elected Members to deliver their relevant community leadership role”. Whilst the Community Leadership programme is seen as supporting Councillors, it is considered that there is still considerable progress to be made before the Council is fully appreciated as the Community Leader. The outcomes are to improve the quality of life at a neighbourhood level and improve the trust, reputation and satisfaction levels with the Council and its partners. Given the future financial outlook and policy developments (re localism etc.), the need to provide effective community leadership is greater.</td></tr>
<tr><td>9</td><td>→</td><td>Failure to implement a strategy / deliver a plan that makes the most efficient / effective use of land / property in the Council's portfolio.</td><td>Janet Johnson, Deputy Chief Executive</td><td>8.50</td><td>9
(3x3)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Technical increase due to using whole numbers for scoring.</td></tr>
<tr><td>10</td><td>↓</td><td>Failure to embed an integrated approach to the management of crime and fear of crime.</td><td>Janet Johnson, Deputy Chief Executive</td><td>5.90</td><td>3
(3x1)</td><td>3
(3x1)</td></tr>
<tr><td colspan="7">Reduced due to the effectiveness of additional controls implemented.</td></tr>
<tr><td>12</td><td>↑</td><td>Inability to match human resources and skills / abilities to meet the changing organisational requirements.</td><td>Sue Stanhope, Director of HR&OD</td><td>6.67</td><td>12
(4x3)</td><td>8
(4x2)</td></tr>
<tr><td colspan="7">Risk increased to reflect the importance of the Internal Jobs Market in assisting with the delivery of the Sunderland Way of Working, new Operating Model and efficiencies, and the level of uncertainty as to its ability to deliver the level of turnover required. Success is dependant on engagement from the organisation.</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>13</td><td>→</td><td>Adverse outcome in relation to Single Status & Equal Pay.</td><td>Sue Stanhope, Director of HR&OD</td><td>12.02</td><td>12
(4x3)</td><td>9
(3x3)</td></tr>
<tr><td colspan="7">Technical reduction due to using whole numbers for scoring.</td></tr>
<tr><td>15</td><td>↑</td><td>Failure to secure significant productivity gains to address potential public expenditure reductions.</td><td>Helen Paterson, Strategic Director of Transformation</td><td>7.81</td><td>12
(4x3)</td><td>8
(4x2)</td></tr>
<tr><td colspan="7">Risk increased: Previous risk number 8) Failure to deliver a major business improvement project in timely and cost effective manner, and risk number 11) Failure to manage financial pressures, are now amalgamated within this risk. The uncertainty as to the extent of public expenditure cuts and the ability to respond to them, are reflected in the increased score.</td></tr>
<tr><td>16</td><td>↑</td><td>ICT strategy and operational focus are not yet fully aligned to the needs and requirements of the Council.</td><td>Janet Johnson, Deputy Chief Executive</td><td>8.92</td><td>12
(4x3)</td><td>8
(4x2)</td></tr>
<tr><td colspan="7">The ICT requirements to deliver the Business Transformation Programme have not been fully identified and resourced. This may reduce the potential to make efficiencies which are dependant upon new or re-engineered ICT functionality.</td></tr>
<tr><td>17</td><td>↑</td><td>Failure to meet health inequalities targets.</td><td>Neil Revely, Executive Director of Health Housing & Adult Services</td><td>8.47</td><td>12
(3x4)</td><td>12
(3x4)</td></tr>
<tr><td colspan="7">Recent CAA assessment included a proposed red tag against health inequality targets. Whilst new mitigation actions are in place it is considered that these long standing problems will come under closer scrutiny. The new economic conditions and review of health services will also impact on this work (See also comments on Risk 19).</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>19</td><td>↑</td><td>Failure by the Council and/or its strategic partners to understand, embrace and evidence progress towards the outcomes of the Sunderland Strategy and Local Area Agreement (LAA) and, in the nearer term, to meet the challenges of future inspection arrangements.</td><td>Sarah Reed, Assistant Chief Executive</td><td>7.17</td><td>9
(3x3)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Current performance would suggest that half of the targets within the LAA will be achieved. A full analysis is currently being undertaken in relation to the year end figures for 2009/10 and the projected impact on 2010/11 targets which is the final year of the agreement. This is set against a context of having selected a set of very challenging priorities that have been issues for the partner services and the people of Sunderland for many years, and therefore carried a greater level of risk of non achievement of the target.</td></tr>
<tr><td>20</td><td>↓</td><td>Failure to find and/or implement suitable arrangements to meet the City's waste collection, management and disposal requirements.</td><td>Ron Odunaiya, Executive Director City Services</td><td>7.78</td><td>6
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Good progress is being made toward the desired solution. Effective implementation of new Kerbside waste collection arrangements.</td></tr>
<tr><td>21</td><td>→</td><td>Failure to build and maintain an effective public affairs programme and therefore the ability to influence at Westminster and Whitehall</td><td>Deborah Lewin, Director of Communication</td><td>6.37</td><td>6
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Technical decrease in rating due to scoring rationalisation</td></tr>
<tr><td>24</td><td>↑</td><td>Failure of the Council to deliver major transport infrastructure schemes in a timely and effective manner, including the SSTC: New Wear Crossing and the Central Route.</td><td>Ron Odunaiya, Executive Director City Services</td><td>8.66</td><td>16
(4x4)</td><td>16
(4x4)</td></tr>
<tr><td colspan="7">Increased due to the uncertainty about the Budget in June 2010 and the planned Spending Review.</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>25</td><td>↑</td><td>Failure to deliver the key regeneration priorities as set out in the Economic Masterplan.</td><td>Janet Johnson, Deputy Chief Executive</td><td>10.00</td><td>12
(4x3)</td><td>8
(4x2)</td></tr>
<tr><td colspan="7">Previous risk number 25) Failure to deliver the key physical regeneration projects (including the City Centre and the Sea Front) and risk number 26) The Economic Master Plan and/ or Single Investment Plan is not fit for purpose, have been amalgamated. The current economic climate makes it more unlikely that regeneration priorities will be funded / achieved. The availability of funding being a major concern.</td></tr>
<tr><td>27</td><td>→</td><td>High profile or widespread failure to meet obligations and expectations linked to the Council’s responsibilities for safeguarding children and young people.</td><td>Keith Moore, Acting Executive Director of Children’s Services</td><td>7.04</td><td>8
(4x2)</td><td>4
(4x1)</td></tr>
<tr><td colspan="7">Technical increase in rating due to using whole numbers for scoring.</td></tr>
<tr><td>28</td><td>→</td><td>Failure to maximise the availability of employees.</td><td>Sue Stanhope, Director of HR&OD</td><td>8.07</td><td>9
(3x3)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Technical increase in rating due to using whole numbers for scoring.</td></tr>
<tr><td>29</td><td>↑</td><td>Failure to effectively manage, use and secure data to help the Council achieve its key priorities (with partners).</td><td>Bob Rayner, Chief Solicitor</td><td>6.75</td><td>12
(4x3)</td><td>8
(4 x 2)</td></tr>
<tr><td colspan="7">In addition to the risks regarding data security, the risk has been extended to include the management and use of data. This area is of growing importance, particularly with regard to developing greater customer insight and gaining better understanding of value for money under more challenging economic conditions.</td></tr>
</table>

<table>
<tr><th>Ref</th><th>Status</th><th>Risk Description</th><th>Risk Owner</th><th>Previous Risk Score (March 2009)</th><th>Current Risk Score (I x L)</th><th>Projected Risk Score</th></tr>
<tr><td>30</td><td>↑</td><td>Inadequate resilience for Business Continuity</td><td>Janet Johnson, Deputy Chief Executive</td><td>6.70</td><td>9
(3x3)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Emphasis of risk has changed from Emergency Planning to Business Continuity. A Business Continuity policy, framework and delivery plan have been agreed by EMT. Pending the successful implementation of the delivery plan, including testing and a health check, it was considered that the risk should be classified as high.</td></tr>
<tr><td>31</td><td>↓</td><td>Failure of the organisation to have an overall approach to sustainability.</td><td>Janet Johnson, Deputy Chief Executive</td><td>6.79</td><td>6
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Sustainability Policy now in place. Early deliverables already realising benefits.</td></tr>
<tr><td>32</td><td>↓</td><td>Failure to provide a safe and adequately maintained highway network to ensure the expeditious movement of goods and people.</td><td>Ron Odunaiya, Executive Director City Services</td><td>8.22</td><td>6
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Existing and new controls continue to work effectively.</td></tr>
<tr><td>33</td><td>↑</td><td>Failure to maximise and demonstrate the benefits and opportunities of partnership working.</td><td>Sarah Reed, Assistant Chief Executive</td><td>7.94</td><td>9
(3x2)</td><td>6
(3x2)</td></tr>
<tr><td colspan="7">Slight increase in the score to reflect the impact of public sector spending cuts on partner organisations, e.g. NHS. This may lead to organisations concentrating on their own specific targets and ways of operating. Recent CAA assessment included a proposed red tag against health inequality targets. Whilst new mitigation actions are in place it is considered that these long standing problems will come under closer scrutiny. The new economic conditions and review of health services will also impact on this work (See comments on Risk 19).</td></tr>
</table>

Ref	Status	Risk Description	Risk Owner	Previous Risk Score (March 2009)	Current Risk Score (I x L)	Projected Risk Score
34	↑	Failure to respond to demographic trends and the needs and aspirations of the residents of the city in relation to Adult Social Care.	Neil Revely, Executive Director of Health Housing & Adult Services	6.29	12 (3x4)	9 (3x3)
Increase in the score to reflect the impact of public sector spending cuts on partner organisations, e.g. NHS. This may lead to organisations concentrating on their own specific targets and ways of operating, which may impact upon the Council's commissioning intentions.						
35	↓	Inability to implement an effective solution for the future management of the Port of Sunderland.	Janet Johnson, Deputy Chief Executive	5.64	3 (3x1)	3 (3x1)
Port Operating Model and new governance arrangements agreed, including new Port Director.						

New Risks						
Ref	**Status**	**Risk Description**	**Risk Owner**	**Previous Risk Score (March 2009)**	**Current Risk Score (I x L)**	**Projected Risk Score**
36	New	Inadequate arrangements in place to manage the new responsibilities in relation to commissioning 16-19 learning.	Keith Moore, Acting Executive Director of Children's Services	N/A	4 (4x1)	4 (4x1)
Impact assessment based on criticality of delivery and likelihood assessment based on current controls.						
37	New	Failure to identify, prioritise and deliver programmes and projects to achieve improvement priorities.	Helen Paterson, Strategic Director of Transformation	N/A	12 (4x3)	8 (4x2)
Initial assessment based on criticality, complexity and uncertainty.						

3.4 The table below sets out the progress in relation to the actions included within the Corporate Risk Profile for 2009/2010.

Table 4 - Corporate Risk Profile – Analysis of Actions as at 31/03/10

Actions as at 1/4/2009		**240**	
Less: Not due by 31/3/2010	19		
Less: Removed (no longer valid)	5	24	
Actions due to be completed within the year		**216**	
Breakdown			**%Age**
Completed		186	86%
Delayed		30	14%
		216	**100%**

As a result of the review an additional 117 new actions were added to the Profile.

4. Conclusion

4.1 The above report provides information and assurance to the Committee in relation to the Corporate Risk Profile.

Sunderland City Council

Item No. 7

Interim Opinion Audit Report

Sunderland City Council

Audit 2009/10

September 2010

audit commission

Contents

Introduction

1 This report sets out the results of our interim opinion audit work for 2009/10, which we concluded in June 2010.

2 The Code of Audit Practice requires review and reporting on the Council's financial statements and the Annual Governance Statement. The work at the interim stage informs the opinion process.

3 The requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) require auditors to gain an understanding and test the systems which inform the material entries in the financial statements.

Background

4 External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

5 Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

6 The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

7 Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Audit approach

8 The work we have completed to satisfy the requirements set out in the Introduction consists of:

- mapping the financial and information systems that provide material figures in the financial statements. The material financial and information systems identified are as follows:
  - General ledger
  - Bank reconciliation
  - Loans
  - Investments
  - Accounts payable (Creditors)
  - Accounts receivable (Debtors)
  - Payroll
  - Social care payment system (SWIFT)
  - National Non-Domestic Rates (NNDR)
  - Council Tax
  - Housing and Council Tax Benefits
  - Cash receipting
  - Capital accounting
- documenting the processes and controls in place within each system and undertaking walkthrough tests to ensure the system is operating as stated; and
- testing key controls within the systems to ensure that they are operating effectively. We have a three year cyclical programme for testing system controls where we seek to place reliance on controls for our opinion audit. This year we carried out controls testing on the following systems:
  - General ledger
  - Accounts payable (Creditors)
  - Accounts receivable (Debtors)
  - Payroll
  - Housing and Council Tax Benefits.

Main conclusions

9 We have concluded that, in general, the key controls within the Council's main financial systems are operating as designed. There is some scope for improvement in the areas of journal entries, Council Tax, Benefits, and IT access controls. Details are given below. Our recommendations made to address the issues raised are summarised in the Action Plan in Appendix 1.

Journal entries

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

11 To obtain the assurance we need to give our audit opinion on the financial statements, our response to this control weakness is that we will substantively test journals as part of our post statements work.

12 We discussed with officers whether there should be independent authorisation of all journal entries, including online journals and all high value journals. The view expressed by officers was that this would not be an efficient use of officer time, and that there were compensating controls in place, such as the limitation on who can raise journals and in what circumstances, and the wider check of budgetary control. However, officers have agreed to carry out a review of all journals over £500,000 as part of the annual closedown of accounts process.

Recommendation	
R1	The Council should introduce additional review procedures for all high value journal entries.

Council Tax

13 For 2009/10, there was a 1p discrepancy in some of the Council Tax bands between what was billed and what had been approved by the Council. The financial impact of this was insignificant and has not therefore impacted on our proposed post statements work.

14 Council Tax bills are sent out as soon as possible after the Council Tax is determined. Council Tax officers stated that they did not have access to Council agenda papers and because of time pressure relied on a hand-written note from Accountancy, which could not be located when we carried out our work.

Recommendation	
R2	Council Tax banding levels should be formally communicated to Council Tax officers following Council approval.

Housing and Council Tax Benefit

15 There is a daily reconciliation of Council Tax Benefit granted between the Council Tax Benefit (CTB) and Council Tax systems to ensure that the total amount of CTB is accurately recorded. We found that the reconciliation had not been kept up to date. At the time of testing the spreadsheet was 51 days out of date. Therefore, any inaccurate transfers between the systems may not be identified and resolved promptly.

16 To obtain the assurance we need to give our audit opinion on the financial statements, our response to this control weakness is that we will ensure that we test the year end reconciliation as part of our post statements work.

Recommendation	
R3	The daily reconciliation between the CTB and Council Tax systems should be kept up to date.

BACS runs

17 Audit trails for the approval of BACS payment runs are held for one year, which prevented us from accessing evidence of authorisation for payments near the beginning of the 2009/10 accounting period.

18 We have obtained sufficient assurance for this financial year, but the BACS payment audit trails will need to be retained for a longer period to avoid problems in future audit years.

Recommendation	
R4	BACS payment audit trails should be retained for an appropriate time period.

IT access controls

19 As part of our audit work we have assessed access controls over the material financial systems. We have compared controls in place to good practice. Areas where weaknesses have been highlighted are where controls do not meet the following benchmarks:

- password length - a minimum of seven characters;
- password complexity - including one capital letter and one digit as a minimum;
- frequency of password changes - at least every 45 days;
- use of previous passwords - prohibiting the re-use of the previous nine passwords;

- preventing logging-in to more than one computer;
- displaying details of the previous log-in; and
- blocking access after three unsuccessful attempts.

20 Controls which did not meet these standards are detailed in the table below.

Table 1 Material systems access controls

The table shows areas where controls fall short of good practice.

Access controls	Logotech	NNDR	Cash receipting	SWIFT	SAP/FMS	HBCTB
Password length	Minimum 1	Minimum 1	Minimum 1	✓	✓	Minimum 6
Password complexity	Not in place	Not in place	Not in place	Not in place	Not in place	✓
Password change	Not in place	Not in place	Not in place	✓	✓	✓
Password re-use	Not in place	Not in place	Not in place	✓	✓	6
Preventing logging-in to more than one computer	✓	Not in place, but warning message displayed	Not in place	✓	✓	Not in place, but justified for customer service.
Showing previous log-in details	Not in place	Not in place	Not in place	Not in place	Not in place	✓
Blocking access after failed log-ins	Not in place	Not in place	Not in place	✓	✓	✓

21 To obtain the assurance we need to give our audit opinion on the financial statements, we identified and tested other controls to provide us with the required level of assurance.

Recommendation

R5 The Council should improve log-in controls to minimise the risk of unauthorised systems access.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Council should introduce additional review procedures for all high value journal entries.	1	Chief Accountant, Finance Manager - Technical Services, Assistant Chief Accountant	Yes	The SAP system limits access to journal entries and a log is actively maintained to ensure that only staff designated as needing access have the journal facility allocate to them. There is a protocol in place which adds a further control to ensure that all staff so designated have been agreed via the relevant Finance Manager (for Directorates) or by senior management within the Financial Management function. The request to have all journals authorised is not considered best use of management's time and this will be especially the case moving forward in the Sunderland Way Of Working, which is designed to make Council processes more efficient and remove unnecessary controls. A further control requires that journal entries are restricted to cost centres to which the actioner has authorisation eg most directorate users can only action within a constrained set of Cost Centre codes (eg schools can only affect their school cost centres for instance).	June 2011

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Staff with cross ledger journal posting authority, are specifically authorised finance staff. Journals can not be posted across organisations. Effective budget monitoring controls and account reconciliations also identify any 'rogue' entries. The regular reporting to Cabinet of both revenue, capital and balance sheet items and the final accounts process itself also assist in identifying journal posting errors during the year and at year end. In researching this issue - all journal entries over £500,000 in value were reviewed for 2009/10 (90.67 per cent of all journals) for all revenue and balance sheet items. All of the journal entries were carried out by Financial Management staff or duly authorised by senior finance staff from the Directorates who are line managed by Finance Managers. The risk of error is thus considered to be very low. This exercise will be carried out annually to provide an additional review of high value journal entries.	

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R2 Council Tax banding levels should be formally communicated to Council Tax officers following Council approval.	3	Finance Manager - Technical Services, Billing Manager, Revenues Systems Team Manager	Yes	This minor error related to different 1p roundings on four of the Hetton Town Council (HTC) bandings not reflecting the final figures approved by full Council. To put this error into context the total error was a net 'over-collection' of £32.96. Procedures were modified for 2010/11 to ensure this type of error could not be repeated. Formal notification is now in place and designated officers (DDN/SH/DB) check the details of at least one Council Tax Bill from each banding for the properties within the HTC area and those outside of the HTC area, to ensure the bills show the correct Council approved figures. The hard coded details (not automatically produced by the system) set out on the Council Tax Bills are also checked to ensure the correct information is included.	Already actioned
7	R3 The daily reconciliation between the CTB and Council Tax systems should be kept up to date.	3	Revenues Systems Team Manager	Yes	We would confirm that the spreadsheet had not been kept up to date at the time of the audit and that this was to be brought up to date after annual billing/ year end testing was completed. With an integrated Revenues & Benefits system the risk of getting out of step is minimal but there has been (on very rare occasions) a claim that has not been completed correctly (due in the past to PC/ Network problems).	Already Actioned

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Because of this fairly rare occurrence, a reconciliation of the figures from the Council Tax Benefit report to the figures on the Council Tax transactions report, relating to benefit amounts, is carried out. The risk of getting out of step is minimal because the vast majority of claims go through without issue and the 'posting' to the Council Tax account is joined up and integrated. A new development has recently been put in place which means that through an overnight job scheduler we have automated certain functions, so that the relevant figures from the particular reports can be picked up and placed into the spreadsheet. This will ensure that the spreadsheet reconciliation is kept up to date on an ongoing basis. As an added assurance the Revenue Systems Team Manager has introduced an audit check that includes all of the various system changes. The new development set out above is now included as an extra check to ensure that the spreadsheet reconciliation does not get out of date in future.	

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 BACS payment audit trails should be retained for an appropriate time period.	2	Finance Manager - Technical Services	Yes	The software providers have indicated that system logs are only retained on the system for 12 months. The Finance Manager - Technical Services has requested a review as a possible system enhancement / development. However if there is an additional cost implication of this we will instead keep hard copy logs covering a rolling 18-month period – this would cover at least a full year's logs for audit purposes. In the current absence of a longer period than 12 months history we are retaining the hard copy logs from 1 April 2010 as a fall back position for next year's audit.	Already actioned from 1 April 2010
8	R5 The Council should improve log-in controls to minimise the risk of unauthorised systems access.	2	All System Owners which include: Chief Accountant, Finance Manager - Technical Services, Assistant Chief Accountant, Head of Transactional Services,	Yes	All of the systems identified with the exception of the Cash Receipting System can only be accessed via the Council's network. The Council's network fully complies with the access controls set out in the report and as such meets the required/desired controls and this factor could be considered with regard to this recommendation. The Cash Receipting system is to be replaced shortly and the controls expected will be reviewed, as will be the case with the other key systems identified in order to check and move to the suggested standards set out where they can be changed and where it is cost effective to do so.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
			Head of Performance, Commissioning and Change		It should be recognised that some systems are quite dated particularly Logotech and this is not considered to be a major issue in that only the Treasury Management team have access to what is effectively a reporting tool that sits outside of SAP. All systems have controlled and limited staff access and only authorised staff have update rights to each system, while others only use reporting and viewing tools. Taking all of the above factors into account there would appear to be appropriate access restrictions in place (at least 2 tiers of controls), one that meets the desired standards and further individual access restrictions where most are being met. As indicated above the Cashiers system is to be replaced, which may address the issues over access and the SWIFT system is currently being reviewed to see if the access restrictions can be further improved.	

The Audit Commission

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

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Sunderland City Council

Item No. 8

AUDIT AND GOVERNANCE COMMITTEE 30 September 2010

AUDITED STATEMENT OF ACCOUNTS 2009/2010

Report of the Director of Financial Resources

1. PURPOSE OF THE REPORT

1.1 To receive the Interim Annual Governance Report from the Audit Commission on the findings of the audit of the financial statements for 2009/2010 and their assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

1.2 To approve the revised Annual Governance Statement for 2009/2010, which takes into account some minor amendments arising from the audit, prior to its inclusion in the amended audited Statement of Accounts.

1.3 To provide for approval an amended Audited Statement of Accounts for 2009/2010, which has been revised to take into account the Auditor's findings.

1.4 To set out for Members of the Committee reasons why the audit cannot be concluded and a final opinion and certificate cannot be provided at this time.

2. DESCRIPTION OF DECISION

2.1 Members are recommended to:

2.1.1 Note the contents of the Interim Annual Governance Report and agree the response to the Auditor's proposed action plan.

2.1.2 Approve the amended Annual Governance Statement set out in Appendix A of this report.

2.1.3 Approve the amended Audited Statement of Accounts for the financial year ended 31st March 2010.

3. BACKGROUND

3.1 Members will be aware that the Audit Commission, as the Council's external auditors, are required to report on the final accounts, and report certain matters to Members prior to an opinion being provided on the Council's accounts.

3.2 To conclude the audit, a Letter of Representation is required from the Director of Financial Resources, which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required, before an opinion or certificate can be issued. However, the Letter of Representation is not required at this stage, as the Council has 'stopped' the right of public inspection process until advice is received on a point of law in respect of the disclosure of commercially sensitive PFI information that a member of the public has requested.

3.3 A new date will now have to be set by the Auditors once the legal postion is clarified by the Court of Appeal on the Veolia ES v Nottinghamshire County Council case (currently this is assumed to be the end of October). The Council will be notifed by the Auditor of a fresh public inspection period and a new date when local electors can ask the Auditor questions and/or raise objections to the Statement of Accounts for 2009/2010. This date is expected to be in Janaury 2011 as the Council must provide 20 working days for the public inspection to take place and must give notice to the public of at least 14 days, prior to the commencement of the inspection period. This could be further delayed depending upon the timing of the outcome of the decision of the Court of Appeal or whether the judgement sufficiently clarifies the legal position. Members will however be kept informed of developments.

3.4 The Audit Commission has nevertheless continued its audit of the financial statements of the Council in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

3.5 Once the Audit and Governance Committee has noted the contents of the Auditor's interim communication, the Audit Commission cannot however provide their audit opinion and certificate for the Statement of Accounts for the year ended 31st March 2010, due to the fact that the public inspection period has been stopped and the Statement of Accounts 2009/2010 are still subject to local electors challenge and objection.

3.6 In accordance with ISA 260, the Audit Commission has produced an Interim Annual Governance Report, in which the Auditor's opinion, at this stage, is that the financial statements present a true and fair view of the financial position of the Council, and its income and expenditure for the year ended 31st March 2010. An interim Annual Governance Report 2009/2010 is included as **Item 8a** on the Agenda as a new public inspection period is required and there is still the potential for local electors to raise objections to the Statement of Accounts

2009/2010, which the auditor may have to address. In these circumstances, the Auditor cannot issue his final Annual Governance Report on the accounts.

3.7 The Statement of Accounts 2009/2010 has been amended to reflect presentational adjustments following the audit. The amendments are detailed in Appendix B for member's information and the revised Statement of Accounts 2009/2010 is set out at **Item 8b** on the agenda for approval.

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

4. KEY MESSAGES

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

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

4.2 The Audit Commission cannot at this stage provide a final opinion on the amended audited Statement of Accounts, before the 30th September 2010, as a consequence of the legal issue outlined above.

4.3 Once the legal position is resolved, a fresh public inspection period can be advertised and a new appointed date set for local electors to raise questions or an objection to the accounts. Once that process has been concluded, the audited and amended Statement of Accounts for

2009/2010 will be re-presented at a future meeting of this Committee for approval, where it will also receive the Letter of Representation and the Auditor's Annual Governance Report, audit opinion and certificate.

Appendix A

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. A copy of the Code is on the Council's website at
http://www.sunderland.gov.uk/CHttpHandler.ashx?id=2504&p=0
or can be obtained from the 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 2010 and up to the date of approval of the Annual Report and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:

The Sunderland Strategy 2008-2025 provides the framework for members of the Sunderland Partnership, organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

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

Delivery of the Vision is underpinned by the following Strategic Priorities:

- Prosperous City;
- Healthy City;
- Safe City;
- Learning City;
- Attractive and Inclusive City

Underpinning the Sunderland Strategy is a comprehensive needs analysis, Sunderland Strategy Delivery Plans, including the Local Area Agreement and a set of Local Area Plans. The Delivery Plans which have life-spans of three years, identify the short term detailed and focused targets which will help to achieve the longer term key objectives set out in the Sunderland Strategy.

The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios, including the estimated Revenue Budgets for the financial year and the Capital Programme for 2009/10 to 2012/13. The CIP gives a broad overview of what the Council is doing in respect of its Corporate Improvement Priorities, what actions it intends to take over the next three years.

To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:

- CIO1 Customer focused services
- CIO2 One Council
- CIO3 Efficient and effective council
- CIO4 Improving partnership working

The Strategic Priorities set out in the Sunderland Strategy and CIOs have been combined to create the council's Corporate Improvement Priorities, to provide an increased focus on improvement activity and to reflect the fact that internal and external improvement activities are inter-related with each resulting from, contributing to and dependant upon the other.

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

- Wide distribution of the Corporate Improvement Plan, including on the Council's website and intranet;

- Through the Council's corporate Investors in People (IIP) processes;

- Sunrise magazine, issued to all residents.

Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:

Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.

There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:

There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.

There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Scrutiny Committees.

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

The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.

A system of scrutiny is in place which allows Scrutiny Committees to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- Directorates have established delegation schemes, although these may require updating in some areas to reflect recent organisational changes.

Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

The following are in place:

- Members' Codes of Conduct;
- Employees' Code of Conduct;
- Protocol on Member/Employee Relations;
- Protocol for Members in Relation to Development Control Matters;
- Whistleblowing Policy;
- Protocol for the use of Civic Cars;
- Protocol for Members in Relation to Licensing Matters;
- Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
- Guidance for Members in Relation to the Use of Council ICT Facilities;
- Protocol for Use of Member Website;
- Data Protection: Guidance for Councillors;
- Remote Intranet/Internet Access for Members;
- Protocol in Relation to Members' Dealings with the Council;
- Registers of Interests, Gifts and Hospitality.

Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

The 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;
- Directorate / department budget management schemes.

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

- Member Risk Champion;
- Risk Management Policy and Strategy Statement;
- Nominated Head of Service lead for Risk Management;
- Corporate Risk Profile;
- Corporate and Directorate Risk Management Staff and Groups;
- Risk Profiles for major projects and significant partnerships;
- Risk Management Training Programme;
- Establishment and operation of a risk management fund;
- Nominated Directorate risk management champions;
- Risk Management Advisors for each Directorate.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- Business Continuity Plans are in place, which are subject to ongoing review and development. The arrangements in place in relation to ICT disaster recovery were satisfactory overall with further enhancement required in relation to some key applications and action is being taken to address this.

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- The Council participates in the National Fraud Initiative.

- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.

- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Director of Financial Resources fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;

- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;

- Alignment of medium term business and financial planning processes;

- Money is safeguarded and used appropriately, economically, efficiently and effectively;

- Ensuring that the finance function is resources to be fit for purpose;

The person specification for the post of Director of Financial Resources requires that the post holder be professionally qualified and suitably experienced.

The core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities, are undertaken by members.

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

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

- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;

- receive and consider the external audit plan;

- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;

- receive and consider the annual report of internal audit;

- consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;

- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and

- make recommendations to Cabinet or Council as appropriate.

Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:

The 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.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.

The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.

Monitoring records held by the 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;
- ensure that all newly Elected Members are properly inducted into the Council;
- encourage all Members to undertake a personal development plan to identify their individual needs and learning styles;
- ensure that all emerging needs for both individuals and across the board are identified and addressed;

- ensure that resources available for Member Development are effectively used.

A programme is in place in order to support Councillors in fulfilling their community leadership role.

The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

The strategy is complemented by the Hard to Reach Framework which outlines the council's approach to consulting with minority and vulnerable sectors of society.

Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:

The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

A Register of Partnerships is maintained. Significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.

An annual report of those partnerships classified as significant is presented to Cabinet.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Councillors and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

The role of the Council:

- Councillors have participated in the annual review of the Council's Corporate Governance arrangements;
- The Leader of the Council, the Chief Executive and the Director of Financial Resources have overseen the review and signed the Annual Governance Statement.

The role of the executive:

- The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The role of the Audit and Governance Committee:

- The findings of the Annual Governance Review have been reported to Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

There is a system of scrutiny which allows Review Committees to:

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

The role of the Council’s Standards Committee includes the following:

- promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
- monitoring the operation of the Members’ Code of Conduct;
- monitoring the operation of the Council’s Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
- considering reports and complaints relating to the conduct of Members of the Council;
- supporting the Monitoring Officer in his role.

The Director of Financial Resources has directed, co-ordinated and overseen the review.

All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based audit work and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

The Organisational Assessment of the ***latest Comprehensive*** Area Assessment states that:

- Overall, Sunderland City Council performs well.
- The Council's ***2008/2009*** use of resources ***was*** good and scored 3 out of 4 overall.
- The Council manages it finances well, particularly financial planning and there have been no significant overspends in recent years. The Council has appropriate levels of balances and reserves.
- Governance of the business is good.
- Risk Management is excellent and has been used to especially good effect on the Building Schools for the Future project and in preparing the medium term financial plan.
- Despite strong leadership and a number of ongoing projects, there is still a need to ensure the careful use of natural resources is fully included in all of the Council's activities and plans.
- The Council manages performance well, scoring 3 out of 4.

- The Council with partners have developed a clear long term vision for Sunderland in the year 2025. This is based on a good understanding of needs and priorities of residents. The Council's Corporate Improvement Plan reflects the Sunderland Partnership's priorities for the City, set out in the Sunderland Strategy, and the Council has also identified four corporate improvement objectives to ensure a greater focus on efficiency and effectiveness.

Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

Cabinet and the Audit and Governance Committee have advised us ***that*** the review of the effectiveness of the governance framework ***concluded that the Council continues to have robust and effective governance and control arrangements in place.*** An improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

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

Paul Watson Leader of the Council	Dave Smith Chief Executive	George Blyth Director of Financial Resources

Dated 30th September 2010

Appendix B

Amendments to the draft accounts

2009/2010 Figures

Page 48 – Cash Flow Statement – The increase in other liquid deposits in respect of NNDR had been calculated on an accruals basis instead of a cash basis. This resulted in an adjustment of £4.843m

Page 127 – Collection Fund – The adjustment for write off's had been included twice in the Cost of Collection figure. This has a direct effect on the Payments to the Pool figure resulting in an adjustment of £0.944m.

2008/2009 Comparative Figures

Page 20 - The Certificate of the Director of Financial Resources was amended from 'presents fairly' to 'presenting a true and fair view'.

Pages 36 – 43 - The Annual Governance Statement needed to be amended to clarify some issues.

Page 44 – Balance Sheet – The restated 2008/2009 Balance Sheet infra structure assets and the corresponding figure in Note 1 (Page 58) have been increased by £0.491m. An amendment of £0.491m was also made to the Note 1 restated debtors figure (Page 58).

Page 44 – Cash Flow Statement – The restated 2008/2009 Cash Flow Statement, Increase in Other Liquid Resources figure in respect of NNDR had been calculated on an accruals basis instead of a cash basis. This resulted in an adjustment of £1.004m.

The following restated 2008/2009 figures in Note 1 have been amended:

- Page 57 – General Fund Balance carried forward adjusted by £0.285m
- Page 60 – Net Cash Flows from revenue Activities adjusted by £6.862m.
- Page 60 – Interest Paid adjusted by £3.388m.

Page 62 - Note 2 - Building Regulations expenditure was overstated by £0.3m

Page 68 - Note 7a - Did not include all pay bandings and included some incorrect numbers in the details disclosed.

Page 70 - Note 7a – Did not include the prior year comparative figures for senior officers' remuneration.

Page 73 - Note 10 - Highways Maintenance agency costs were understated by £5.100m.

Page 73 - Note 10 - Other Payments for agency costs were overstated by £1.000m.

Page 84 – Note 21 – The restated 2008/09 Capital Financing Requirement required a reclassification within the statement of £1,160k to reflect the prior year MRP adjustment.

Minor typographical errors and omissions

A number of minor typographical errors and omissions have been amended.

Sunderland City Council

Item No. 8(a)

Interim Annual governance report

Sunderland City Council

Audit 2009/10

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

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

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

Ladies and Gentlemen

2009/10 Interim Annual Governance Report

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

I discussed and agreed a draft of the report with the Director of Financial Resources on 20 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider.

It asks you to:

- consider the matters raised in the report before approving changes to the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 1);
- note the reasons why I will be unable to issue an opinion by 30 September 2010 (pages 4 to 5);
- note my findings in relation to the value for money conclusion (pages 13 to 14);
- agree your response to the proposed action plan (Appendix 3).

Yours faithfully

Steve Nicklin
District Auditor

21 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete, except for dealing with any matters that might emerge from the public inspection of the Council's accounts. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes i	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	13

Audit opinion

1 During the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. The position is likely to become clearer later this year following a Court of Appeal decision in the Veolia case. As a consequence, I agreed to arrange for the audit to be 'called' again when the Council is able to meet the requirements of the public inspection period.

2 In the meantime, I have continued to carry out the audit of the financial statements. This work is largely complete, amendments to the statements have been identified and agreed with officers, and revised accounts have been prepared for re-approval by Members. Based on the work to date I would be in a position to issue an unqualified opinion.

i Subject to resolution of issues set out in paragraphs 1 to 3.

3 However, I will not be able to issue my opinion or certificate by 30 September, as I will need to wait for the audit to be re-advertised, for the public inspection period to be completed, and this will include giving local electors the opportunity to exercise their rights to raise objections to the accounts with the auditor. It is likely that I will not be able to issue my final governance report and issue my opinion on the Council's accounts until January 2011 at the earliest.

Financial statements

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

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

Value for money

6 Subject to any issue emerging as a result of the public inspection of the accounts it appears to me that the Council has adequate arrangements in place to secure value for money, and improvements have been made since my last review.

Independence

7 I confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

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

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8 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 1);
- take note of the reasons why I will be unable to issue an opinion by 30 September 2010 (page 7);
- note my findings in relation to the value for money conclusion (pages 13 to 14);
- agree your response to the proposed action plan (Appendix 3).

Financial statements

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

Opinion on the financial statements

9 During the audit, the Director of Financial Resources advised me that the Council was unable to proceed with the public inspection process because of legal uncertainty about disclosure of commercially confidential information. The position is likely to become clearer later this year following a Court of Appeal decision in the Veolia case. As a consequence, I agreed to arrange for the audit to be 'called' again when the Council is able to meet the requirements of the public inspection period.

10 In the meantime, I have continued to carry out the audit of the financial statements. This work is largely complete, amendments to the statements have been identified and agreed with officers, and revised accounts have been prepared for re-approval by Members.

11 However, I will not be able to issue my opinion or certificate before 30 September, as I will need to wait for the audit to be re-advertised, for the public inspection period to be completed, and this will include giving local electors the opportunity to exercise their rights to raise objections to the accounts with the auditor. When this process is complete and I have dealt with any matters arising I will issue a final governance report to Members.

Errors in the financial statements

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

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

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

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

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

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

18 All amendments have been discussed and agreed with officers, and are reflected in the revised statements presented for re-approval by officers. We have listed the most significant amendments in Appendix 1, including an amendment that arose in relation to a non-adjusting post balance sheet event.

Recommendation

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

Important weaknesses in internal control

19 I have reported separately on my interim work on the system of internal control[i].

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

i Interim Opinion Audit Report, 2009/10, September 2010.

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

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

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

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

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

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

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

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

Recommendation

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

Accounting practice and financial reporting

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

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

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

28 The financial statements are extremely comprehensive and detailed, but they are very long at 142 pages, and they also use a particularly small font size. There are some relatively simple measures that could be taken:
- show figure in £000's, not to the nearest £;
- summarise some tables to be more focused and show less detail;
- shorten some notes to be more focused and show less detail; and
- remove the existing duplication of information within the statements by streamlining disclosures.

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

Recommendation

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

Value for money

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

Value for money conclusion

30 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are in Appendix 2, but these may change as a result of any matters brought to my attention through the public inspection of the accounts process.

31 My findings to date are that the Council has managed its finances effectively, and has delivered efficiencies and improved outcomes.

32 The Council continues to demonstrate particular strengths, including:

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

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

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

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

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

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

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

37 Subject to any matters arising from the public inspection of the Council's accounts I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. I do not plan to issue my value for money conclusion until I have resolved the issues that will enable me to issue my opinion on the financial statements.

Glossary

Annual governance statement

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

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

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

Audit closure certificate

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

Audit opinion

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

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

Qualified

43 The auditor has some reservations or concerns.

Unqualified

44 The auditor does not have any reservations.

Value for money conclusion

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

Appendix 1 – Amendments to the draft accounts

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

Table 2: **Amendments to accounts**

The following amendments were made

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

46 A number of other adjustments were agreed relating to prior year comparative figures and to notes. These included:

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

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

Non-adjusting post balance sheet event

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

48 In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI). The impact of this is to reduce future pension liabilities as CPI has consistently increased at a slower rate than RPI.

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

Appendix 2 – Value for money criteria

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

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

VFM criteria	Met	Summary of conclusions to date
		The Council's accounts meet statutory requirements and relevant reporting standards. Its website and other information is available in a wide range of formats including foreign languages, and voicetape. The Council used its citizens panel and MORI polls to seek the views of stakeholders about what information is required in its external reporting and tailors it accordingly.
Governing the business		
Commissioning and procurement		Procurement arrangements continued to improve. Better procurement delivered £863k savings in 2009/10, well ahead of the target of £750k for the year. This has been achieved through a wide range of corporate procurement activity achieving savings such as e-auctions £65k and business travel and accommodation a 10% saving. The Category Manager corporate team has expanded in the last year to include service expertise and the use of e-catalogues is now council wide. Following trials the innovative 'Buy Sunderland First' procurement software is live from April 2010, this improved electronic procurement also assists increased use of local suppliers in the recession. There are examples of good commissioning work with partners such as youth commissioning work and specifically the XL Youth Village that increased youth engagement, reduced ASB and criminal behaviour and improved community cohesion. The Council is seeking to improve consistency in commissioning across its services.

VFM criteria	Met	Summary of conclusions to date
Use of information		The Council produces relevant and reliable data and works with partners on the quality of data which is relevant to shared priorities. There is a clear corporate statement on the importance of high data quality standards and guidance on the Council's approach to achieving them, against which directorates are required to demonstrate progress. Members recognise the importance of good data quality and a Cabinet member acts as data quality 'champion'. Good progress to improve quality of data and information includes strengthening area arrangements, building key data sets with partners and improved Scrutiny involvement with their recommendations now part of corporate reports. However, it is too early for new Performance Plus software benefits to be realised, as this only went live across all of the Council from April 2010. The Council has developed a consistent corporate framework across all partnership arrangements. This has enabled the Council to assess the performance of its partnerships, and address areas which need to be improved.
Good governance		The Sunderland Community Strategy sets out a clear vision for the City for 2025. This and the Local Area Agreement (LAA) demonstrate a good understanding of the key issues which need to be addressed. There is a comprehensive code of practice for partnership working which is subject to annual review. The Council's constitution is regularly updated and clearly describes roles and responsibilities. The Council has adopted codes of conduct for its members and staff that are widely publicised. Policies for whistleblowing and "comments, compliments and complaints" are also up to date and well publicised. The Standards Committee has met regularly throughout the year and has considered a number of Council policies on governance issues as well as receiving and assessing complaints and scrutiny has been strengthened

VFM criteria	Met	Summary of conclusions to date
		The Sunderland Community Leadership Programme has included a review of area governance arrangements. The Area Committee Constitution has been changed to provide a clearer focus on implementing local area plans, managing performance and engaging residents. As a result Area Committees are now more responsive and able to target local services. For example, closer ties were made with the police to help to reduce crime and improvements have been made in graffiti removal, refuse collection, litter, dog fouling and grass cutting services, cycle paths and tackling of fly tipping.

VFM criteria	Met	Summary of conclusions to date
Risk management and internal control		Risk management is fully embedded in corporate processes. The Partnership Code of Practice requires all significant partnerships to have their own risk registers. Demonstrating effective risk management has enabled the Council to reduce insurance premiums, increase insurance cover at no extra cost and extend self insurance schemes. Counter fraud arrangements have been assessed against the newly issued 'red book' from CIPFA. There have been no cases of proven fraud or corruption in recent years, except for Benefits claims. The partnership code of practice clearly sets out expected counter fraud and corruption arrangements for partnerships. The Council has participated in the National Fraud Initiative (NFI) since its inception, and can demonstrate that it is creating a strong deterrent effect through publicity material. The Council has an Audit and Governance Committee which is independently chaired and politically balanced. It includes co-opted members and is proactive. Internal Audit and Audit Commission work has not identified any significant weaknesses in internal controls in recent years. Internal Audit is properly resourced and meeting CIPFA standards. Standing orders, standing financial instructions and a scheme of delegation are in place, well publicised and kept up to date. The Council regularly reviews the effectiveness of its partnership working and the financial performance of key partnerships using a scorecard approach, summarised in an annual report to Cabinet. The Council can identify clear examples of where good partnership governance has helped to deliver improved outcomes.

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

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

Appendix 3 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R1 Arrangements need to be reviewed to ensure that the accounts are fully supported by comprehensive working papers in future years.	3	Head of Financial Management Assistant Chief Accountant	Yes		For completion of 2010/11 accounts
	R2 A valuation for Newcastle International Airport should be carried out again next year, and the Council's rationale for the most appropriate valuation method should be discussed with the valuer so that the valuer and the Council's view can be rationalised and hopefully a consistent view will emerge. Officers should again discuss this with other partner authorities to ensure consistency among all shareholders in the airport.	3	Head of Financial Management Assistant Chief Accountant	Yes	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.	For completion of 2010/11 accounts

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R3 A review should be undertaken to identify the scope for producing a more streamlined and focused set of financial statements for 2010/11.	3	Head of Financial Management Assistant Chief Accountant	Yes	All working practices in the finance function are currently under review through the Business Transformation Programme to ensure that efficiency savings are maximised whilst ensuring that processes are fit for purpose.	For completion of 2010/11 accounts

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Statement of Accounts

2009/2010

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Cabinet 2009/2010

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

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

Introduction

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

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

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

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

Councillor Paul Watson Leader of the Council	Dave Smith Chief Executive	George Blyth Director of Financial Resources

Dated: 30th September 2010

Certification of the Statement of Accounts

As Chairman of the Audit and Governance Committee held on 30th September 2010, I hereby acknowledge receipt of the audited Statement of Accounts for 2009/2010 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 30th September 2010 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: 30th September 2010

Foreword by the Director of Financial Resources

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

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

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

1. A Statement of Accounting Policies

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

2. Annual Governance Statement

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

3. Statement of Responsibilities for the Statement of Accounts

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

4. The Core Financial Statements

Income and Expenditure Account

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

Statement of the Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses (STRGL)

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

Balance Sheet

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

Cash Flow Statement

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

5. Notes to the Core Financial Statements

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

Foreword by the Director of Financial Resources (Continued)

6. Supplementary Statements

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

The Secretary of State can give his consent to close this account in certain circumstances, one of which is when a Large Scale Voluntary Transfer (LSVT) has taken place and the service is no longer provided by the Council. The Council transferred all of its housing stock to Sunderland Housing Group on 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 2009/2010 to be met from Government Grants and local taxpayers was approved at £249.051m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,325.72 for 2009/2010. This represented a Council Tax increase of 2.87% over the 2008/2009 Band D Council Tax of £1,288.75. The Council again set the lowest Council Tax level in the whole of the North East region for 2009/2010 for the second consecutive year and continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

Foreword by the Director of Financial Resources (Continued)

Note 1 – General Reserve
The above table shows an increase in the general reserve balance of £3.195 million as forecast at the revised estimate stage and is after taking into account the creation of a limited number of reserves reported to Cabinet as part of the outturn report.

The movement in the general reserve balance takes account of the following additions to balances totalling £4.288 million:
- £1.045 million in respect of additional successful applications for VAT refunds achieved after the preparation of the Revised Estimate 2009/2010 was approved by Cabinet in February 2010;
- £0.570 million in respect of savings arising on waste disposal costs as a result of a reduction in volumes sent to landfill;
- £0.405 million in respect of repayment of temporary financing in respect of Rainton Bridge Industrial estate;
- £2.104 million additional debt charge savings primarily as a result of re-profiling capital expenditure and debt restructuring activity in light of market conditions;
- Other net savings in contingencies and non delegated expenditure of £0.164 million;

and the following £4.288 million use of balances;
- £0.623 million in respect of additional costs of winter maintenance following the unexpectedly severe winter conditions in the final quarter of 2009/2010;
- approved earmarking of balances of £0.600 million to support pressures arising in respect of the economic downturn including provisions for reduced income;
- approved earmarking of balances of £0.900 million to support the Children's Placement Strategy review
- approved transfer to the Strategic Investment Reserve of £2.165 million to support invest to save projects which will assist with the future achievement of efficiency savings through the Improvement Programme and Capital Programme priorities for 2011/2012.

Note 2 - Movement on Locally Managed Schools Reserve
The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the SORP, forms part of the Statement of Movement in General Fund Balances. The movement in school balances during 2009/2010 amounted to a net return to balances of £1.721m (£0.170m net return to balances in 2008/2009), which means that this effectively reduced spending by schools and is reflected in the Statement of Accounts within the Income and Expenditure Account on the Education cost of service line.

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

Capital Expenditure and Income

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

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

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

Foreword by the Director of Financial Resources (Continued)

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; Oxclose school also benefited from a 'Quick Win' project under the BSF programme which involved a £11m refurbishment that was completed in May 2007 and,

- An ICT managed service contract which will provide services to the above schools / academies, plus Sandhill View school.

Balfour Beatty Construction Limited (BBCL) was selected as the preferred bidder for the design and build project. Contracts were signed with BBCL on 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. Five of the schools have now been completed. Academy 360, Castle View Enterprise Academy, Red House Academy and Washington School all opened in September 2009 and Biddick School in April 2010. St Robert's of Newminster RC School is planned to be handed over by the contractors in June 2010 with an opening date of September 2010

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

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

Euro

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

Accounting for Pensions

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

Foreword by the Director of Financial Resources (Continued)

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

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

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

Cost of Pensions

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

The Council's Improvement Agenda

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

- The Council established during 2009/2010 the **Business Transformation Programme (BTP)** to deliver a new business operating model to achieve sustainable and rapid progression in delivering excellent services and customer service whilst dealing with the expected, significant cuts to public spending over the next four years by delivering very significant efficiency savings. The BTP will deliver a new business operating model and improve the Council's understanding of where they can work smarter, adopt partnership approaches as required, empower staff and making better use of ICT where necessary. The BTP is the 'engine room' for business improvement across the Council and acknowledges that significant re-engineering of services and adopting a new operating model is critical moving forward, particularly in the way the Council delivers customer contact and care.

- The **Community Leadership Programme (CLP)** aims to accelerate the development and embedding of the 'One Council, One Sunderland' approach which is necessary to successfully deliver the Council's and customer's priorities. Successful implementation will impact not only upon actual quality of life within the City, but also upon customer satisfaction with the Council and its services. Through their community leadership roles at all levels of the Local Strategic Partnership (LSP) as champions of performance improvement, elected members will provide the key link to problem solving and 'getting things done'. It is designed to strengthen the community leadership capacity and approach within the City which is necessary to achieve the delivery of excellent services.

- The **Economic Regeneration Programme (ERP)** is to prioritise and deliver a range of projects that will improve the city's economic prosperity, physical infrastructure and attractiveness. The ERP will be determined through the emerging economic master plan and to date the programme consists of projects and interventions to improve the city centre, through an increased programme of events and festivals, including enhancement to Christmas Lights, and improvements in pavements and street furniture.

- Each of the council's four Directorates has set up an Improvement Board, to manage, monitor and review the Directorate's improvements and provide strategic oversight and direction for the Directorate

Foreword by the Director of Financial Resources (Continued)

- Programme, this is to ensure that benefits are adequately monitored and fully realised. Directorate improvement projects include: Safeguarding, Review of Street Scene, Barnes Park Regeneration, Supporting People with Complex needs at Home and Smart Sunderland.

Efficiency

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

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

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

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

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

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

Changes to the Statement of Recommended Practice (SORP) 2009

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

Council Tax

Council Tax income included in the Income and Expenditure Account is to be accrued for the whole year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund is to be accounted for in the Collection Fund Adjustment Account which will be included as a reconciling item in the Statement of Movement on the General Fund Balance.

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

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

National Non Domestic Rates (Business Rates)
Billing authorities collect NNDR under what is in effect an agency arrangement with the Government. The SORP specifies that:

NNDR income is not the income of the billing authority and should not be included in its Income and Expenditure Account as was the case previously. The cost of collection allowance received by billing authorities is the billing authority's income and is to be included in the Income and Expenditure Account.
NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not however regarded as assets and liabilities of the billing authority and as such are no longer to be recognised in the billing authority's Balance Sheet.

Cash collected from NNDR taxpayers by billing authorities belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date must be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers the excess must now be included in the Balance Sheet as a debtor.

Cash collected from NNDR taxpayers by a billing authority is collected on behalf of the Government and is therefore not a revenue activity of the billing authority and should not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance explained above. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and will not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool is to be included in management of liquid resources as a net increase / decrease in other liquid resources.

Amounts are sometimes billed to NNDR taxpayers over and above the NNDR due, usually to recover the billing authority's costs of pursuing unpaid NNDR debts. Any amounts charged to NNDR taxpayers in respect of amounts that the authority is not required to account for to the Government is income to the billing authority.

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

Private Finance Initiative (PFI)
The SORP 2009 requires that PFI Transactions and Similar Contracts are accounted for in a manner that is consistent with the adoption of IFRIC 12 'Service Concession Arrangements'. PFI contracts typically involve a private sector entity constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement. The Council has two such contracts, Sandhill View School and Community and Learning Centre and Street Lighting and Road Traffic Signs.

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

The disclosure notes to the Council's accounts for 2009/20100 therefore exclude these items.

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

- An analysis of the number of employees, whose remuneration, excluding pension contributions, is £50,000 or more in bands of £5,000.

- The specific remuneration information in relation to 'Senior' officers is detailed below:
  - Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title.
  - Officers whose salary is £150,000 or more per year are also identified by name.

  The disclosure note, for all identified 'senior' officers, is to be reported for both 2009/2010 and 2008/2009 and must include all of the following categories:
  - salaries, fees and allowances;
  - bonuses;
  - expenses allowances;
  - compensation for loss of employment;
  - benefits in kind;
  - employees pension contributions.

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

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

Major Acquisitions, Capital Works and Disposals during 2009/2010

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

Authority's Current Borrowing and Capital Borrowing Position

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

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

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

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

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

Economic downturn

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

Treasury Management

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

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

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

Single Status

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

Equal Pay claims

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

Insurance Provision

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

Foreword by the Director of Financial Resources (Continued)

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

Airport Revaluation

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

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

Consequently the Council's share of the revised valuation based on the income discounted cash flow methodology has seen its shareholding worth reduce by £0.708m to a valuation of £0.795m in 2009/2010 and this figure is included within the Council's accounts. The valuation reflects factors such as the company's present trading performance (which remains very competitive), its net debt position (which includes the company's total debt of over £323m), and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been impaired over recent years, (fallen in value), as a direct result of the economic downturn and the continued depressed state of the economy during 2009/2010.

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

Area Based Grant

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

The introduction of the Area Based Grant provides more flexibility in how this funding can be used by the Council, each of the grants that originally transferred into the new Area Based Grant came with clear grant conditions and performance expectations. It was considered that in the majority of cases, that these performance expectations remained and were consistent with the Sunderland Strategy and Local Area Agreement and other service based inspections.

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

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

Foreword by the Director of Financial Resources (Continued)

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

South Tyne and Wear Waste Management Partnership

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

Coalition Government Funding Position

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

Further Information

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

George Blyth CPFA
Director of Financial Resources
30th September 2010

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 2010.

Authorised for Issue Date

The accounts are authorised for issue on 21st September 2010.

Sunderland City Council

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 present a true and fair view of the financial position of the City of Sunderland Council as at 31st March 2010 and its income and expenditure for the year then ended.

George Blyth CPFA
Director of Financial Resources

21st September 2010

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 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Director of Financial Resources and auditor

The Director of Financial Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 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 accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the 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 accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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 Code of Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

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 May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Audit Certificate

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

Signature: **Date:**

Name: Mr S. Nicklin

District Auditor – Audit Commission

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

Statement of Accounting Policies

1. General Principles

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

2. Tangible Fixed Assets

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

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

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

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

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

- Existing Use Value where there is sufficient evidence of market transactions for that use to support the value of the asset.

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

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

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

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

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

Statement of Accounting Policies (Continued)

The Revaluation Reserve contains revaluation gains recognised since 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. No material impairment was assessed in 2009/2010, however any such impairment would be charged to revenue in the year that it occurred.

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

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

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

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

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

Operational buildings are depreciated over the anticipated useful life of the asset, which can be any length of time between 1 and 60 years. Where an asset is assessed as having a life in excess of 50 years depreciation is charged over 60 years.

Vehicles, plant, furniture and equipment are depreciated over the anticipated useful life of the asset, generally between 3 and 10 years.

Infrastructure assets are depreciated over their anticipated useful lives, generally 40 years.

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

Statement of Accounting Policies (Continued)

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

3. Intangible Assets

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

4. Revenue Expenditure Funded from Capital under Statute

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

5. Charges to Revenue for Fixed Assets

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

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

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

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

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

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

b) For all unsupported borrowing the Council will adopt Option 3 and make MRP repayments using the equal instalment method with the estimated useful life of an asset being assessed by the Director of Financial Resources in consultation with appropriate officers.

c) For MRP payments in relation to finance leases and PFI contracts previously held off-balance sheet but now included on-balance sheet to comply with IFRS requirements, the amount of MRP to be made will be set to ensure that the finance charge and MRP for finance leases and on-balance sheet PFI schemes is equal to the rental or service charge payable in the income and expenditure account for the year, which writes down the balance sheet liability of those assets. The Council will therefore follow DCLG guidance which states:

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

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

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

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

6. Debtors and Creditors

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

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

a) Periodical Payments Relating to Periods Not Ending on 31st March
In these cases the charges made in the financial year reflect a 12 monthly charge for the service provided e.g. four quarter's accounts are included for gas and electricity.

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

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

Statement of Accounting Policies (Continued)

7. Stocks, Stores and Work in Progress

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

8. Cost of Support Services

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

9. Provisions and Reserves

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

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

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

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

The Notes on the level of reserves held by the Council as at 31st March 2010 and their purpose are reflected in Note 48, Pages 112 to 117.

10. Internal Interest

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

11. Delegated Budgets

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

12. Pension Costs

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

Statement of Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

b) Teachers Pension Scheme

The pension costs relating to Teachers are classified as a Defined Contribution Scheme which is an 'un-funded' scheme administered nationally by Capita Teachers Pensions (CTP) on behalf of the Department for Children, Schools and Families (DCSF). The CPT uses a notional fund as the basis for calculating the employers' contribution rate paid by each local education authority. As such it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means in effect the scheme is not subject to the requirements of Financial Reporting Standard 17 (FRS17) and that the Council only accounts for actual pension costs made in the financial year in accordance with the prescribed rate notified by the CPT within its revenue accounts and no earmarked balances are required to be shown on the balance sheet. The cost of the Teachers Pension Scheme for 2009/2010 is shown in Note 6a, Page 65 to Income and Expenditure section of the Notes to the Core Financial Statements. The Council, however, is also responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued in the pensions liability described in Note 37b, Page 99 to the Balance Sheet section of the Notes to the Core Financial Statements in accordance with FRS17.

c) Discretionary Benefits

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

13. Government Grants

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

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

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

14. Area Based Grant

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

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

15. External Interest

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

16. Redemption of Debt

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

Statement of Accounting Policies (Continued)

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

17. Accounting for Leases

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

18. Related Companies and Group Accounts

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

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

19. Other Investments

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

20. Long Term Contracts – Private Finance Initiatives

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

21. Estimation

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

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

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

22. Landfill Allowances Trading Scheme (LATS)

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

The value of the allowances, when first introduced in April 2006, was £20.20, a value determined by Department for Environment, Food and Rural Affairs (DEFRA), until a proper trading market emerged, as few authorities had traded in the first year of the scheme. As trading has commenced market values have been established and wide price variations have been experienced, in 2006/2007 a market value of £17.98 was established, however as Councils have introduced measures to address their waste targets, market demand for allowances fell significantly in 2007/2008 where the value fell to £5.00 per an allowance. At the end of 2008/2009 allowances were practically worthless as demand continued to be low and this being a target year meant the significant level of unused allowances could not be carried forward. The fair value of the LATS assets can only be established by examining the market for their trading value, in 2009/2010 LATS assets values have varied from between £Nil

and £20.00 as all unused allowances Council's hold at the end of 2009/2010 (another target year) are forfeited in accordance with government guidelines. Reducing allowances and increased targets in 2009/2010 have meant that there has been some demand for allowances. The Council has estimated that it will need to purchase approximately 8,700 allowances for 2009/2010 and has obtained these at a very competitive price of £0.95 per allowance (in effect its market value). The accounts show the value of its LATS at market value and as such the accounts remain fully compliant with the accounting treatment and disclosure notes for LATS as set out in the SORP 2009 - Note 32, Page 93 to 94.

23. Value Added Tax (VAT)

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

24. Financial Instruments

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

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

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

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

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

25. Financial Liabilities

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

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

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

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

26. Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market;

- **Available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

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

Soft Loans
A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the SORP 2009, the difference between the interest payable to the council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading. This charge is then reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on Council Tax.

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

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

- Instruments with quoted market process – the market price;

- Other instruments with fixed and determinable payments – discounted cash flow analysis;

- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

Instruments entered into before 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 50 pages 121 and 122 to the Balance Sheet.

Statement of Accounting Policies (Continued)

27. Treasury Management

The Council continued to fully comply with CIPFA Code of Practice for Treasury Management in the Public Services which was issued on 20 November 2002. A major requirement of this Code related to the need to have in place a Treasury Management Policy Statement (TMPS), which is approved by full Council in March of each year.

During 2009, and in response to the demise of the Icelandic Banks and the banking crisis in 2008, CIPFA published a revised Treasury Management Code of Practice to further strengthen arrangements to be complied with by local authorities. The Council responded positively and proactively by the early adoption of the key recommendations of the new Code and has since fully embraced all of the additional requirements of the new Code.

Under the TMPS for 2009/2010 which the Council approved on the 4th March 2009, the policies and objectives of treasury management and this was further updated to reflect formal adoption of the revised Treasury Management Code of Practice on 3rd March 2010 (the words in the brackets show the minor changes to the original statement) and was as follows:

a) Treasury Management activities are defined as:

"The management of the authority's (investments and) cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

b) The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of (its) treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

Further information relating to the Council's Treasury management policy and strategy can be found on the Council's website at: http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=16395

and information on the measures the Council adopted in 2009/2010 in advance of the Revised CIPFA Treasury Management Code of Practice in the Public Sector (2009) can be found on the Council's website at: http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=11934

28. Events after the Balance Sheet Date

Where an event, after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date occurs, (an adjusting event), the amounts recognised in the Statement of Accounts have to be adjusted to take into account any new information about that adjusting event.

Note 53 on pages 123 and 124 to the accounts includes details of such adjusting events that have occurred after the Balance Sheet date which need to be disclosed in accordance with the SORP but are not recognised in the Statement of Accounts as they are regarded as non-adjusting events.

29. Council Tax Accounting

The SORP 2009 made changes to way the Council must account for the Council Tax it collects and the income included in the Income and Expenditure Account is to be accrued for the whole year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund is to be accounted for in the Collection Fund Adjustment Account which will be included as a reconciling item in the Statement of Movement on the General Fund Balance.

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

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

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

Any residual community charge income 'adjustments' (losses or gains) are also required to be included in the Collection Fund. Such adjustments, which will now often be nil or negligible, are borne wholly by the billing authority and are excluded from the Collection Fund surplus or deficit in calculating the amount that is shared between the billing authority and major preceptors. The community charge adjustment for the year shall be taken to the Income and Expenditure Account; and the difference between this and the amount required by regulation to be taken to the General Fund (i.e. the previous year's community charge adjustment) shall be taken to the Collection Fund Adjustment Account.

The Council fully complies with the above requirements.

30. National Non Domestic Rates (NNDR) Accounting

The SORP 2009 made changes to way the Council must account for NNDR income its collects on the basis that billing authorities collect NNDR under what is in effect an agency arrangement with the Government. The SORP specifies that:

NNDR income is not the income of the billing authority and should not be included in its Income and Expenditure Account as was the case previously. The cost of collection allowance received by billing authorities is the billing authority's income and is to be included in the Income and Expenditure Account.
NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are however regarded as assets and liabilities of the billing authority and as such are no longer to be recognised in the billing authority's Balance Sheet.

Cash collected from NNDR taxpayers by billing authorities belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date must be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers the excess must now be included in the Balance Sheet as a debtor.

Cash collected from NNDR taxpayers by a billing authority is collected on behalf of the Government and is therefore not a revenue activity of the billing authority and should not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance explained above. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and will not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool is to be included in management of liquid resources as a net increase / decrease in other liquid resources.

Amounts are sometimes billed to NNDR taxpayers over and above the NNDR due, usually to recover the billing authority's costs of pursuing unpaid NNDR debts. Any amounts charged to NNDR taxpayers in respect of amounts that the authority is not required to account for to the Government is income to the billing authority.

The Council fully complies with the above requirements.

Annual Governance Statement

SCOPE OF RESPONSIBILITY

Sunderland City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. A copy of the Code is on the Council's website at http://www.sunderland.gov.uk/CHttpHandler.ashx?id=2504&p=0
or can be obtained from the 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 2010 and up to the date of approval of the Annual Report and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders:

The Sunderland Strategy 2008-2025 provides the framework for members of the Sunderland Partnership, organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

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

Delivery of the Vision is underpinned by the following Strategic Priorities:

- Prosperous City;
- Healthy City;
- Safe City;
- Learning City;
- Attractive and Inclusive City

Underpinning the Sunderland Strategy is a comprehensive needs analysis, Sunderland Strategy Delivery Plans, including the Local Area Agreement and a set of Local Area Plans. The Delivery Plans which have life-spans of three years, identify the short term detailed and focused targets which will help to achieve the longer term key objectives set out in the Sunderland Strategy.

The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios, including the estimated Revenue Budgets for the financial year and the Capital Programme for 2009/10 to 2012/13. The CIP gives a broad overview of what the Council is doing in respect of its Corporate Improvement Priorities, what actions it intends to take over the next three years.

To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:

- CIO1 Customer focused services
- CIO2 One Council
- CIO3 Efficient and effective council
- CIO4 Improving partnership working

The Strategic Priorities set out in the Sunderland Strategy and CIOs have been combined to create the council's Corporate Improvement Priorities, to provide an increased focus on improvement activity and to reflect the fact that internal and external improvement activities are inter-related with each resulting from, contributing to and dependant upon the other.

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

- Wide distribution of the Corporate Improvement Plan, including on the Council's website and intranet;

- Through the Council's corporate Investors in People (IIP) processes;

- Sunrise magazine, issued to all residents.

Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements:

Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.

There are annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources:

There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.

There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Scrutiny Committees.

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

The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme. The Constitution indicates responsibilities for functions and sets out how decisions are made.

A system of scrutiny is in place which allows Scrutiny Committees to:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;

- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- Directorates have established delegation schemes, although these may require updating in some areas to reflect recent organisational changes.

Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

The following are in place:

- Members' Codes of Conduct;
- Employees' Code of Conduct;
- Protocol on Member/Employee Relations;
- Protocol for Members in Relation to Development Control Matters;
- Whistleblowing Policy;
- Protocol for the use of Civic Cars;
- Protocol for Members in Relation to Licensing Matters;
- Protocol for Members and Voting Co-opted Members – Use of Council Resources and Equipment;
- Guidance for Members in Relation to the Use of Council ICT Facilities;
- Protocol for Use of Member Website;
- Data Protection: Guidance for Councillors;
- Remote Intranet/Internet Access for Members;
- Protocol in Relation to Members' Dealings with the Council;
- Registers of Interests, Gifts and Hospitality.

Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

The 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;
- Directorate / department budget management schemes.

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

- Member Risk Champion;

- Risk Management Policy and Strategy Statement;
- Nominated Head of Service lead for Risk Management;
- Corporate Risk Profile;
- Corporate and Directorate Risk Management Staff and Groups;
- Risk Profiles for major projects and significant partnerships;
- Risk Management Training Programme;
- Establishment and operation of a risk management fund;
- Nominated Directorate risk management champions;
- Risk Management Advisors for each Directorate.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- Business Continuity Plans are in place, which are subject to ongoing review and development. The arrangements in place in relation to ICT disaster recovery were satisfactory overall with further enhancement required in relation to some key applications and action is being taken to address this.

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- The Council participates in the National Fraud Initiative.

- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.

- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Director of Financial Resources fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;

- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;

- Alignment of medium term business and financial planning processes;

- Money is safeguarded and used appropriately, economically, efficiently and effectively;

- Ensuring that the finance function is resources to be fit for purpose;

The person specification for the post of Director of Financial Resources requires that the post holder be professionally qualified and suitably experienced.

The core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities, are undertaken by members.

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

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

Annual Governance Statement (Continued)

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

Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All Cabinet Reports are considered for legal issues before submission to members:

The 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.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.

The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.

Monitoring records held by the 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.

Annual Governance Statement (Continued)

The Elected Member Training and Development Strategy aims to:

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

A programme is in place in order to support Councillors in fulfilling their community leadership role.

The Council has a HR Strategy that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Council.

Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.

The strategy is complemented by the Hard to Reach Framework which outlines the council's approach to consulting with minority and vulnerable sectors of society.

Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements:

The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

A Register of Partnerships is maintained. Significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.

An annual report of those partnerships classified as significant is presented to Cabinet.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Councillors and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

The role of the Council:

- Councillors have participated in the annual review of the Council's Corporate Governance arrangements;
- The Leader of the Council, the Chief Executive and the Director of Financial Resources have overseen the review and signed the Annual Governance Statement.

The role of the executive:

- The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

Annual Governance Statement (Continued)

The role of the Audit and Governance Committee:

- The findings of the Annual Governance Review have been reported to Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

There is a system of scrutiny which allows Review Committees to:

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

The role of the Council's Standards Committee includes the following:

- promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
- monitoring the operation of the Members' Code of Conduct;
- monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
- considering reports and complaints relating to the conduct of Members of the Council;
- supporting the Monitoring Officer in his role.

The Director of Financial Resources has directed, co-ordinated and overseen the review.

All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.

All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from their Heads of Service.

Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based audit work and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

The Organisational Assessment of the latest Comprehensive Area Assessment states that:

- Overall, Sunderland City Council performs well.
- The Council's 2008/2009 use of resources was good and scored 3 out of 4 overall.
- The Council manages it finances well, particularly financial planning and there have been no significant overspends in recent years. The Council has appropriate levels of balances and reserves.
- Governance of the business is good.
- Risk Management is excellent and has been used to especially good effect on the Building Schools for the Future project and in preparing the medium term financial plan.
- Despite strong leadership and a number of ongoing projects, there is still a need to ensure the careful use of natural resources is fully included in all of the Council's activities and plans.
- The Council manages performance well, scoring 3 out of 4.
- The Council with partners have developed a clear long term vision for Sunderland in the year 2025. This is based on a good understanding of needs and priorities of residents. The Council's Corporate Improvement Plan reflects the Sunderland Partnership's priorities for the City, set out in the Sunderland Strategy, and the Council has also identified four corporate improvement objectives to ensure a greater focus on efficiency and effectiveness.

Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

Annual Governance Statement (Continued)

Cabinet and the Audit and Governance Committee have advised us that the review of the effectiveness of the governance framework concluded that the Council continues to have robust and effective governance and control arrangements in place. An improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

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

Paul Watson Leader of the Council	Dave Smith Chief Executive	George Blyth Director of Financial Resources

Dated 30th September 2010

Income and Expenditure Account for the Year Ended 31 March 2010

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

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

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

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

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

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

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

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

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

Balance Sheet as at 31 March 2010

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

Cash Flow Statement for the Year Ended 31 March 2010

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

Notes to the Core Financial Statements

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

Council Tax Income

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

(a) In its capacity as a billing authority an authority acts as an agent: it collects and distributes Council Tax income on behalf of the major preceptors and itself.

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

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

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

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

National Non Domestic Rates

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

(a) NNDR income is not the income of the billing authority and shall not be included in its Income and Expenditure Account. The cost of collection allowance received by billing authorities is the billing authority's income and shall be included in the Income and Expenditure Account.

(b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's Balance Sheet.

(c) Cash collected from NNDR taxpayers by billing authorities belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers the excess shall be included in the Balance Sheet as a debtor.

(d) Cash collected from NNDR taxpayers by a billing authority is collected for the Government and is therefore not a revenue activity of the billing authority and shall not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and shall not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool shall be included in management of liquid resources as a net increase/decrease in other liquid resources.

(e) Amounts are sometimes billed to NNDR taxpayers over and above the NNDR due, usually to recover the billing authority's costs of pursuing unpaid NNDR debts. Any amounts charged to NNDR taxpayers in respect of amounts that the authority is not required to account for to the Government are income of the billing authority.

Notes to the Core Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

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

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

Private Finance Initiative

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

Terminology

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

Overview of Basic Principles

Identifying arrangements to which this appendix applies

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

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

Where these control tests are met, these accounting arrangements apply to all property acquired, constructed or enhanced by the operator for the purpose of the PFI or similar contract, including property to which the local authority gives the operator access. This also applies to property provided by the operator that previously appeared on the operator's Balance Sheet. Where the control tests are not met, the arrangement shall be accounted for in accordance with the general provisions of the SORP, as follows:
(i) Where neither test is met, expenditure must be recognised as it is incurred.
(ii) Where test (a) is met but test (b) is not, an authority must consider whether the arrangement is in substance a lease, and if so will account for it as such.
(iii) Where test (b) is met but test (a) is not, an authority will recognise as an asset the excess of the expected fair value of the property at the end of the arrangement over the amount it will be required to pay the operator upon reversion. This asset shall be built up from payments made by the authority to the operator over the life of the arrangement.

Notes to the Core Financial Statements (Continued)

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

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

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

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

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

Specific Issues

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

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

Notes to the Core Financial Statements (Continued)

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

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

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

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

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

Prepayments

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

Depreciation, impairment and revaluation

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

Income earned

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

MRP (England and Wales)

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

Guarantees

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

Disclosure

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

Notes to the Core Financial Statements (Continued)

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

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

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

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

The full required prior period adjustment in respect of PFI is set out on pages 56 to 60.

Notes to the Core Financial Statements (Continued)

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

Income and Expenditure Account

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

Notes to the Core Financial Statements (Continued)

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

Statement of Movement on General Fund Balance

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

Statement of Total Recognised Gains and Losses

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

Prior Period Adjustment	952,852

Notes to the Core Financial Statements (Continued)

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

Balance Sheet

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

Notes to the Core Financial Statements (Continued)

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

Balance Sheet (Continued)

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

Notes to the Core Financial Statements (Continued)

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

Cash Flow Statement

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

Notes to the Core Financial Statements (Continued)

Notes to the Income and Expenditure Account

Note 2 – Trading Services

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

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

Notes to the Core Financial Statements (Continued)

Note 2 – Trading Services (Continued)

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 2 – Trading Services (Continued)

** Port of Sunderland includes Capital charges and FRS17 costs totalling £273,553 (for 2007/2008 £926,433). There was no in year transfer of surplus against budget to the Port Reserve (for 2008/2009 £167,631). The net expenditure position excluding these items is therefore £271,596 deficit (2008/2009 £48,436 surplus).

*** Miscellaneous Land and Property includes impairment charges of £12,799,634 (2008/2009 £12,549,636). The net expenditure position excluding these charges is therefore £872,337 surplus (2008/2009 £469,668 surplus).

**** Service no longer reported as a trading service by Children's Services.

Note 3 – Local Management of Schools and School Delegated Budgets

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

Note 4 – Industrial Loans at Subsidised Rates of Interest

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

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

In accordance with the SORP 2009, the difference between the interest payable to the Council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading in the year the loan is made and then amortised over the life of the loan. All charges in respect of this are reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on the Council Tax.

Note 5 - Subjective Summary

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

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

Notes to the Core Financial Statements (Continued)

Note 5 - Subjective Summary (Continued)

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

Notes to the Core Financial Statements (Continued)

Note 6 – Pension Costs

Note 6a – Teachers

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

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

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

Note 6b – Other Employees (Excluding Teachers)

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

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

Note 6c – FRS Disclosures

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

Notes to the Core Financial Statements (Continued)

Note 6c – FRS Disclosures (Continued)

The information included in the accounts and in the notes below has been provided by the Actuary to the Tyne and Wear Pension Fund. References in [ ] relate to the relevant paragraph(s) of the FRS17 requirements. The figures provided by the actuary to the Tyne and Wear Pension Fund are based on information provided by the scheme and assumptions determined by the Council in conjunction with the actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the results of actuarial calculations may be affected by uncertainties in a range of possible values.

i) Employees of the Council are admitted to the Tyne and Wear Pension Fund (“the Fund”), which is administered by South Tyneside MBC under regulations governing the Local Government Pension Scheme, ’a Defined Benefit Scheme’. [76a]

ii) The most recent valuation was carried out as at 31 March 2007, and has been updated by the independent actuary to the Tyne and Wear Pension Fund to take account of the requirements of FRS17 in order to assess the liabilities of the fund as at 31 March 2010. Liabilities are valued on an actuarial basis using the projected unit method which asses the future liabilities discounted to the present value. [76(b)] The next revaluation will be carried out by the Actuary as at 31 March 2010.

(iii) The Council’s contribution rates in respect of the period 1 April 2009 to 31 March 2011 and the contributions to cover the deficit in the Fund was certified by the Actuary as follows: [76(c)]

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

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

Notes to the Core Financial Statements (Continued)

Note 6c – FRS Disclosures (Continued)

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

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

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

Notes to the Core Financial Statements (Continued)

Note 7 – Officer Emoluments and Members Allowances

Note 7a – Officer Emoluments

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

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

The tables below disclose the specific remuneration information in relation to 'Senior' officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2009/2010 and 2008/2009 in the following categories:

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

Notes to the Core Financial Statements (Continued)

Note 7 – Officer Emoluments and Members Allowances

Note 7a – Officer Emoluments (Continued)

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

* Officer not in post for full year.

Notes to the Core Financial Statements (Continued)

Note 7 – Officer Emoluments and Members Allowances

Note 7a – Officer Emoluments (Continued)

Post Holder Information	Salary (Including Fees and Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding Pension Contributions	Employers Pension Contributions	Total Remuneration including Pension Contributions
2008/2009								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	165,723				8,371	174,094	24,029	198,123
Senior Officer Emoluments exceeding £50,000 bul less than £150,000								
Director of Adult Services	112,993					112,993	15,576	128,569
Director of Children's Services	118,622					118,622	17,239	135,861
Director of Financial Resources	104,888					104,888	15,252	120,140
Chief Solicitor	97,826					97,826	14,091	111,917
Director of Development and Regeneration	110,758					110,758	16,060	126,818
Director of Community and Cultural Services	104,600					104,600	15,167	119,767

Notes to the Core Financial Statements (Continued)

Note 7 – Officer Emoluments and Members Allowances

Note 7b – Members Allowances

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

Note 8 – Related Party Transactions

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

Related party transactions are those transactions with related parties (i.e. bodies or individuals) that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

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

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

Council Members
In respect of 2009/2010 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £4.537m made by the Authority in 2009/2010 (£4.087m in 2008/2009), of which £0.026m (£0.430m for 2008/2009) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £2.133m (£2.430m for 2008/2009) payments to companies and £2.378m (£1.227m for 2008/2009) to voluntary organisations.

It should be noted that all Council members pecuniary and non financial interests which could conflict with those of the Council are open to the public inspection as required by the Local Authority (Members Interests) Regulation (SI 1992/618) laid under Section 19 of the Local Government and Housing Act 1989. In addition, the award of any contracts by the Authority's Procurement Procedure Rules approved by the Council. The relevant members must therefore declare an interest (which was minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Chief Officers
In respect of the 2009/2010 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Authority.

Notes to the Core Financial Statements (Continued)

Note 8 – Related Party Transactions (Continued)

Other Relevant Information

Details of the Council's transactions with Central Government, other Local Authorities, related companies, levying bodies, schools with delegated budgets and employee pension funds are shown separately in the appropriate sections of the Statement of Accounts. In summary the Council provides support services (including financial support services) to the following related parties:

Tyne & Wear Fire and Rescue Authority, Beamish Museum Joint Committee, Beamish Museum Limited, Beamish Museum Trading Limited, Empire Theatre Trust Company Limited, Bowes Railway, Hetton Town Council, Tyne and Wear Development Company Limited, Tyne and Wear Economic Development Joint Committee, Back on the Map Limited, Raich Carter Sports Centre, Pooled Budget Arrangements with the local Teaching Primary Care Trust and Tyne and Wear Care Alliance.

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

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

Note 9 – Minimum Revenue Provision

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

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

Note 10 – Agency Services

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

Notes to the Core Financial Statements (Continued)

Note 10 – Agency Services (Continued)

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

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

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

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

The Council also entered into a PFI contract, on 12 August 2003, with Balfour Beatty Power Networks Ltd. To provide replacement highway signs and street lighting, this includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028.

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

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

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

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

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

Note 12 – Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities, and other agencies in order to improve and co-ordinate services. A pooled budget is established to which each partner organisation makes an agreed contribution. The aim of the partnership is to provide a service to a target client group and allow organisations to work in a more unified way. Included within the Council's accounts are three such partnership schemes with Sunderland Teaching Primary Care Trust (STPCT). The notes below summarises the financial performance of each scheme and offers a brief explanation of their purpose:

Community Equipment Service
The aim of this service is to provide all the residents of Sunderland, with an assessed need, appropriate equipment in order to improve their ability to live in their own homes and to encourage independence.

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

Learning Disabilities
The aim of this service is to plan and implement a joint service for people in residential care with learning disabilities identified as difficult to support within existing learning disability establishments.

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

Notes to the Core Financial Statements (Continued)

Note 12 – Pooled Budgets (Continued)

Intermediate Care

The aim of this service is the improvement of the intermediate care for older people to facilitate early discharge of people who are medically fit but need extra support through rehabilitation care and preventing unnecessary admission or re-admission to hospital or longer term care, through closer working arrangements with partners.

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

Note 13 – General Government Grants

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

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

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

Note 14 – Audit Costs

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

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

Notes to the Core Financial Statements (Continued)

Note 15 – Dedicated Schools Grant (DSG)

The Councils expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance (England) Regulations 2008. The School Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2009/2010 are as follows:

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

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

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

Notes to the Core Financial Statements (Continued)

Notes to the Statement of Movement on the General Fund Balance

Note 16 – Statement of Movement on the General Fund Balance

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

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

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

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

Notes to the Core Financial Statements (Continued)

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

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

Notes to the Core Financial Statements (Continued)

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

Table continued from Page 78

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

Notes to the Core Financial Statements (Continued)

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

Note 18a – Movement on the Pensions Reserve

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

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

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

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

Volatility of results of FRS17 and reasons for variation

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

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

Notes to the Core Financial Statements (Continued)

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

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

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

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

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

a) Increases in fixed asset balance arising from revaluations.
b) Reductions in the fixed asset balance arising from impairments.

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

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

Note 20 – Analysis of other Gains / Losses

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

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

Notes to the Core Financial Statements (Continued)

Notes to the Balance Sheet

Note 21 – Movement of Fixed Assets

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

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

Notes to the Core Financial Statements (Continued)

Note 21 – Movement of Fixed Assets (Continued)

Capital expenditure by service was as follows:

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

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

Notes to the Core Financial Statements (Continued)

Note 21 – Movement of Fixed Assets (Continued)

	2009/2010 £	Restated2008/2009 £
Opening Capital Financing Requirement at 1 April	**241,256,914**	204,723,332
Prior Year Adjustment	**0**	305,213
Prior Year adjustment PFI		36,635,833
Capital Investment		
Operational Assets	**68,630,804**	101,879,193
Non-Operational Assets	**0**	0
Intangible Assets	**241,441**	313,829
Revenue Funded From Capital Under Statute	**31,048,946**	21,338,094
Sources of Finance		
Capital Receipts	**(2,485,354)**	(8,019,753)
Government Grants and Other contributions	**(70,382,055)**	(93,496,967)
Direct Revenue Financing (includes minimum revenue provision)	**(29,747,620)**	(22,421,860)
Closing Capital Finance Requirement	**238,563,076**	241,256,914
Explanation and Movements in Capital Financing Requirement		
Increase / (Decrease) in underlying need to borrow (PFI)	**(1,398,780)**	35,475,604
Increase / (Decrease) in underlying need to borrow (Supported by government financial assistance)	**(992,566)**	963,457
Increase in underlying need to borrow (Unsupported by government financial assistance)	**(302,492)**	94,521
Movement in Capital Financing Requirement	**(2,693,838)**	36,533,582

The Local Government Act 2003 provided a new prudential regime for the control of Local Authority capital expenditure. Under the prudential framework Local Authorities are free to borrow without specific government consent if they can afford to service the debt without government support. The basic principle is that authorities will be free to invest in capital expenditure as long as the plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of the budget setting process. These indicators are then regularly monitored throughout the year.

The capital financing requirement is one of the indicators that must be produced as part of the prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for capital purpose, the Local Authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus an estimate of any additional capital financing requirement for the current and next two financial years.

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

Notes to the Core Financial Statements (Continued)

Note 21 – Movement of Fixed Assets (Continued)

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 21 – Movement of Fixed Assets (Continued)

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

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

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

Notes to the Core Financial Statements (Continued)

Note 21 – Movement of Fixed Assets (Continued)

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

Note 22 – Lease and Hire Purchase Agreement

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

Finance Leases
No assets were acquired under Finance Leases during the year.

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

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

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 22 – Lease and Hire Purchase Agreement (Continued)

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

Note 23 – Intangible Assets

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

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

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

Note 24 – Investments

Note 24a – Long Term Investments

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

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

Notes to the Core Financial Statements (Continued)

Note 24a – Long Term Investments (Continued)

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

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

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 24a – Long Term Investments (Continued)

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

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

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

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

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

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

Note 24b – Short Term Investments

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

Notes to the Core Financial Statements (Continued)

Note 25 – Long Term Debtors Mortgages

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

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

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

Note 26 – Long Term Debtors – Long Term Loan Notes

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

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

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 28 – Long Term Debtors – Car Loan Advances

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

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

Note 29 – Other Long Term Debtors

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

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

Note 30 – Stocks and Stores

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

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

Notes to the Core Financial Statements (Continued)

Note 31 – Debtors

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

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

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

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

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

Notes to the Core Financial Statements (Continued)

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

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

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

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

Note 33 - Creditors

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

Note 34 – Cash Overdrawn

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

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

Notes to the Core Financial Statements (Continued)

Note 35 – Loans Outstanding – Long Term Borrowing

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

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

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

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

Note 36 – Grants and Contributions Deferred Account

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

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

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

Notes to the Core Financial Statements (Continued)

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

Note 37a – Local Government Pension Scheme

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

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

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

Note 37a – Local Government Pension Scheme

Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of scheme assets:

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

Reconciliation of fair value of scheme liabilities:

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

Note 37a – Local Government Pension Scheme (Continued)

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

Scheme History

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

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

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

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

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

Basis for estimating assets and liabilities

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

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

The main assumptions used in their calculations have been:

Notes to the Core Financial Statements (Continued)

Note 37a – Local Government Pension Scheme (Continued)

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

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

The above figures have been provided by Hewitt Associates Limited, actuaries to the Local Government Pension Scheme (administered by South Tyneside MBC) using information provided by the scheme and assumptions determined by the Council in conjunction with the Actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

Pension Reserve

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

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

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

Notes to the Core Financial Statements (Continued)

Note 37a – Local Government Pension Scheme (Continued)

History of experience in gains and losses

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

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

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

Note 37b – Teachers Pension Scheme

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

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

Notes to the Core Financial Statements (Continued)

Note 38 – Insurance Provisions

The provision was set up in March 1992 to finance costs associated with insurable risks. The main cover provided by the fund is:
- Damage to Council property in the event of fire, lightning, explosion, aircraft or terrorism.
- Certain legal liability claims involving negligence made against the City Council.

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

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

Note 39 – Other Provisions

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

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

Notes to Other Provisions

* Guarantee Bonds - These are generally paid to the Council by contractors carrying out work on behalf of the Council. These funds are then invested and repaid as and when the contractor fulfils work done under contract. The expected timing of any economic benefit to the Council results when the contract is completed to the Council's satisfaction. The only uncertainty surrounds the date at which point the contractor fulfils the contractual obligations to the satisfaction of the Council.

** Back on the Map (BoTM) - The provision relates to funding owed by the Council to BoTM when the Council with the agreement of Government Office North East utilised temporarily spare grant funding from BoTM to ensure the grant was fully utilised in 2007/2008. It is expected that BoTM will fully utilise all of this funding in 2010/2011 when they bring forward schemes that are in keeping with the original terms of the grant funding awarded to them to regenerate the east end of Sunderland.

Notes to the Core Financial Statements (Continued)

Note 39 – Other Provisions (Continued)

*** Equal Pay Probable Payments - The Council has prudently set aside a provision based on the best information available to meet the remaining known tax bill on claims settled to date.

**** Adult Services Strain on the Fund – This provision was set up to fund the strain on the fund payments made to meet the known tax bill on claims settled as at 31st March 2009 which related to 70 staff who had accepted voluntary redundancy during March 2009 (i.e. staff from Home Care, Older Persons and Day Care Unit). This provision was fully utilised in 2009/2010.

***** Support Costs for Clients with Learning Disabilities – This provision has been set up to fund support costs for a client residing in Sunderland with long term conditions. This provision will meet the support cost liabilities incurred by Devon County Council between November 2007 and March 2010 for which the Council was responsible and the provision will be fully utilised in 2010/2011.

Note 40 – Revaluation Reserve

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

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

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

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

Notes to the Core Financial Statements (Continued)

Note 41 – Capital Adjustment Account

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

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

Note 42 - Deferred Credits

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

Notes to the Core Financial Statements (Continued)

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

Under regulations contained in the Local Government Act 2003, for non-housing authorities capital receipts are held by the Authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements. The government determined in 2005/2006 that a proportion of Capital Receipts from mortgage repayments relating to properties contained within the Council's Housing Revenue Account prior to the Large Scale Voluntary Transfer (LSVT) of property to Sunderland Housing Group (now called Gentoo) is paid over to the government and redistributed to authorities as part of capital grant settlements. The payment of pooled housing receipts relates to mortgage repayments received in 2009/2010. This amount is also shown in the income and expenditure account (Page 44) as required by the SORP.

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

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

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

Note 44 – General Fund Balances

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

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

Notes to the Core Financial Statements (Continued)

Note 44 – General Fund Balances (Continued)

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

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

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

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

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

Schools Locally Managed Reserve

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

Note 45 – Delegated Budgets Reserve

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

Notes to the Core Financial Statements (Continued)

Note 45 – Delegated Budgets Reserve (Continued)

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

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

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

Note 46 – Financial Instruments

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

Financial Instruments

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

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

Gains and Losses on Financial Instruments

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

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

	2009/2010				2008/2009			
	Financial Liabilities	Financial Assets		Total	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £000	Loans and receivables £000	Available for sale assets £000	£000	Liabilities measured at amortised cost £000	Loans and receivables £000	Available for sale assets £000	£000
Interest Expense	(6,046)	0	0	(6,046)	(8,639)	0	0	(8,639)
Interest payable and similar charges	(6,046)	0	0	(6,046)	(8,639)	0	0	(8,639)
Interest Income	99	0	0	99	97	10,051	204	10,352
Interest and Investment Income	99	3,584	0	99	97	10,051	204	10,352
Net Gain / (loss) for the year	(5,947)	3,584	0	(5,947)	(8,542)	10,051	204	1,713

Fair Value of Assets and Liabilities Carried at Amortised Cost

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

Methods and assumptions in valuation technique.

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

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

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

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 063/10.
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms for a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value.

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

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

The fair values are calculated as follows:

Fair Value of Liabilities carried at Amortised Cost

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

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rates payable are higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest is below current market rates, reducing the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Fair Value of Assets carried at Amortised Cost

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

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

Nature and Extent of Risk Arising from Financial Instruments

The Council's management of treasury risks activity works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principals for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

1. Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council’s customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies that are on the Council's Approved Lending List.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. The Council expects full repayment on the due date of deposits placed with its counterparties

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

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

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

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

2. Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loan Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact or re-borrowing at a time of unfavourable interest rates.

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

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

3. Market Risk

The Council is exposed to interest rate risk in different ways; the first being the uncertainty of interest paid / received on variable rate instruments, and the second being the affect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets held at fair value in the balance sheet, which would also be reflected in the STRGL.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk and these are set out in the Council's Annual Treasury Management Policy and Strategy Statement. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid to limit exposure to losses. The risk of loss is ameliorated to a certain extent by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the authority's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and this is updated and reviewed regularly during the year. This allows for any adverse changes to be considered and addressed where

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

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

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

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

4. Price Risk

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

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2008/2009 £19,541) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in the STRGL. The market value of these holdings as at 31st March 2010 was £81,676 in total (the value at 31st March 2009 was £61,081).

5. Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Notes to the Core Financial Statements (Continued)

Note 46 – Financial Instruments (Continued)

Soft Loans

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

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

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

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

Note 47 – Financial Instrument Adjustment Account

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

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

Notes to the Core Financial Statements (Continued)

Note 48 – Analysis of Capital and Revenue Reserves

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

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

Notes to the Core Financial Statements (Continued)

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

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

Notes to the Core Financial Statements (Continued)

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

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

Notes to the Core Financial Statements (Continued)

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

Revenue Reserves:	**2009/2010** **£**	2008/2009 Restated £	Purpose of the Reserve
Replacement Port Vessel Reserve	**123,396**	123,065	Established with contributions from ship owners in 1987/1988 towards the replacement of the pilot cutter vessels.
Highways Maintenance Service Pressures Reserve	**120,000**	185,000	This reserve has been established to meet future Highways maintenance service pressures in 2009/2010.
Civil Parking Enforcement Reserve	**100,653**	100,653	Reserve earmarked to complete a review of traffic orders in preparation for the possibility of enforcing moving traffic offences using Civil Parking Enforcement powers.
Adult Services Modernisation Reserve	**416,032**	416,032	The reserve was set up to fund the one off transitional costs associated with the Adult Services Modernisation Programme.
Residential Homes Reserve	**182,350**	261,341	The purpose of the reserve is to replace furniture in the Council's small homes for people with learning disabilities.
Adult Services Modernisation and Service Pressures Reserve	**800,000**	800,000	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care.
Inward Investment Reserve	**1,626**	71,620	A reserve to enable the development of a series of events over a 3 year period to increase tourism and to assist in improving the economic prosperity of the City.
Play Areas Reserve	**1,104,241**	1,377,202	The reserve relates to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. On completion of the development the contributions are used to provide play equipment on housing developments.
Amenity Areas Reserve	**766,502**	763,749	This reserve is set up to fund / finance with maintenance requirements of amenity areas.

Notes to the Core Financial Statements (Continued)

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

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

Notes to the Core Financial Statements (Continued)

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

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

Note 49 – Related Companies and Organisations

Tyne and Wear Development Company Ltd

The Tyne and Wear Development Company Ltd (TWEDCo) was established in 1986 by Tyne and Wear County Council and the five District Councils of Tyne and Wear. TWEDCo is a company limited by guarantee and does not have a share capital. Sunderland has three representatives on the Board of Directors as does each of the other four districts of Tyne and Wear.

The Company's objectives are:

(i) The assistance, promotion, encouragement and security of the economic development and regeneration of Tyne and Wear, of new industry and commerce, and employment opportunities within Tyne and Wear;

(ii) The investigation of the needs of industry and commerce, and the advertising and promotion of the benefits of Tyne and Wear as a location for the expansion and promotion of industry and commerce;

(iii) The promotion of the interests of industry and commerce in all circles of local and central government and administration

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

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

Notes to the Core Financial Statements (Continued)

Note 49 – Related Companies and Organisations (Continued)

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

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

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

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

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

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

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

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

Note 49 – Related Companies and Organisations (Continued)

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

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

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

Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee. The principal activity of the Trust is to operate the Sunderland Theatre. The Council has 12 representatives on the Board of 17 Directors.

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

In 2009/2010, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust however made a small surplus of £24 in 2009/2010 (surplus of £351 for 2008/2009) in year which will increase its reserves to meet future costs. Its reserves as at 31 March 2010 now stand at £7,044 (£7,020 as at 31 March 2009). In 2009/2010 the Council made a contribution of £26,806 (£26,347 for 2008/2009) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building to which the Trust has no liability.

Notes to the Core Financial Statements (Continued)

Note 49 – Related Companies and Organisations (Continued)

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

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

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

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

Beamish Museum Joint Committee and related companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, this totalled £30,974 in 2009/2010 (£30,072 2008/2009).

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

New arrangements for the management of the Museum came into effect on 1st April 2008. The Joint Committee continues to be responsible for the assets of the Museum and makes all decisions on capital schemes and procuring grants for capital development. Beamish Museum Limited (a charitable company limited by guarantee) is responsible for managing and operating the Museum on behalf of the Joint Committee. A subsidiary of Beamish Museum Limited (BML), Beamish Museum Trading Limited (BMTL) manages all of the retailing and catering operations of the Museum.

In 2009/2010 the Joint committee made an operating loss of £321,000 (2008/2009 £508,000 loss) and had net assets of £14,891,000 (2008/2009 £14,407,000). The Group made an operating surplus of £308,000 on 2009/2010 (208/2009 £665,000 loss) and held net assets of £13,049,000 (2008/2009 £13,793,000). The Council receives no income or contributions from the above reported arrangements.

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

Notes to the Core Financial Statements (Continued)

Note 50 – Contingent Liabilities

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

During 1992/1993 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. The Council has a number of outstanding claims with MMI and arrangements are in place to try and ensure an orderly settlement of the sums due. Potential losses on insurance settlements are estimated at £0.643m (which represents 10% of the paid and outstanding claims currently being dealt with by MMI). The position with MMI and the level of claims is reviewed annually by the Council and as a result no provision or reserve is considered necessary at this point as a solvent run off of MMI claims is anticipated.

The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils.

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

In June 2005, the Council via Government Office North East (GONE), received a European Court of Auditors (ECA) report which indicated some technical issues had been found in respect of the Sunderland ARC feasibility study project grant claim. The Council responded to these issues and had confirmation that the maximum possible loss of grant would not exceed £107,000. During 2009/2010 the Council concluded its discussions with GONE and provided more detailed information in respect of the dispute and the Council subsequently received notification that it would have to repay grant funding of £97,819 to settle the issues. As such this contingent liability has been fully discharged in the current financial year and the repayment of grant monies is included within the Statement of Accounts for 2009/2010. The Council also responded by putting in place corrective action so as to prevent a re-occurrence of the issues raised by the ECA.

Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non environmental and environmental warranties. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo. The amount included in the Agreement stipulates that the Council's maximum liability to the Group

in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made.

The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to the Sunderland Housing Group, (now known as Gentoo), on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has sought advice from Queens counsel on this matter. The Council is reasonably confident Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts. The claim continues to be resisted by the

Note 50 – Contingent Liabilities (Continued)

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

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

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

The Council, as the accountable body for URBAN II grant funding is responsible for all grant claims and as such must repay any ineligible grant as a consequence of this responsibility. As part of its role, therefore, it carries out Article 4 visits to ensure grant funding is being properly spent by those awarded this grant, on eligible schemes. These visits have now been fully completed and they have uncovered a range of technical issues in respect of URBAN II grant claims, which could result in a potential loss of grant funding of up to £0.316m (this is regarded as the worst case position at this point in time). There are, however, a number of factors that still could affect the final position and these issues and actions are currently being considered by the Council in order to reduce the final outcome. It is thus very difficult to assess the precise outcome at this stage as a number of other factors could still change the final position and the above figure can only represent the best estimate available.

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

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

Notes to the Core Financial Statements (Continued)

Note 51 – Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. At 31st March 2010 the Council was responsible for 42 of these funds (40 relating to Children's Services and 2 relating to Adult Social Services), details of which are shown below.

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

Note 52 – Contingent Assets

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

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.261m.

Note 53 – Post Balance Sheet Events

Non adjusting events

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

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

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

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

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

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

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

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

Personal searches of local land charges register

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

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

Adjusting event

There are no adjusting post balance sheet events.

Notes to the Core Financial Statements (Continued)

Notes to the Cash Flow Statement

Note 54 – Reconciliation of Revenue Activities

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

	2009/2010		Restated 2008/2009	
	£	£	£	£
(Surplus)/Deficit per Income and Expenditure Account		**69,384,498**		23,573,501
Non Cash Transactions				
Depreciation, Impairment and Government Grants Deferred Amortisation	**(87,440,655)**		(57,158,850)	
Deferred charges written to revenue	**(4,235,301)**		(6,985,878)	
Direct Revenue Financing			12,294,721	
Net Movement on Reserves and Provisions	**(2,020,075)**		(17,735,227)	
Pension Fund Adjustments	**(14,990,000)**		15,190,000	
Other	**(5,118,116)**	**(113,804,147)**	(1,975,368)	(56,370,602)
Items on an accruals basis				
Increase / (Decrease) in Debtors	**5,108,116**		(1,967,378)	
(Increase) / Decrease in Creditors	**9,272,929**	**14,381,045**	10,590,326	8,622,948
Net Cash Flow from Revenue Activities		**(30,038,604)**		(24,174,153)

Note 55 – Increase / (Decrease) in Cash

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

Note 56 – Increase / (Decrease) in Liquid Resources

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

Note 57 – Increase / (Decrease) in Financing

	31/03/2010	:stated 31/03/20	Movement 2009/2010	Restated Movement 2008/2009
	£	£	£	£
Long Term Borrowing	**(148,063,883)**	(139,092,938)	**(8,970,945)**	30,079,715
Short Term Borrowing	**(32,463,642)**	(32,241,271)	**(222,371)**	2,868,942
Net Movement	**(180,527,525)**	(171,334,209)	**(9,193,316)**	32,948,657

Notes to the Core Financial Statements (Continued)

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

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

Supplementary Statement

The Collection Fund Account for Year Ended 31 March 2009

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

Notes to the Collection Fund Account

Note 59 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base. This basic amount of Council Tax for a Band D property £1,325.72 for 2009/2010, (£1,288.75 for 2008/2009), is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills are based on the following proportions:

Band	Proportion
A	0.67
B	0.78
C	0.89
D	1.00
E	1.22
F	1.44
G	1.67
H	2.00

The calculation of the estimated, adjusted Band D is shown below and gives the amount of Council Tax which would be raised over each Band for every £1 of Council Tax charged by the Council. This is more commonly known as the Council Tax Base.

Band	**2009/2010** **£ p**	2008/2009 £ p
A	**43,785.07**	43,816.67
B	**11,095.10**	11,139.31
C	**12,441.86**	12,318.17
D	**7,317.66**	7,283.61
E	**3,223.22**	3,268.73
F	**1,307.26**	1,298.77
G	**893.03**	886.90
H	**25.48**	23.52
	80,088.68	80,035.68

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

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

Notes to the Collection Fund Account (Continued)

Note 60 – Income from (National Non Domestic Rates) Business Rates

Under the revised arrangements for business rates, the Council collects business rates for its area which are based on local rateable value multiplied by a uniform rate. The total amount, less certain reliefs and other deductions is paid to a central pool managed by Central Government. The contribution due from the Council to the National Non Domestic Rates Pool for 2009/2010 can be analysed as follows:

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

Central Government, in turn, pays back to authorities their share of the pool based on a standard amount per head of the local adult population. For 2009/2010 the Council received a contribution from the pool of £125,643,033 which is payable directly to the General Fund, (in 2008/2009 this figure was £132,944,980).

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

Note 61 – Amounts Written Off During The Year

a) Council Tax

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. In 2009/2010 £430,004 (£563,666 for 2008/2009) was written off with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such does not impact on the Precepting Authorities resources. To put this figure into context, the amount written off compared to the collectable Council Tax for 2009/2010 represents less than 0.40% (2008/2009 this was 0.55%) of the total sum.

b) Business Rates

In 2009/2010 £945,650 was written off, (2008/2009 £622,602), with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such does not impact on the Authorities resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2009/2010 represents 1.21% (2008/2009 this was 0.84%) of the total sum.

Note 62 – Government Grants

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

Notes to the Collection Fund Account (Continued)

Note 63 – Fund Balance

The fund balance can be analysed as follows:

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

The amounts of the Collection Fund balance relating to the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority are shown in the Balance sheet as creditors, as the amounts of £70,258 and £62,650 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £1,007,938 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency Services
Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

BVACOP
The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
b) Facilitate accurate comparison between both services and authorities.
c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
d) Represent best practice.

Glossary of Terms (Continued)

Capital Charge
The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Capital Expenditure
Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

Capital Financing Charges
The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital Financing Requirement
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital Grants
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Fixed Assets
The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

Community Assets
These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Glossary of Terms (Continued)

Constructive Obligation
An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
The form of local taxation operated from April 1993, based on properties.

Credit Approvals
The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

Basic Credit Approvals - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

Supplementary Credit Approvals - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

Creditors
Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

Glossary of Terms (Continued)

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the City Council but not received at the date of the balance sheet.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Direct Service Organisation (DSO)
The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Glossary of Terms (Continued)

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges
Income arising from the provision of services, e.g. for the use of recreation facilities.

Formula Spending Shares (FSS's)
This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

FRS 1 – Cash Flow Statements
Requires the Authority to prepare a cash flow statement in a manner prescribed by the FRS. Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

FRS 3 – Reporting Financial Performance
The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

FRS 4 – Capital Instruments
This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the Council's sources of finance and associated costs, commitments and potential commitments.

FRS 8 – Related Party Disclosures
FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transaction with them.

FRS 11 – Impairment of Fixed Assets
FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

FRS 12 - Provisions, Contingent Liabilities and Contingent Assets
The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the notes to the accounts.

FRS 15 – Tangible Fixed Assets
This standard sets out the principles of accounting for tangible fixed assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

FRS 17 – Retirement Benefits
FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs. For 2004/2005 the Consolidated Revenue Account shows the effects of over/under funding of pension liabilities within the net cost of services.

FRS 18 – Accounting Policies
This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

General Fund
This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

IFRIC – *International Financial Reporting Interpretations Committee*

Impairment
A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Glossary of Terms (Continued)

Income
Amounts due to the City Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the City Council).

Infrastructure Assets
These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.
Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

Intangible Fixed Assets
These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Interest Cost (Pension)
For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

Investments (Non-Pensions Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Large Scale Voluntary Transfer (LSVT)
The voluntary transfer of public sector housing tenancies to other bodies, usually to a Registered Social Landlord, which may be a Housing Company or Housing Association.

Leasing
The method of financing the provision of various capital assets to discharge the City Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

Operating Leases - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Glossary of Terms (Continued)

Lender Option Borrower Option Loans (LOBO)
Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

London Inter Bank Bid Rate (LIBID)
The rates of interest being bid on the London Money Market for various time periods.

Long Term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

Minimum Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

Net Book Value
The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable Value
The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Glossary of Terms (Continued)

Non-Operational Assets
Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear District Councils on their behalf.

Prior Year Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowing where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

Private Finance Initiatives (PFI)
PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Glossary of Terms (Continued)

Prudential Framework
One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Rate of Return on Capital
The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Glossary of Terms (Continued)

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The Materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Renewals Accounting
Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

Research and Development
Expenditure falling into one or more of the following broad categories:
- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:
- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure
Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

Glossary of Terms (Continued)

Revenue Expenditure Funded by Capital under Statute
Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. *Revenue Expenditure Funded by Capital under Statute* is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits: and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

Statements of Recommended Practice (SORPs)
Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

Statements of Standard Accounting Practice (SSAPs)
Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

Stocks
Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

Supported Capital Expenditure
Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Glossary of Terms (Continued)

Trust Funds
Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to services.

Unsupported Borrowing
Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the authority will derive benefits from the use of a fixed asset.

Vested Rights
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits:
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.