Sunderland City Council

Item No. 3

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 30 JUNE 2009 at 1.30pm.

Present:-

Mr G N Cook in the Chair

Councillors Allan, M Forbes, Wares and Mr J P Paterson.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Arnott, Allan and T Wright.

Minutes

5. RESOLVED that the minutes of the meeting of the Committee held on 22 May 2009 be confirmed and signed as a correct record.

Internal Audit Services Annual Report for 2008/2009

The Director of Financial Resources submitted a report which provided details of the performance of Internal Audit Services (IAS) during 2008/09 and an opinion on the overall system of control in place within the Council. The report also included performance information in relation to Internal Audit Services provided to associated bodies.

Tracy Davis, Audit and Counter Fraud Manager provided an overview of the report and stated that the Internal Audit Plan for the year had been agreed in March 2008. The Plan included 120 audits, of which 117 had been completed which was a performance of 97.5% against the target. A further nine unplanned audits were undertaken during the year, utilising the contingency time set side in the Plan.

Internal Audit recommendations were still categorised as high, medium or low risk, but a new category of “significant” had been introduced to reflect issues which could have a wider impact than on the service or area being audited but would not put at risk the achievement of the audited body's objectives. Two significant recommendations were made during the year in relation to an audit of the Service Transformation Project.

Audits had been undertaken in relation to the Council's key financial and non-financial systems and opinions were either satisfactory or good. One exception was the ICT Disaster Recovery arrangements and the position in relation to this was outlined in the report.

The Internal Audit Annual Report for 2007/2008 had recorded an unsatisfactory opinion in respect of Disaster Recovery/Business Continuity arrangements in relation to ICT. Since this judgement was made, Internal Audit Services had been closely monitoring the work carried out by ICT Unit and this had steadily progressed. The overall position had improved over the last year, however the recovery of key applications was still unsatisfactory.

24 key applications had been defined by Directorates and the status of each had been analysed and rated as green, amber and red. As of March 2009, six applications were green, 16 were amber and two were red. Steve Leggetter, Corporate Head of ICT, was in attendance at the meeting and advised that the position was now that eight applications were green and 16 were amber. Work was continuing and it was expected that all applications would have a green status by the end of the financial year.

In respect of audits on the use of grants received, there was one target where evidence could not be provided for the Performance Reward Grant and a fresh claim was to be made, with evidence, in 2009/2010.

All schools were required to achieve the Financial Management Standard in Schools and Internal Audit had been charged with assessing the City's schools compliance with the standard. The service was on target to have assessed all 114 schools by the end of 2009/2010.

Further awareness raising had been done in relation to counter fraud work and an e-learning package had been introduced for employees. Work had also been done to identify potential fraudulent activity which had included a review of purchase orders, however no fraudulent activity had been discovered.

Follow up audits were conducted to ensure that agreed audit recommendations are implemented. The target was for 100% of high and significant risk recommendations and 90% of medium risk recommendations to be implemented in accordance with the agreed timescale. The performance stands short of the target at 84% excluding schools.

Internal Audit had also carried out investigation work in response to concerns raised by Internal Audit, management and by third parties but no issues investigated had an impact on the overall control environment.

Post Audit Questionnaires were issued to clients and average scores in all areas were between good and satisfactory. IAS also took part in a benchmarking survey where the overall average rating of the service was excellent. The Audit Commission had also given a positive opinion on the service.

Councillor Forbes queried if audits which had been planned but not completed during 200820/09 would be carried over to 2009/2010. Tracy Davis informed the Committee that it had been subsequently found that an audit certificate was not required for the Winter Festival Grant as no grant was to be received within 2008/2009. The other two outstanding audits had been rescheduled for 2009/2010.

In response to a question from the Chairman about the Performance Reward Grant, it was confirmed that there should be no loss to the Council and all the grant would be paid if the evidence to be provided was sufficient.

The Chairman drew attention to the breakdown of the implementation of risk recommendations by Directorate and commented that certain areas had a low implementation rate. He asked that this be monitored and brought back to the Committee as they would like to be assured that the work of Internal Audit was being respected by Council directorates. The Director of Financial Resources stated that he felt this had been the first backward step in terms of implementation and he would raise the issue with the Chief Executive.

Having considered the report, it was:-

6. RESOLVED that:-

(i) it be noted that Internal Audit Service was being delivered in accordance with statutory responsibilities and was continually seeking to improve the standards of its service; and

(ii) based upon the information provided within the report and other reports provided to the Committee throughout the year, which had drawn on the cumulative knowledge and experience of the systems and controls in place by Internal Audit including the results of previous audit work and work undertaken within 2008/2009, it was considered that overall throughout the Council there continued to be a sound internal control environment. Where areas of improvement had been identified, The Committee noted that recommendations had been made to minimise the level of risk, and action plans for their implementation had been drawn up and agreed by management.

Risk Management Annual Report 2008/2009 and Policy Statement and Strategy – Review and Update

The Director of Financial Resources submitted a report which set out arrangements for the management of risk in place during 2008/2009, proposals for future improvement and development and the outcome of a review and updating of the Risk Management Policy Statement and Strategy to reflect and respond to the latest understanding, importance and demands of Risk Management within all types of organisations.

The Head of Risk Management and Insurance Services outlined the report and drew attention to the Risk Management Framework operating within the authority. A Corporate Risk Management Group operated across the authority comprising the Deputy Director of Financial Resources, Head of Risk Management and Insurance Services and the Chairs of Directorate Risk Management Groups. Each Directorate was required to establish a Risk Management Group in order to ensure and demonstrate adequate and effective risk management arrangements.

During 2008/2009, the Council undertook the process of producing a completely new Corporate Risk Profile. The Council and its external advisors, Marsh UK, are currently agreeing and finalising the document which would then be presented to the Executive Management Team, Cabinet and Audit and Governance Committee for consideration and approval in due course.

The British Standards Institute (BSI) had published guidance on risk management and whilst this was not statutory, the Council was checking that their risk management systems and processes were in alignment with the document. The report also highlighted the successful work done with schools in the area and the external recognition received through the CPA Assessment and the ALARM National Awards.

With regard to the review of the Corporate Risk Profile, the Chairman asked if by going back to basics, it was expected that anything surprising would come up outside what was already done. The Head of Risk Management and Insurance Services stated that although it could not be ruled out, he was confident there would be no major surprises. He advised that this was the reason for having independent advisors involved from the beginning of the process who had carried out interviews with elected Members, Officers and the Chair of the Sunderland Partnership.

Mr Paterson congratulated the Council for receiving the top score of 4 for the Risk Management element of the CPA Assessment and enquired which was the other authority who had also received this score from the inception of CPA. The Head of Risk Management and Insurance Services reported that the other authority was St. Helen's and Sunderland had taken the opportunity to have an exchange of views with them on the subject and their approach.

Councillor Forbes queried how the Risk Management Strategy would be rolled out across partnerships and how they would become aware of the necessary requirements. The Head of Risk Management and Insurance Services advised that each significant partnership had its own risk register which detailed areas of concern and the need for controls if required. The Director of Financial Resources added that the relationship between the Council and any third party had to be defined and officers work together to ensure that the relationships are defined and fully understood. Partnership Risk Registers would flag up issues of uncertainty over funding and are being rolled out to cover to all other partnerships across the Council.

Accordingly, it was:-

7. RESOLVED that:-

(i) the Annual Report on the Corporate Risk Management arrangements in place during 2008/2009 be noted;

(ii) the proposals for future improvement and development be noted;

(iii) the Council's Risk Management Policy Statement and Strategy be noted; and

(iv) on the basis of the report and the other reports made to the Committee, including evidence of the effectiveness of the arrangements in place, arrangements for managing risk within the Council are considered sound.

Annual Governance Review 2008/2009

The Director of Financial Resources and the Chief Solicitor submitted a joint report providing details of the findings of the 2008/2009 Annual Governance Review and to seek approval for the draft Annual Governance Statement, prior to its inclusion in the Statement of Accounts.

The Director of Financial Resources reported that the review sought to capture evidence, through the views of employees, stakeholders, third parties and inspectorates about internal control arrangements. The annual review was led by the Head of Audit and Procurement and the Corporate Governance Steering Group had drawn on all available intelligence to come to its findings. The most important element was the identification of areas where improvements were needed and an Improvement Plan had been drawn up for this and was included as Appendix 1 to the report. The progress made regarding the 2008/2009 Improvement Plan was shown at Appendix 3.

The Chairman referred to the action to facilitate the involvement of Councillors in the governance review process and asked how this was to be addressed. The Director of Financial Resources reported that member questionnaires did not have a good response rate and officers felt that they wanted to engage more with Members so that they could contribute to the process through working groups or other forms of consultation.

Councillor Forbes welcomed this action and said that it was difficult for many Councillors to understand how the system worked and the relevant linkages involved. She felt that a workshop to explain the whole basis of the system to Members would be useful. Councillor Wares agreed that this would be ideal for Members.

The Chairman commented that the report was very comprehensive and helpful and drew attention to the fact that the Audit and Governance Committee itself would be under scrutiny at its workshop next month. He noted that the 'vision' of the Council was mentioned throughout the report and requested that the Committee receive more information about that vision at its next meeting in September.

Upon consideration, it was;-

8. RESOLVED that:-

(i) the findings of the 2008/2009 Annual Governance Review be noted; and

(ii) the Annual Governance Statement be approved.

Audit Fees 2009/10 and 2008/09

Lynn Hunt, Audit Manager submitted a letter detailing the audit work proposed for the 2009/2010 financial year and the audit fees.

The Audit Commission had published its scales of fees for 2009/2010 and the scale fee for Sunderland City Council was £330,240. This was a 3% increase on 2008/2009, but actually represented 5% below the scale fee for an authority of Sunderland's size.

The scope of the audit work was governed by the Code of Audit Practice and Statement of Responsibilities and did not just cover the financial statements but also the Use of Resources and Value for Money elements which were gaining more prominence. In the forthcoming year, assessments would also be made of workforce planning and Human Resources Management and the increase in fees reflected that.

Due to there being a relatively small number of errors in Sunderland's financial statements, the Audit Commission's overall assessment was that it was a low risk audit and the Audit Manager indicated that she was confident that the work could be delivered for the stated fee. No changes were envisaged for the 2008/09 fee.

The Director of Financial resources noted that it was pleasing that the fee was below the scale fee.

It was:-

9. RESOLVED that the Audit Fees for 2008/09 and 2009/10 be noted.

Statement of Accounts 2008/2009 (Subject to Audit)

The Director of Financial Resources submitted a report presenting the Statement of Accounts for the year 2008/2009 to the Committee for approval, subject to audit.

The Director of Financial Resources drew attention to the timetable for the Audit of the Statement of Accounts and reported that the earlier closure of the accounts was driven by the requirement to more closely match those governing private sector audits and to enable the timely publication of the Whole of Government Accounts.

The Statement of Accounts had been prepared in line with the Statement of Recommended Practice (SORP) 2008 which had introduced some further changes to the accounting requirements.

Members were then referred to the main financial issues arising from the Statement of Accounts 2008/2009 (subject to Audit) and the Director of Financial Resources highlighted the following:-

Revenue Expenditure and Income Summary – the budget had originally been estimated at £243.153 million and the actual expenditure was £268.808 million.

General Reserve – this had decreased by £455,000.

Additions to balances had been achieved through the annual actuarial review of insurance provisions and reserves, debt charge savings, savings in relation to area based grants and unutilised contingencies. Balances had been earmarked to assist with addressing the economic downturn, £3m was to be transferred to the Strategic Investment Reserve and £2m to the Strategic Investment Plan to assist in funding capital investment needs associated with waste management.

Movement on Locally Managed Schools Reserve – this had been increased from £5.601 million to £5.771 million.

Capital Expenditure and Income – this had totalled £123.531 million.

Euro – it was highlighted that the Council's Financial Management System was euro compliant.

Comprehensive Performance Assessment – the Council had received the highest score of '4' and '4 out of 4' for its Use of Resources Assessment.

Building Schools for the Future – the total programme would cost £130 million with the majority of funding being spent in 2008/2009.

Cost of Pensions – this continued to increase year on year and the Council had little control over this as it was statutorily governed by the Local Government Pension Scheme (LGPS) statutes and regulations.

Efficiency – the Council continued to perform well in this area and was rising to the challenges which were being created by the current economic situation.

The Council's Improvement Agenda – there was a need to invest in technology to improve the position moving forward.

Major Acquisitions, Capital Works and Disposals during 2008/2009 – schemes highlighted included BSF projects at Washington, Castle View, Pennywell, Hylton Red House and Biddick and swimming pools at Hetton and Silksworth.

Tangible Fixed Asset Impairments – there had been a 13% reduction in the total land and buildings portfolio value.

Economic Downturn – this had affected the Council's ability to generate capital receipts. The Council was trying to maximise the take up of small business rate relief and was issuing advice to households on dealing with the downturn.

Capital Borrowing – statutory limits had not been exceeded.

Single Status – phase one had been implemented and phase two was progressing. Limited provision for the potential costs of the new scheme had been included within financial plans.

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

Insurance Provision – the Council continued to benefit from reduced insurance premia by successfully managing some risks itself and had been able to return provisions for insurance costs to Council balances in 2008/2009.

Airport Revaluation – this had taken place in the light of the economic downturn and was reflected in the Council's accounts. This was a technical rather than market valuation.

Area Based Grant – this consolidated a number of funding streams.

The Chairman referred to the Income and Expenditure Account for year ended 31 March 2009 and queried the large difference in the value of General Government Grants between 2007/2008 and 2008/2009. The Director of Financial Resources advised that this was a result of the Government amalgamating a number of specific grants into the Area Based Grant. This was now disclosed of as a general grant.

The Chairman noted that the value of long term investments had also increased considerably and the Director of Financial Resources reported that this was due to money previously held as short term investments being invested for longer periods in accordance with the approved Treasury Management Strategy.

Figures for long term borrowing had also decreased by £30m between 2008 and 2009 and it was reported that this was as a result of this borrowing being redeemed during the financial year.

Councillor Forbes asked about the ways Council buildings might be disposed of to another public body. The Director of Financial Resources stated that it was up to the Authority if it wished to dispose of property on a long or short term lease or by freehold. The Council was under an obligation to get the best possible consideration for land.

Upon discussion, it was:-

10. RESOLVED that the Statement of Accounts for the financial year 2008/2009 be approved subject to audit.

(Signed) G N COOK
Chairman

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **29 September 2009**

SUMMARY OF THE SUNDERLAND STRATEGY AND COUNCIL'S CORPORATE IMPROVEMENT PLAN

Report of the Chief Executive and the Director of Financial Resources

1. Purpose of Report

1.1 The purpose of this report is to raise the awareness of the Committee of the key priorities and plans for the city and the council through providing a summary of the Sunderland Strategy and the council's Corporate Improvement Plan (CIP).

2. Council's Vision

2.1 The Committee receives a range of reports in relation to governance, risk, audit and performance of the council. In order to contextualise these reports Members of the Committee have requested information in relation to the 'vision' of the council.

2.2 The key documents that contain the 'vision' for the city and the council are the Sunderland Strategy and the Council's CIP respectively. A brief description of each is provided below.

<u>Sunderland Strategy (2008-2025)</u>
The city's residents and businesses were asked for their views on the city and how they want to see the city develop in the future, and the strategy describes how partners will respond to those views. It also sets out what will be done to make Sunderland attractive to people coming to live in the city.

It is a strategy for everyone, produced by the Sunderland Partnership – the partners who work together to tackle the challenges the city faces.

The Sunderland Partnership vision is:

"Sunderland will be a welcoming, international recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous city."

As a member of the Sunderland Partnership the council subscribes to this vision.

The Sunderland Partnership is the city's Local Strategic Partnership (LSP). It brings together the public, private, community and voluntary sectors to work together to achieve success, encourage improvement, and tackle and overcome problems for the benefit of all citizens now and in the future.

Corporate Improvement Plan (2009/2010 – 2011/2012)

The Corporate Improvement Plan (CIP) 2009/2010 to 2011/2012 is the council's overarching plan for how it will deliver services and work towards achieving the vision for Sunderland - Creating a better future for everyone in Sunderland.

The full CIP combines the plans for each of the council's portfolios, including revenue budgets for the financial year and the capital programme for 2009/2010, detailing planned capital expenditure.

The CIP gives a broad overview of what the council is doing to achieve Sunderland Partnership Strategic Priorities as well as its own Corporate Improvement Objectives (together these are known as the Corporate Improvement Priorities) set out below. It details the actions each portfolio and service area intends to take over the financial year, and its plans for the next two years.

Strategic Priorities

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

The Sunderland Strategy 2008-2025 also identifies four cross-cutting priorities – important issues and priorities that cut across everything that the Sunderland Partnership and its partner organisations do, these are:

Sustainability
Creating Inclusive Communities
Housing
Culture

These cross-cutting themes are considered in the development of improvement actions under each of the Strategic Priorities.

The council directs its contribution towards achieving the Partnership vision through four Corporate Improvement Objectives.

Corporate Improvement Objectives
Delivering Customer Focused Services
Being ‘One Council’
Efficient and Effective Council
Improving Partnership Working To Deliver ‘One City’

2.3 Summaries of both of the above documents are appended.

3. Recommendations

3.1 The Committee is asked to note the summary information.

Appendix 1

Sunderland... for a better future

The Sunderland Strategy 2008 - 2025

Summary

Sunderland Partnership

The Sunderland Strategy 2008 - 2025

What is the Sunderland Strategy?

The Sunderland Strategy sets out how the people who live, work and study in the city today would like to see Sunderland evolve by 2025, and how we will work together to achieve these goals.

It is a bold and aspirational vision for the city, building on Sunderland's great heritage and environment and the special characteristics of its people to create an even better future for everyone who chooses to be part of the city's life.

The city's residents have been consulted and the strategy includes issues that they said were of concern to them, along with those relevant to businesses, partners from all sectors, and many other contributors. It also draws upon the things that will be attractive to people coming to live in the city.

It is a strategy for everyone, produced by the Sunderland Partnership – the partners who work together to tackle the challenges the city faces.

However the strategy has not been developed in isolation. Sunderland is part of Tyne and Wear City Region and plays a major role as an economic driver in North East England, therefore the strategy supports the development of regional and sub regional frameworks and strategies. The city also has strong international links and relationships and engages with the European Union and key international partners in Washington DC and China.

Our shared 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.

By achieving this vision, we will have ensured that in 2025, Sunderland will be the place people choose to make their home, to come to work or study and to spend their leisure time.

The Sunderland Strategy 2008 - 2025

Achieving our vision

We consulted with 2,000 people and many organisations across the city and beyond. From the ideas and priorities that emerged we have developed strategic aims – the stepping stones towards our vision - the things that people will be able to see and enjoy on the way. These aims are:

Aim 1

To create an enterprising and productive global city with a strong and diverse economy providing jobs and careers for generations to come. A city where everyone has the opportunity to contribute to and benefit from the regional economy, to fulfil their potential to be skilled, motivated and wealth creating without losing the special characteristic of Sunderland's balanced way of life.

Aim 2

To create a city where everyone can be supported to make healthy life and lifestyle choices - a city that provides excellent health and social care services for all who need them. Everyone in Sunderland will have the opportunity to live long, healthy, happy and independent lives.

Aim 3

To make Sunderland the place where everyone feels welcome and can be part of a safe and inclusive community, where people will feel secure and can enjoy life without worrying about becoming a victim of crime.

Aim 4

To create a city with a thriving learning culture where everyone can be involved in learning in a cohesive and inclusive city that is committed to social justice, equality and prosperity: where creativity flourishes and where individuals can have all they need to thrive in the global economy.

Aim 5

To ensure that Sunderland becomes a clean, green city with a strong culture of sustainability, protecting and nurturing both its built heritage and future development and ensuring that both the built and natural environments will be welcoming, accessible, attractive and of high quality.

The vision and aims define 'what' the city will be like in 2025 and the strategic priorities set the framework for 'how' we will go about achieving the goals that the Sunderland Partnership has set.

The Sunderland Partnership has determined its priorities for this strategy as follows:

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

Prosperous City

What we are going to do

Sunderland will have a strong and competitive economy

We will develop a culture of enterprise and talent to promote a diverse economy and reduce equality gaps

We will promote the growth of existing and new businesses, ensure the city has sustained economic stability, and maximise employment opportunities

We will support the economic and physical regeneration and the evening economy in the city

Implement effective economic, business and land use planning to allow the city to respond quickly to the changing needs of the economic environment

Sunderland City Centre will have developed a vibrant retail and office market

Everyone will have the opportunity for employment and have the skills to develop a successful career in the city

Sunderland's Housing will be responsive to the needs of Sunderland's large and diverse population; its individuals and its communities

How we will achieve our goals

We will promote the city as a competitive business location to raise the profile of the city still further in business sectors

Construction of new storage facilities in 2008 for new and existing business at the Port of Sunderland to increase capacity for trade

We will encourage the start up and development of enterprising businesses by working with partners to ensure local businesses access the support they require

We will work with the private sector to encourage investment in development sites to ensure further job opportunities and enhance the economic infrastructure in the city

We will produce a detailed long-term economic development and regeneration plan to achieve a stronger role for Sunderland in the Tyne and Wear City Region

We will develop a skilled, engaged and motivated workforce to ensure prosperity is increased and more widely shared

Development of strategic sites in central Sunderland including Stadium Village, Bonnersfield, Vaux, Bridges Phase 3 and the Holmeside Triangle to improve the city centre for all residents and provide additional jobs

We will implement the Sunderland Strategic Transport Corridor which includes the new River Wear Bridge

We will deliver the Local Development Framework to provide clear guidance for developers on new opportunities and acceptable sustainable land use

We will deliver new housing in line with the Local Housing Strategy targets and the LDF to provide greater quality and choice, supporting Gentoo in delivering its housing regeneration programme

As part of the 15 year vision for Sunniside, streets and open spaces are to be connected and improved making a pleasant central area to work or relax

What you will see

2008

Begin development of Turbine Business Park

Begin development of Farringdon Row

Commencement of working neighbourhood initiatives

2009

Begin development of managed workspace in Washington

Roll-out of Software City plan

2011

Begin development of former Vaux breweries site

2014

Completion of Holmeside Triangle Development

Completion of all Farringdon Row sites

2015

Successful completion of Rainton Bridge Business Park

2016

A new road bridge will have been built across the River

2017

Completion of the Sunniside area development

2021

262 hectares of land will have been taken up by new or existing businesses

Retailing needs will have been accommodated within existing centres

15,000 new homes will have been built

2025

Nationally significant cultural and physical regeneration will continue to be developed at Stadium Village to compliment and enhance the existing cultural mix of landmark iconic facilities including the Stadium of Light and the regional Aquatic centre

Healthy City

What we are going to do

Children in Sunderland will demonstrate good emotional health and wellbeing and those that do not will receive support

There will be reductions in the numbers of overweight or obese year six children, and the number of young people, particularly young women, that smoke

People in Sunderland will have the opportunity to live as long as those with the longest life expectancy in England

Sunderland will have pathways to identify early those people of all ages at risk of disease and offer interventions, including cultural and leisure activities. More people will participate in sport and there will be a reduction in smoking and a shift away from a binge drinking culture

Smoking prevalence will be reduced and there will be no differences between wards in Sunderland

Sunderland will be a place where everyone, regardless of the vulnerabilities they experience through age and/or disability, is supported to live independently in accommodation of their choice, including their own home

Continued overleaf...

How we will achieve our goals

The Healthy Schools Programme in Sunderland will have a specific focus on good emotional health and well being, as well as extending the child and adolescent mental health services

All partners will work with children and parents to refer to the child obesity pathway and a range of activity, and nutrition programmes will ensure obesity levels are reduced. A new youth advocacy programme will be introduced so young people can take control over decisions about smoking and challenge big tobacco companies

Sunderland people will be able to identify their risk of cardiovascular disease and make choices about treatment and lifestyle change to improve their health

The development of pathways for people will ensure that local people in Sunderland are able to make choices about their health, and are supported in newly developed services for preventing heart disease (as well as long term conditions and cancers). There will be increased energy focused toward those who are most at risk to reduce the gap within Sunderland and between Sunderland and the rest of England

New services will be available across the city to support people to manage their weight, stop smoking and encourage sensible drinking

The Council and its partners will progress plans to improve the independence of vulnerable people to live in their own homes or in specially adapted properties they have chosen for as long as possible

Continued overleaf...

What you will see

2009

Hetton and Silksworth Swimming Pools will be completed

2010

Three extra housing care schemes will have been built at Silksworth, Washington and Hetton, providing a minimum of 120 units of accommodation for older people

2011

Comprehensive prevention and treatment services will be in place for alcohol, and the city will no longer be in the worst ten per cent in the country for hospital admissions due to alcohol

There will be a 22 per cent increase in the number of people helped to live at home (from 2006/07)

All individuals (and their carers) that need a more formal care assessment will need to be assessed just once and within timescales suitable for them, to identify all preferred outcomes tailored to their needs

There will be a broader range of stop smoking services across the city, linked into wards with highest rates of smoking

2012

55 per cent of children and young people aged between 0 - 19 years will have access to high quality equipped play areas within one kilometre from their home

Continued overleaf...

Healthy City

What we are going to do

As a result, there will be a significant reduction in the number of admissions to residential and nursing care

Individuals, carers and other residents, will be given the appropriate support to access a range of services within the city to help meet their needs

There will be a significant reduction in the number of admissions to residential and nursing care, and 100 per cent of people with long-term conditions in Sunderland will be supported to live at home for as long as they wish and feel able

Cultural Activities in Sunderland will encourage people to live healthy lifestyles and support their overall well-being

How we will achieve our goals

The Council and its partners will develop a range of strategies to improve all individuals' access to simpler, more joined-up assessments and planning, offering them choices about their care, support and services tailored around their individual needs and preferences allowing them to exercise their rights as citizens. The city will also improve the range of public, private and Third Sector solutions available for all individuals so that their outcomes can be realised, as well financial support for individuals to decide what might help them

We will drive forward a citywide transformation of sport, leisure and play facilities, to create opportunities for participation in sport and physical activity

Partners will work together to develop clear pathways and programmes for increasing participation, both for existing participants and newcomers

What you will see

2015

All adults at risk of chronic conditions will be identified and be receiving appropriate treatment or have access to prevention programmes

Smoking prevalence will be reduced to 20 per cent

The increase in childhood obesity will be halted

The local environment will support people to be physically active and support positive mental health

2016

At least 25 per cent of individuals assessed and supported to live at home by the council will be provided with financial support to make their own arrangements and decisions about their care

2020

Childhood obesity will be reduced to 18 per cent

70 per cent of children will report good emotional health and well-being

Life expectancy will equal that of England and the gap between Sunderland and England will have closed significantly

2023

There will be no individuals admitted to care funded by the Council because an appropriate range of alternatives exist for them

2025

There will be a significant increase in the number of adults and children participating in sport

Safe City

What we are going to do

Sunderland will be a place where people are, and feel, safe and secure – where they are free from crime, disorder and substance misuse. There will be the lowest ever levels of both recorded crime and perceptions of anti-social behaviour

People will be free from harm. Repeat incidents of domestic violence, assault with injury and hospital admissions due to alcohol will be reduced. There will be fewer 'repeat' substance misusers accessing treatment

Sunderland will have an environment that promotes safety and feelings of safety so that no one feels very unsafe where they live

People in Sunderland will have a supportive family environment. Sunderland will be a city where people are supported to be active citizens and free from involvement in crime, disorder and substance misuse. Drug related (Class A) offending and proven re-offending by adults and young offenders will be reduced

Sunderland will have cohesive communities. Hate crime will not be perceived as a serious problem and feelings of safety amongst vulnerable groups will more closely reflect those of other residents across the city

We will achieve our goals

We will deliver a range of work covering prevention, early intervention, enforcement and support/rehabilitation. For example:

Use the latest technologies such as CCTV to support prosecutions and provide reassurance

Continue the Safer Homes Initiative to provide improved home security to victims of house burglary, hate crime and domestic violence

Use Local Multi-Agency Problem Solving Groups to identify, analyse and effectively resolve local safer communities problems

Every community will be patrolled by one of the 14 dedicated Neighbourhood Policing Teams who are working with partners to solve local problems and reassure residents

Target domestic violence offenders through the new perpetrator hostel alongside continued support for victims

Prevent further re-offending by helping offenders to be more active citizens through access to drug and alcohol treatment, basic skills, employment, training and settled accommodation

Deliver the Prolific and Other Priority Offender Scheme and the Drug Interventions Programme to help break the cycle of offending and seek treatment for their substance misuse

Tackle underage drinking through education and enforcement

Continue the ARCH muti-agency racist incident reporting system improving the reporting and recording of hate crime and the support available to victims

Provide activities for young people to divert them into more positive behaviours

What you will see

2008/2009

Delivery Plans will be in place to tackle anti-social behaviour, alcohol related crime and the harm it causes, domestic violence and reducing re-offending

Sunderland will have its own Specialist Domestic Violence Court, Multi-Agency Risk Assessment Conferences for high risk victims, a new domestic violence refuge and the country's first domestic violence perpetrator hostel

2011

Improved perceptions of anti-social behaviour

Fewer alcohol related admissions to hospital

Lower levels of assault with injury

Fewer repeat cases of domestic violence

Lower levels of proven re-offending by adult and young offenders

Lower levels of drug related class A offending

2014

The Safer Sunderland Partnership will be the best performing in its 'family group' of similar partnerships in England and Wales

Learning City

What we are going to do

All children and young people will be offered appropriate personalised learning programmes, high quality advice and guidance, and the opportunity to learn in creative environments to enhance and support their achievements

Everyone in Sunderland will have the knowledge and skills essential to playing a full part in the city's social, cultural and economic development

The local Voluntary Community Sector will be supported to develop capacity to deliver learning opportunities for residents of disadvantaged neighbourhoods

Learning in Sunderland will be a positive and productive experience

Adults will be offered learning opportunities that meet their individual needs and the needs of employers

There will be increased numbers of young people going on to higher education

We will ensure that people of all ages and backgrounds have access to cultural activities, and are engaged in the design and development of them, to help create cohesive and inclusive communities, to raise people's aspirations and encourage learning and the development of new skills

How we will achieve our goals

All young people in the city will have access to all the new diplomas by 2013

All learning provision offered across the city will be personalised to meet the individual needs of the learner by 2013

All adults will be able to update their literacy, numeracy, ICT and work based skills by 2013

We will develop an infrastructure to meet the language and learning needs of migrant children, young people and adults to increase the number of adults getting citizenship status by 2013

A Compact will be adopted including Equalities Codes of Good practice

Community Impact Assessments to be carried out in regard to all new developments and projects

All providers of learning will be encouraged to achieve the quality kite mark by 2013

We will develop the capacity of the Voluntary and Community Sector to offer learning opportunities by 2013

Members of community network to commit to promoting community cohesion

All adults will have access to learning programmes that support personal development, cultural enrichment, intellectual stimulation, enjoyment and social cohesion 2013

We will increase the number of young people from the city accessing higher education by 2013

Neighbourhood agreements to be rolled-out across the city

We will enhance existing outreach programmes and seek new opportunities to work with community groups and schools across the city

We will promote reading and active participation in reading activities through targeted campaigns and promotion of library membership

What you will see

2009

We will open a new library at Silksworth

2010

All Primary and Secondary Schools will offer extended services

First phase completed of the Sunderland Building Schools for the Future (BSF) programme which will see four new schools and 'Sunderland Model' Academies and three major refurbishments

2011

All vulnerable young people will have individual support plans

A learner involvement strategy will be in place

2015

All Sunderland Secondary schools rebuilt or refurbished under BSF

2020

95 per cent of adults to have basic skills of functional literacy and numeracy

More than 90 per cent of adults to have gained at least a level two qualification

The number of young people who are not in education, training or employment will have reduced to 8.4 per cent (11.9 per cent in 2008)

2025

All partners delivering 14-19 provision in Sunderland to have achieved the gold quality mark

There will be an increase in the number of library memberships and the citizens of Sunderland will have developed an improved skills base

Attractive and Inclusive City

What we are going to do

There will be new dynamic places for residents and visitors, providing new living, leisure, learning, employment and cultural opportunities

Sunderland will be one of the cleanest cities in the country with an established reputation for care of its public realm

Sunderland will be a city that protects and enhances its natural environment and built heritage, and encourages people to learn about and enjoy its historical and cultural sites

Sunderland will have a reputation as a high quality events destination where Roker and Seaburn have a key role in providing cultural and tourism attractions, increasing visitor numbers significantly

Sustainable Neighbourhoods will be developed, where a range of key facilities and services (local shopping, doctors, schools) are within walking distance of residential populations

All people in the city will have a viable choice of travelling regularly by public transport, cycling or walking as an alternative to travelling by private car

50 per cent of domestic waste will be recycled and composted and less than 25 per cent will be sent to landfill by 2020

The city's carbon emissions from homes, businesses and transport will be reduced by at least 26 per cent, compared to 1990 levels

All new buildings will be built to the highest sustainable construction code, and have zero carbon emissions

The council and its partners will create sustainable and environmentally-friendly housing developments

The city's stock of social housing will have been rebalanced, with 3,800 replacement dwellings constructed and all housing in Sunderland will meet the decent housing standard

How we will achieve our goals

Development of the Vaux site, Farringdon Row, Bonnersfield, the Holmeside Triangle and the Central Station sites will be completed

We will implement the St Peter's Riverside Masterplan, complete a bid to mark St Peter's church as a World Heritage Site and support the bid by resisting unsympathetic development in this setting

A refreshed Sea Front Strategy will be prepared bringing forward development proposals in Roker and Seaburn

The Local Development Framework will identify the most sustainable sites where new housing development will take place. The Easington Lane Masterplan, Hetton Downs Area Action Plan, and Castletown Masterplan will be implemented to improve existing neighbourhoods

The city's cycle network will be improved using the Cycle Strategy

All schools will have Travel Plans in place by December 2010 and travel plans will be progressed with employers

Strategic waste management facilities will be developed in partnership with the South Tyne Waste Partnership

The Climate Change Action Plan, the five year Carbon Plan and the three year Eco-Schools Project will be implemented

Household Alterations and Extension Supplementary Planning Document, the Residential Design Guide, and Design and Access Statement Guidance will be adopted and implemented

Gentoo's Housing Renewal Programme will continue

There will be an ongoing effort to work with promoters to develop Herrington Country Park as a venue for large scale music events and festivals

We will provide a diverse and balanced programme of events and activities across the city

What you will see

2008

Opening of 'The Place' - combining workspaces with the café, gallery and performance space

2010

30 per cent of all domestic waste will be recycled and composted

2011

From 2011 all new developments will be considered against an adopted suite of development planning documents setting out the most sustainable sites

32 per cent of all domestic waste will be recycled and composted

2015

45 per cent of all domestic waste will be recycled and composted following the commissioning of strategic waste facilities

2016

The construction of all new houses will have zero carbon emissions

2017

There will have been a 15 per cent reduction in Carbon Emissions across the city

2021

80 per cent of new homes will be built on brownfield land

There will be improved quality of urban design in the City Centre and across Sunderland

2025

There will be a significant increase in the number of visitors to the city and partners will work together to develop Sunderland as a place that people will choose to live, study and visit

The Sunderland Strategy 2008 - 2025

Planning Schedule

The Sunderland Strategy is a 17 year strategy and so actions taken to move towards our 2025 goals will be planned and implemented throughout this journey. Action planning will be undertaken on a 3 yearly basis when the Sunderland Strategy Delivery Plan and Local Area Agreement containing targets for improvement, will be updated.

The tables on the previous pages therefore detail the objectives we will be focusing on during the first phase of the Sunderland Strategy's implementation, and subsequent summaries – also refreshed on a 3 yearly basis – will outline planned activity in relation to the remaining objectives.

Details of all objectives can be found in the full Sunderland Strategy document.

Cross Cutting Priorities

As well as the five priorities already outlined there are important issues and priorities that cut across these, and need to be considered in everything that we do. If our vision is to be realised, it is vital that the needs and aspirations of all groups and individuals are considered, and that this is complemented by the city's appropriate social and physical development.

The Partnership has therefore established the following cross cutting priorities:

Sustainability

If the Sunderland Strategy is to be a truly Sustainable Community Strategy, it is vital that as we make social and economic progress in the city, we do so in such a way that has minimal environmental impact and establishes the foundations for improved quality of life for future generations as well as the current population.

We are committed to working collaboratively to maximise progress in respect of the sustainability challenges the city faces and we will ensure that our approach is adaptable as existing sustainability challenges are addressed and new priorities emerge.

Inclusive Communities

There are a number of issues associated with creating inclusive communities which cut across all Sunderland Strategy priorities and which are very closely related to one another. They are about the ways in which the people of Sunderland can become involved in the plans for their city and the ways in which the strategy will work to encourage this involvement. These issues can essentially be grouped as:

- Equalities
- Consultation and Community Engagement
- Community Development
- Community Cohesion

In addition to promoting cohesion between its established communities, the city needs to attract and be welcoming to newcomers if it is to reverse declining population trends, achieve the objectives of the Sunderland Strategy for the regeneration of the city, and make its optimum contribution to the region. There is a need to develop a collective culture of trust, based on the assumption that all partners are committed to working together to achieve the aims of the Sunderland Strategy. This will be achieved through the Sunderland Compact. We are committed to maximising the impact of the many activities and resources that are currently committed to community development.

Housing

Everyone in the city and those wanting to come to Sunderland should have the opportunity of a decent home at a price they can afford, in a place in which they want to live and work, and to be part of safe, strong, diverse, healthy and sustainable communities. Housing is the cornerstone of any sustainable community.

We will improve the quantity, quality and choice of type, location and price of housing within the city to meet 21st century aspirations and demands.

Culture

The Sunderland Partnership is committed to ensuring that Culture is developed to bring economic benefit to the city, help people develop new skills and support the provision of jobs as well as creating a lively economy. Culture will support people to improve their health, be fitter and more active, and enhance their sense of wellbeing through involvement in city life, enjoyment, entertainment and enlightenment – helping give people new perspectives, confidence and skills.

The Sunderland Strategy 2008 - 2025

The Sunderland Partnership

The Sunderland Strategy and this summary document have been produced by the Sunderland Partnership. The members of the Sunderland Partnership are:

- Sunderland City Council
- The University of Sunderland
- City of Sunderland College
- North East Chamber of Commerce
- Northumbria Police
- Tyne and Wear Fire and Rescue Authority
- Sunderland Teaching Primary Care Trust
- City Hospitals Sunderland NHS Trust
- Learning and Skills Council (Tyne and Wear)
- Job Centre Plus
- Sunderland Echo
- Sunderland Community Network
- Gentoo (formerly Sunderland Housing Group)
- Sunderland ARC
- Government Office North East (in an observational role)

The Sunderland Partnership is also creating Local Area Plans. These have a dual role: to interpret the citywide Sunderland Strategy and Delivery Plan (including the Local Area Agreement) at the area level, and to identify issues and priorities for improvement specific to the different areas.

In working towards the achievement of our vision and aims by implementing the Sunderland Strategy, all actions and initiatives will be undertaken or enabled by members of the Sunderland Partnership within the following Value Framework. In everything we do, we will:

Put people first - by developing our services and our organisations around the needs of local people, valuing and responding to their views, by keeping people informed through meaningful consultation processes, and making decisions that have a lasting positive impact for the people of Sunderland

Be fair and open - by valuing every individual regardless of their race, sex, age, religion, sexuality, disability, ethnic or national origin, personal beliefs or circumstances; respecting individual rights, whilst looking after the interests of the wider community

Act with integrity - by taking decisions in an open and transparent way, adhering to the highest standards of professional and ethical conduct, accepting responsibility for our own actions and ensuring the opportunity for people to participate in decision making

Strive to be the best - by being ambitious, reaching our vision through collaborative working, embracing learning and development for the benefit of individuals and partners, sharing our knowledge and experiences to learn from each other and building upon good practice

The Sunderland Partnership is also committed to **Fair Trade** - awareness of the Fair Trade movement has increased significantly in recent years and has made a substantial contribution to the reduction of poverty levels in the developing world. Buying Fair Trade products helps address the inequalities in the international trade system, by ensuring that producers from all countries get a fair price for their goods and labour.

In supporting Fair Trade principles, we will promote awareness of Fair Trade issues and the opportunities for supporting Fair Trade in the city, encourage the purchase of Fair Trade goods, and recognise the complementary nature of Fair Trade with existing activities in promoting the local economy.

The Sunderland Strategy 2008 - 2025

Contact Information

To make comments or for general information about the Sunderland Strategy 2008-25 contact:

Sunderland City Council
Corporate Policy Team

Tel: 0191 561 1152
Email: policy.team@sunderland.gov.uk

For information about the Sunderland Partnership contact:

Sunderland Partnership Team

Tel: 0191 561 1154
Email: sunderland.partnership@sunderland.gov.uk

For more information on the Sunderland Strategy Priorities email sunderland.partnership@sunderland.gov.uk or contact:

Prosperous City
Sunderland City Council Business and Investment Team

Tel: 0191 561 1194

Healthy City
Director of Public Health
Sunderland Teaching Primary Care Trust

Tel: 0191 529 7159

Safe City
Sunderland City Council Safer Communities Team

Tel: 0191 553 7915

Learning City
Sunderland City Council Children's Services

Tel: 0191 561 1432

Attractive & Inclusive City
Sunderland City Council Planning and Environment Service

Tel: 0191 553 1564

For more information on the Sunderland Strategy Cross Cutting Priorities/Linked Strategies email sunderland.partnership@sunderland.gov.uk or contact:

Sustainability
Sunderland City Council Sustainability Coordinator

Tel: 0191 553 1535

Creating Inclusive Communities
Sunderland City Council
Diversity and Inclusion Team

Tel: 0191 553 1285

Sunderland City Council
Community Development Team

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Housing
Sunderland City Council Housing Service

Tel: 0191 566 1802

Culture
Sunderland City Council
Community and Cultural Services

Tel: 0191 514 8420

Local Development Framework
Sunderland City Council
Planning Policy Team

Tel: 0191 553 1537

Sunderland Partnership Community Development Plan
Sunderland City Council Community Development Team

Tel: 0191 561 4622

www.sunderland.gov.uk/communitydevelopment

The Sunderland Compact www.sunderlandcompact.org.uk

Sunderland International Strategy
Sunderland City Council International Team

Tel: 0191 553 1156

This information can be made available in large print, Braille, audio and other languages. Please contact the Sunderland Partnership on 0191 561 1154 or email sunderland.partnership@sunderland.gov.uk for help.

All information correct at time of going to press.
Published June 2008.

Designed and printed by City Print
ce14459

Appendix 2

Summary of Council's Corporate Improvement Plan

The Council has a clear set of Corporate Improvement Priorities that address its contribution to the delivery of the Sunderland Strategy 2008-2025 as well as key service and organisational challenges around efficiency, effectiveness and customer focus.

Nine priorities have been identified (covering short, medium and long term challenges) to transform the Council and improve outcomes. The Corporate Improvement Plan captures three-year contributions to the achievement of the priorities and for 2009/2010 the following examples of measures and projects have been identified as addressing the priorities.

Strategic Priorities

Prosperous City

Creating an enterprising and productive global city with a strong and diverse economy. A city that provides jobs and careers for generations to come, where everyone has the opportunity to contribute to and benefit from the local economy. People will fulfil their potential to be skilled, motivated and wealth creating without losing the special characteristic of Sunderland's balanced way of life.

- Steer the investment of over £20 million to get over 2500 people into either work or self employment
- Progress the Software City Incubator which will provide for new information technology business start ups
- Develop and implement a new Port of Sunderland Business Plan
- Continue to progress the development of key sites, particularly the Vaux Site, Farringdon Row, Holmeside Triangle, Stadium Village, St. Peters Riverside, Sunderland Retail Park

Healthy City

Creating a city where everyone can be supported to make healthy life and lifestyle choices - a city that provides excellent health and social care services for all who need them. Everyone in Sunderland will have the opportunity to live long, healthy, happy and independent lives.

- Open two new 25 metre swimming pools at Hetton and Silksworth
- Build 175 apartments that will help older and vulnerable people live independently
- With the Sunderland Teaching Primary Care Trust, lead on the development of initiatives to tackle issues affecting children and young people

- Invest £5million over two years in order to deliver 28 play developments

Safe City

Creating a city where people feel, and are, safe and secure where they can enjoy life without the concerns of being a victim of crime or being harmed.

- Further develop support to victims of burglary, hate crime and domestic violence to help everyone feel more safe
- Develop responses to reduce incidents of domestic violence
- Implement the Neighbourhood Crime and Justice Pilot which will: generate more visible community payback; provide greater support for members of the public that want to be involved in making their communities more safe; and provide greater support for victims of crime and witnesses
- Work to reduce the risk of offending and re-offending by children and young people

Learning City

Creating a city with a thriving learning culture that supports personal fulfilment. Everyone will be able to access their learning in a cohesive, inclusive city committed to social justice, equality and prosperity. We will ensure learning supports the city's economic prosperity and enables individuals to thrive in the global economy.

- Renew around half of Sunderland's secondary schools by 2010 through a programme to transform teaching and learning
- Extend learning opportunities to students in Sunderland through access
- Reduce the rate of 16-18 year olds Not in Employment, Education and Training
- Improve the numbers of the working age population qualified to at least Level 2 National Vocational Qualification through the Sunderland Learning Partnership

Attractive and Inclusive City

Ensuring Sunderland becomes a clean, green city with a strong culture of sustainability that nurtures its natural and built environment. A city that is recognised as an attractive and accessible place to live, work, study and visit, with a high quality and welcoming physical environment.

- Reduce carbon emissions from council operations by 2% (1,300 tonnes) in 2009/2010. We will make a 10% cut by 2012
- Improve facilities for recycling household waste to achieve the target for 2009/2010 of 30% (41,000 tonnes) of all household waste recycled
- Continue our multi-million pound programme of housing led regeneration in Castletown, Hetton Downs and Middle Hendon

Corporate Improvement Objectives

Customer Focused Services

- Through Digital Challenge, improve and build e-neighbourhoods by providing better access and availability through the deployment of 14 new services
- Extend customer access to council services through a £1.5 million investment in the Contact Centre, Customer Service Centre Network and other access channels
- Further develop communications with residents to help make people more aware of what is happening in their local area
- Extend consultation and community engagement at the local level to assist the development of responsive customer focused services

One Council

- Continue to strengthen local decision making and improved outcomes at a local level through our Area Arrangements via Local Area Plans
- Continue to improve attendance management

Efficient and Effective Council

- Continue to transform services through the Business Improvement Programme, improving customer focus and reducing avoidable contact
- Use the Comprehensive Area Assessment to support improved outcomes and reinforce the reputation of the council and city
- Develop a co-ordinated approach to bidding for and managing external funding across the council

Improving Partnership Working

- Further raise the profile of Sunderland as an international city to encourage continued international business development and investment
- Further strengthen partnership working to deliver the Sunderland Strategy and the Local Area Agreement to improve the quality of life for all Sunderland residents
- Continue to enhance joint working and coordinate design and delivery of services, and enhanced community engagement and involvement

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **29 September 2009**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Report of the Director of Financial Resources

1.0 Purpose of Report

1.1 To provide information on the implications to members of the Committee of the convergence of financial reporting to comply with International Financial Reporting Standards (IFRS).

1.2 To set out and note the proposed project outline

1.3 To identify the necessary actions to enable the requirements to be met.

2.0 Reason for Decision

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

3.0 Background Information

3.1 As part of the Comprehensive Spending Review (CSR) 2007 the government announced that the 2008/2009 accounts were to be prepared using IFRS adapted as necessary for the public sector and its intention to publish the Whole of Government Accounts (WGA) on an IFRS basis for the first time in 2008/2009.

3.2 Following government consultation with its departments and the Financial Reporting Advisory Board (FRAB) on the technical work required in order to implement this change the transition was delayed until 2009/2010.

3.3 The main rationale for implementation of IFRS is outlined as follows:

- To harmonise financial reporting in a world of cross-border trade and investment and increased globalisation, so that they are comparable and follow the same standards.
- To reflect the fact that to date, over 100 countries have adopted or intend to adopt IFRS, and that the International Accounting Standards Board (IASB) expects that to increase to 150 countries by 2011.

3.4 The key dates for the IFRS implementation in local government are:

- 1st April 2009 IFRS transition date.
- July 2009 consultation begins on the IFRS based accounting code for local government. The code will be finalised and published in the autumn of 2009.
- The Department for Communities and Local Government is expected to publish mitigation regulations between September 2009 and December 2009. These will ensure that the new accounting arrangements do not impact on the Council Tax.
- The first IFRS based budgets are to be prepared January to March 2010 for 2010/2011.
- 1st April 2010 IFRS based accounting comes into effect for Local Government.
- 2010/2011 Statement of Accounts will be IFRS compliant and will need to be reported to the Audit and Governance Committee by 30th June 2011.

4.0 Implications

4.1 The implementation of IFRS will be complex and wide reaching, and as such will not just affect the Financial Management section of the Financial Resources Department but will impact on some other key directorates of the Council.

4.2 The resource required for successful implementation should not be underestimated, based on the recent experiences of the Health Service, who have to implement IFRS a year earlier than local government.

4.3 Budget 2010/2011

The budget for 2010/2011 will have to be prepared so that it is IFRS compliant, as this will be the first year of full compliance by the Council. As such the work to identify the impact on the Budget will need to commence immediately (Item 9 of the project outline) to ensure that all issues can be dealt with as part of the budget preparation for 2010/2011. Most IFRS requirements, however, mainly affect the Statement of Accounts and the government has indicated that the implementation of IFRS will not affect the Council Tax. Indeed they are to introduce legislation to ensure that this is the case in the next parliamentary session in the autumn.

Nevertheless the Council has carried out a very high level assessment of areas that could impact on the budget for 2010/2011 and there is one main issue that has been identified in relation to the setting up of a provision for all accrued staff benefits outstanding at the year end (i.e. 31st March 2011). This means that all staff flexi time and untaken or carried forward annual leave and any other outstanding staff benefits at 31st March 2011 must be assessed and quantified in order for the

Council to make an appropriation provision in the budget for 2010/2011.

It is therefore proposed that the provision is based upon the best information currently available (at 31st March 2009) to establish the approximate scale of the issue and then consider options on how this is to be funded. The government may however remove this requirement or negate its impact but as yet has not indicated its intentions in this area.

All other areas such as leasing, asset and PFI changes affected by implementing IFRS will have a neutral impact on the budget because of the way in which they are to be accounted for under IFRS and in accordance with government proposals which are aimed at ensuring that IFRS will have no impact on the council tax.

4.4 With regard to the Statement of Accounts the scale of financial reporting will increase significantly. When IFRS was implemented in the private sector their annual statement of accounts doubled in size and at least the same is expected for public sector bodies. This is due to the increased complexity of the accounts and the significant number of new and more detailed disclosures required under IFRS.

4.5 The first fully compliant IFRS based accounts for the Council will be produced for the financial year 2010/2011; however IFRS requires that the previous year's accounts must also be IFRS compliant in order to show prior year comparisons. In order to achieve this position the Council will need to include an opening transitional balance sheet as at 1st April 2009. This means that the 2008/2009 closing Balance Sheet will need to be restated to take into account the changes required under IFRS in order to be able to produce the comparative information required for the 2009/2010 accounting year.

In effect the accounts for 2009/2010 will need to be reported in the existing format as those for 2008/2009 (under the SORP2009) and then they will also need to be re-stated on an IFRS compliant basis.

4.6 As mentioned above under IFRS requirements, accounting policy changes, are retrospective. They are reflected in the opening balance sheet as if the authority had always accounted under IFRS. This affects the accounting treatment, in a number of key areas, and for the Council the most notable areas affected are the accounting for:

- employee benefits;
- private finance initiatives;
- leases;
- asset accounting.

4.7 Employee Benefits

International Accounting Standard (IAS) 19 looks at employee benefits where they are material. If material, accruals must be created at the end of the financial year for:

- Holiday pay earned but not yet taken.
- Flexi-time balances.
- Injury and early retirement benefits.

Identifying this information will not be straight forward as currently the payroll system does not hold this type of information and not all employees are on the same holiday year. Work in this area between Human Resources (HR) and Financial Management will be started early to establish the most efficient, cost effective way forward that will meet these requirements.

4.8 Private Finance Initiatives

Property used in a PFI arrangement will be recognised as an asset of the authority if it passes the International Financial Reporting Interpretations Committee (IFRIC) 12 control tests. These tests include:

- The local authority controls or regulates what services the operator must provide within the property, to whom it must provide them, at what price and where.
- The local authority controls through ownership, beneficial entitlement or otherwise a 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 still fall within the scope of IFRIC12 where the authority controls or regulates the service provided.

It is anticipated that both of the Council's PFI arrangements would pass these control tests of IFRIC12 and therefore need to be accounted for as assets of the authority. Due to the highly complex nature of PFI accounting, however it is envisaged that external support will be required in some form in order to comply with this aspect of the IFRS reporting changes.

Also, CIPFA has recently announced that the new PFI reporting arrangements will be introduced as part of the SORP2009, a year earlier than anticipated. Detailed guidance has now been recently released and this issue will have to be dealt with outside of the other IFRS areas as the Council will need to report PFI accounting, compliant with IFRS guidelines for the 2009/2010 accounts.

Work has already commenced on this issue to identify and quantify the scale of the changes and the type of external assistance required to help minimise the costs involved.

4.9 Leases

The main change between accounting for leases under IAS17 as compared to SSAP21 is that leases on land and property are accounted for separately as leases on land and leases on buildings. Under the previous regime using SSAP21 there was no such split required. This change may also lead to some leases being reclassified as finance leases under the new guidelines. The implications of this, for the Council, are that all property leases will need to be reviewed and analysed between land and buildings. This will require Property Services, Legal Services and Financial Management sections to work closely together to ensure compliance with the IFRS reporting and accounting requirements.

4.10 Assets

IAS16 requires items of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. This requirement means that assets also need to be split into individual components. CIPFA have announced that there will be no requirement to split existing assets, so only those acquired or re-valued from 1st April 2010 onwards will have to initially follow the new requirements. This change however represents a significant change for the council particularly in the way it will have to value its assets and Property Services will be most affected by these new requirements.

4.11 General Issues

Having examined other sectors who have implemented IFRS, the key elements for a successful transition are, planning, people, systems, timetabling and effective communication.

These wider issues are fully set out in turn below:

a) Planning and Project Outline
Early planning is critical to the success of this project. An initial project outline has been produced and is set out in Appendix 1 for information and sets out the key stages for the successful implementation of IFRS. From this a more detailed project plan will be developed with critical path analysis and key milestones.

b) Project team membership
The project team is to be led by a senior manager from within Technical Accountancy which forms part of the Financial Management Section.

Senior or appropriate managers will need to be identified from within the following areas:
Legal Services (Leasing / Assets)
Property Services Valuation Section (key role in Leasing / Assets)
HR (key role in Staff Benefits)
Financial Resources (SAP system developments)

c) Initial impact assessment/timetable
In line with best practice an initial impact assessment needs to be carried out and is part of the Project outline for completion by August 2009. Most of the impact of converging to IFRS has been outlined in this report as the Council is affected by most of the changes brought about by implementing IFRS.

At this stage it is very difficult to quantify the level of external assistance that will inevitably be required to assist with the project but specialist technical help has already been identified as a requirement at some stage during the process.

The Council is already aware that some Council's have already employed additional staff and/or consultants to assist with the management and implementation work identified and there is no shortage of firms ready to offer help in this area.

This Council's approach is to ensure that we acquire the right expertise at the right time and then build up our knowledge by being actively involved in the process. At this stage it is premature to set out any additional resources required, however, this will have to be reviewed on a regular basis.

d) Awareness and Training (Communication).
A report is to be presented to Cabinet in November in order to make all members aware of this development. Training will also be provided to members as appropriate but especially to this Committee, whose role it is to receive and approve the accounts.

Relevant staff at various levels will also benefit from some general awareness training on this issue and it is further proposed that more detailed specialist training will be required for those areas more affected by the change in the reporting requirements such as Property Services, Finance and HR.

5.0 Conclusions

5.1 PFI accounting changes must be implemented in time for the 2009/2010 accounts and will need an element of external specialist input. It is proposed to test the market to gauge the costs which would apply to the Council's two PFI contracts which is not expected to be significant.

5.2 The Council must be in a position to produce its first IFRS compliant budget for 2010/2011 and the work indicated in paragraph 3.3 is to commence shortly to comply with this requirement.

5.3 The Council must be able to comply with reporting under IFRS in time for its 2010/2011 accounts with comparable accounts produced for 2009/2010.

5.4 It is proposed that a project team is established consisting of the appropriate officers from those key services identified in paragraph 3.11b).above.

5.5 A clear project plan to manage the IFRS transition is essential and the Project Outline set out in Appendix 1 is to be used as a firm basis, to be further developed with input from the project team as appropriate, in order to ensure the Council complies fully with the IFRS requirements.

5.6 Regular progress reports are to be provided to members and the Executive Management Team (EMT)

5.7 External consultants / additional staff resources will need to be reviewed, once a full impact analysis has been carried out in order to assess the optimum arrangements required that allows the best use of the resource and also facilitates knowledge transfer to key staff.

5.8 Awareness and specific training will need to be considered for all relevant staff and members as appropriate.

6.0 Recommendation

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

7.0 Background Papers

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

Proposed IFRS Outline project

<table>
<tr><th></th><th>Step</th><th>Dependency</th><th>Dates</th><th>Areas for Discussion with External Audit</th></tr>
<tr><td>1</td><td>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</td><td></td><td>As soon as possible; but no later than end of September 2009</td><td rowspan="6">Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.</td></tr>
<tr><td>2</td><td>Identify changes to accounting policies</td><td>In parallel with step 1</td><td>As soon as possible; but no later than end of September 2009</td></tr>
<tr><td>3</td><td>Identify key staff (finance, legal, property, HR, other)
Assess whether resources adequate
Allocate responsibilities
Develop detailed project plan</td><td>Based on impact analysis in step 1</td><td>As soon as possible; but no later than end of August</td></tr>
<tr><td>4</td><td>Key staff trained on IFRS transition</td><td></td><td>At an early opportunity, then ongoing throughout project</td></tr>
<tr><td>5</td><td>Identify systems and procedural changes (including Chart of Accounts changes) required</td><td></td><td>September 2009 - end October 2009</td></tr>
<tr><td>6</td><td>Identify information (e.g. leases and holiday pay) required to restate 1 April</td><td></td><td>September 2009 – December 2009</td></tr>
</table>

	2009 balance sheet and 2009/10 accounts			
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)	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	
9	Identify likely impact on budgets (if any)		September 2009 – November 2009	
10	Implement systems and procedural changes	Identified in step 5	September 2009 – February 2010	
11	Training for all relevant staff and members		Ongoing from August 2009	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	September 2009 – December 2009*	Auditors will wish to consider the implications for reviewing balance sheet and / or processes and arrangements
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 / HRA	Impact from step 9	October 2009 – February 2010	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
14	Testing of systems and procedural changes	Follows on from step 10	September 2009 – March 2010*	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*	Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS basis		April 2011 – June 2011	Normal audit procedures – accounts signed by 30 September 2011)

Sunderland City Council

Item No. 6

Audit and Governance Committee **29 September 2009**

Audited Statement of Accounts 2008/2009

Report of the Director of Financial Resources

1.0 PURPOSE OF REPORT

1.1 To present the Letter of Representation for 2008/2009 and to receive the Annual Governance report received from the Audit Commission concerning the financial statements for 2008/2009 which outlines whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

1.2 To provide an amended audited Statement of Accounts for 2008/2009. This has been revised to take into account the auditor's findings, for approval by members of the Committee.

2.0 DESCRIPTION OF DECISION

2.1 Members are recommended to:

2.1.1 Note the contents of the Letter of Representation.

2.1.2 Note the contents of the Annual Governance Report.

2.1.3 Approve the amended Statement of Accounts for the financial year ended 31st March 2009.

3.0 BACKGROUND

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

3.2 A Letter of Representation has to be prepared by 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 by regulation (this is shown as **Item 6a** on the agenda).

3.3 The Audit Commission has audited the financial statements of the Authority 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.

3.4 Once the Audit and Governance Committee has noted the contents of this communication, the Audit Commission can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2009.

3.5 In line with ISA 260, the Audit Commission has produced an Annual Governance Report, in which the auditor's opinion is that the financial statements present fairly the financial position of the Authority as at 31st March 2009, and its income and expenditure for the year then ended. The Annual Governance Report 2008/2009 is included as **Item 6b** on the Agenda.

3.6 The Statement of Accounts 2008/2009 has been amended to reflect presentational adjustments following the audit. The amendments are detailed in Appendix A for member's information and the revised Statement of Accounts 2008/2009 is set out at **Item 6c** on the agenda for approval.

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

4.0 KEY MESSAGES

4.1 The full communication will be circulated separately but based on information available at the time of writing this report is likely to show that:

- the external auditors propose 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 that Members were not already aware of;
- 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 A to this report and reference is also made in the Letter of Representation 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 not identified any other relevant matters relating to the audit that need to be brought to Members attention;

- 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 2008/2009.

4.2 On the basis of the amendments agreed with the external auditors, the Audit Commission will formally provide an opinion on the amended Statement of Accounts, before the 30th September 2009, by which time the Council is required to publish its Statement of Accounts for 2008/2009.

5.0 Reason for Decision:

5.1 To comply with the requirements of the Accounts and Audit Regulations 2003.

6.0 Alternative Options

6.1 None recommended.

7.0 Background Papers

CIPFA Statement of Recommended Practice 2008
Statement of Accounts 2007/2008
Information supplied by Actuary, Hewitt Associates Limited - FRS17
Portfolio Valuation for Financial Instruments provided by Sector Treasury Services Limited

Sunderland City Council

Item No. 6 (a)

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

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

Dear Lynn,

ANNUAL ACCOUNTS 2008/2009 – LETTER OF REPRESENTATION

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

Statutory Responsibilities and Supporting records

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

Law and Regulations

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

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

Going Concern

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

Irregularities

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

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

We also confirm that we have disclosed:

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

Compensating arrangements

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

Fair Values

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

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

Group entities

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

Amendments to the Statement of Accounts 2008/2009

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

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

Uncorrected misstatements

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

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

Accounting estimates

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

Specific representations

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

ASSETS

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

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

Fixed Assets

1. The net book values at which the fixed assets are stated in the balance sheet are arrived at:

   (a) after providing for depreciation on bases and at rates calculated to reduce the cost of each asset to its estimated residual value by the end of its estimated useful life, the Council has fully depreciated all assets in accordance with the SORP;

   (b) after taking into account all capital expenditure in additions thereto, but no expenditure properly chargeable to revenue.

   All assets continue to be re-valued under our five year rolling programme. None of the following occurrences have arisen during the year:

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

Capital Expenditure

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

Long Term Investments

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

Current Assets

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

General

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

COMMITMENTS

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

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

- The Council entered into a contract on 17th August 2001 for the replacement of Sandhill View School plus a range of community and educational support facilities. The impact of this scheme is included in the accounts in Note 14 to the Income and Expenditure Account (I&E) which provides the necessary details of the contract and the extent of the commitments for the Authority into future years.

- The Council also entered into a PFI contract with Balfour Beatty Power Networks Ltd on 12th August 2003 for the replacement and provision of Street Lighting and Highway Signs which commenced on 1st September 2003. The accounting entries have been fully incorporated into the accounts within Note 14 to the Income and Expenditure Account (I&E) which provides details of the contract and the extent of the commitments for the Authority into future years.

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

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

CONTINGENT LIABILITIES

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

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

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

   The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils.

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

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

Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non environmental and environmental warranties. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo. The amount included in the Agreement stipulates that the Council's maximum liability to the Group in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made.

The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to the Sunderland Housing Group, (now known as Gentoo), on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has already sought advice from Queens's counsel on this matter. The Council is reasonably confident Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts in case the Council loses the action. A claim was received from Mowlem PLC, now known as Carillion, of approximately £1.000m in respect of the Queen Alexandra Bridge works which were completed in October 2006. This dispute has already been considered and rejected by an adjudicator and Carillion has served notice of their intention to refer the dispute for arbitration. Resolution of the final account for the contract is on-going however the contractor recently indicated to the council in early September 2009 that it is seeking a payment in the order of £0.600m. The council continues to reject the claim on the basis that the works were required to meet the contracted standard.

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

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

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

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

GENERAL

8. We consider that there is adequate insurance cover for all major risks, this is further supported by the recent independent actuarial review of the insurance provision as at 31st March 2009.

9. We consider that the Authority will have sufficient cash resources available to finance its operation at least for the following twelve months.

10. Related Party Transactions

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

It should be noted that all Council members pecuniary and non financial interests which could conflict with those of the Council are open to public inspection as required by the Local Authority (Members Interests) Regulations (SI 1992/618) laid under section 19 of the Local Government and Housing Act 1989. In addition, the awarding of any contracts by the Authority to individual companies is governed by the Authority's Contract Procedure Rules as approved by the Council. The relevant members must therefore declare an interest (which is minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Council Members
In respect of 2008/2009 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £4.087m made by the Authority in 2008/2009 (£5.545m in 2007/2008), of which £0.430m (£0.979m for 2007/2008) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £2.430m (£2.618m for 2007/2008) payments to companies and £1.227m (£1.948m for 2007/2008) to voluntary organisations.

Chief Officers
In respect of the 2008/2009 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Authority.

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

11. Airport Loan Notes

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

12. FRS17

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

It must be stressed, however, that the figures included within the accounts for pensions assets and liabilities have been provided by Hewitt Associates Limited, actuaries to the Local Government Pension Fund (administered by South Tyneside Council) using information provided by the scheme and assumptions determined by the Council in conjunction with the Actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

13. Pooled Budgets

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

14. Audit Costs

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

15. The Housing Revenue Account – closure

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

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

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

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

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

FRS17

The changes for FRS17 are fully set out in the accounts (please see page 46) and came into force in 2008/2009. The SORP 2008 states that prior year comparators need not be restated for these changes and that simply adjusting the 2008/2009 accounts would suffice if the amounts were regarded as not material. The Council, however, has departed from this recommendation as it felt that by restating the comparative figures (£2.2m in value) would provide for a more comprehensive Statement of Accounts and would also aid the reader's understanding of the Accounts. It has thus restated the 2007/2008 position so that the reader can make true comparisons with the equivalent 2008/2009 figures. Note 1 to the Statement of Accounts, sets out details of the prior year adjustment and confirms that the necessary changes have been made to the Statement of Accounts for 2007/2008.

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

Group Accounts

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

Cash Flow

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

17. Tyne and Wear Fire and Rescue Authority

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

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

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

INCOME AND EXPENDITURE ACCOUNT

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

(a) any change in the basis of accounting;

(b) circumstances of an exceptional or non-recurrent nature;

(c) charges or credits relating to prior years.

EVENTS SUBSEQUENT TO THE DATE OF THE BALANCE SHEET

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

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

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

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

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

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

Yours sincerely,
Signed on behalf of Sunderland City Council

Councillor Paul Watson, Leader of the council

David Smith, Chief Executive

Bob Rayner, Chief Solicitor

Keith Beardmore, Director of Financial Resources

Sunderland City Council

Item No. 6(b)

Annual Governance Report

Sunderland City Council

Audit 2008/09

September 2009

audit commission

Contents

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2008/09.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to consider the matters raised in the report before approving the financial statements, and to approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion.

Yours faithfully

Steve Nicklin
District Auditor
21 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from error	Yes	6
Adequate internal control environment	Yes	6
Use of resources	**Results**	**Page**
Adequate arrangements to secure value for money	Yes	7

Audit opinion

1 The audit is now substantially complete and I expect to issue an unqualified audit opinion on the Authority's financial statements for the 2008/09 financial year.

Financial statements

2 Management has taken action since the draft financial statements were approved in June 2009 to revise NNDR bad debt provisions and the accounting treatment adopted in respect of Newcastle Airport. Officers have also made a number of minor presentational and disclosure changes to the accounts, which are not material and do not have an impact on the Authority's financial position as previously reported to you.

3 We identified that the prior period adjustment made to the accounts in respect of FRS17 pension liabilities was not required as the sums involved are not material. In the Council's opinion however the adjustment gives a more complete picture of the impact of the changes which affect a number of disclosures in the accounts.

Formal audit powers

4 I have received formal objections from a local elector in respect of both the 2007/08 and 2008/09 financial statements. Until these have been resolved I cannot issue my formal certificates to confirm that the audits have been completed. However I am satisfied that the matters raised do not have a material impact on the financial statements.

Value for money

5 I intend to issue an unqualified Value for Money conclusion.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion and value for money conclusion. 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.

6 I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report;
- take note of my value for money conclusion;
- provide specific assurances as requested, to explain how the Committee discharges its role as Those Charged with Governance; and
- approve the letter of representation on behalf of the Authority before I issue my opinion on the financial statements.

Financial statements

The financial statements are an important means by which the Authority accounts for its stewardship of public funds. As elected members you have final responsibility for these statements. It is important that you consider my findings before you approve the financial statements.

Opinion on the financial statements

7 The Authority's 2008/09 financial statements and supporting working papers were prepared to a good standard. The audit is now substantially complete and I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

8 Management has taken the following actions since the draft financial statements were approved in June 2009:

- Revised NNDR bad debt provisions in the light of subsequent events which have arisen since the balance sheet date, namely the current economic climate and write offs to date in 2009/10. As a result the provision has been increased by £0.6m
- Reviewed the accounting treatment adopted in respect of Newcastle Airport. Although technical guidance on this issue is not clear and permits a number of possible interpretations, the reduction in value during 2008/09 seems to relate to changes in market prices generally, which are expected to improve again over time, rather than any matters specific to the airport itself. Therefore the Authorityl has decided to establish an "available for sale" reserve on the Balance Sheet rather than charge an impairment to the Income and Expenditure account.

9 Officers have also made a number of minor presentational and disclosure changes to the accounts, the most significant of which are:

- Additional post balance sheet event disclosures in respect of "Building Schools for the Future"
- £0.2m airport dividend reclassified as investment income in the Income and Expenditure Account
- Additional disclosures in respect of financial instruments

10 None of these changes have any impact on the Authority's underlying financial position or financial performance as previously reported.

11 We identified that the prior period adjustment made to the financial statements in respect of FRS17 pension liabilities was not required by CIPFA's 'Statement of Recommended Practice' as the sums involved are not material. In the Council's opinion however the prior period adjustment gives a more complete picture of the impact of the changes which do affect a number of disclosures in the accounts.

Letter of representation and specific assurances from management and those charged with governance

12 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

13 In order to comply with International Standard on Auditing (UK&I)240 we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. A second International Standard on Auditing (ISA(UK&I)250) requires that auditors also understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

14 I should therefore be grateful if you would confirm to us how the Audit and Governance Committee oversees management processes to identify and respond to such risks, and whether the Committee has knowledge of any actual, suspected or alleged frauds or failure to comply with laws and regulations. A brief response by letter (or email), before close of play on 30 September 2009 will suffice.

15 In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250 and 501) we are also required to obtain an understanding from management of their processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. We have requested that the Director of Financial Resources provides us with a brief statement confirming the processes in place by 29 September 2009.

Key areas of judgement and audit risk

16 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out below.

Table 1 Key areas of judgement and audit risk

Risk Area	Findings and conclusions
Fixed Assets - there has been a significant impairment of fixed assets.	We have confirmed that an impairment review was undertaken by a qualified valuer in accordance with relevant guidance and has been accurately reflected in the Council's accounts.
Fixed Assets - there has been a significant revaluation of assets.	We confirmed that the revaluation has been carried out by a qualified valuer in line with relevant guidance, and has been correctly reflected in the accounts.
Long term investments - the airport has	We have reviewed evidence to support the

Risk Area	Findings and conclusions
been impaired by £11m.	new valuation, and considered the accounting treatment of the identified reduction in value in the accounts. The Council have amended the accounts to treat the reduction in value as a change in market prices rather than an impairment.
Group Accounts - there is a risk that these may need to be prepared in accordance with SORP guidance.	We confirmed that the process adopted to identify whether or not Group Accounts were required is appropriate. We also confirmed that significant related entities have been appropriately disclosed.
Provisions, contingent liabilities and post balance sheet events relating to equal pay and single status claims.	We have assessed the current position in terms of claims made to date and any further claims expected. We confirmed that the requirements of FRS12 have been met, and obtained specific representations from management.

Formal audit powers

17 I have:

- a power to issue a public interest report. I do so when I believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the accounts is contrary to law;
- a power to seek judicial review of a decision made by the Authority.

18 I also have a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:

- making a decision that might give rise to unlawful expenditure;
- taking an unlawful course of action that would give rise to a loss; or
- making unlawful entry in the accounts.

19 I received a formal objection to the 2007/08 financial statements in relation to car parking enforcement. Similar objections have been received at other authorities which means we are obliged to consider them together and co-ordinate a consistent response. Therefore, although this matter is being progressed it remains unresolved. Also, I have recently received correspondence from the same objector indicating that he also wishes to object to the 2008/09 accounts.

20 Until these two objections have been resolved I cannot issue my formal certificate to confirm that the audit has been completed for 2007/08 and 2008/09. However I am

satisfied that the issues raised do not have a material impact on the financial statements already presented to you.

Use of resources

I am required to consider how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Authority has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

21 In forming my scored use of resources judgements, I use the methodology set out in the use of resources framework. Judgements are made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. In forming these judgements I take into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

22 The Authority's use of resources scores are under embargo as the Audit Commission's national quality assurance and review process is still to be completed. Once this process has been completed I intend to issue a separate report detailing my findings, conclusions and recommendations. This will be discussed with officers and then presented to members.

Value for Money conclusion

23 I assess your arrangements to secure economy, efficiency and effectiveness in the use of resources against criteria specified by the Audit Commission. From 2008/09, the criteria have been aligned to use of resources judgements and the Audit Commission will specify each year which of the use of resources KLOEs are the relevant criteria at each type of audited body. My conclusions on each criteria are set out in Appendix 3 below.

24 I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sunderland City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The 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 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the 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 2008 the financial position of the Authority and its income and expenditure for the year.

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

I read other information published with the 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.

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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

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

Auditor's Responsibilities

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in 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 2009.

Certificate

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

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

Appendix 2 – Draft letter of representation

To:

Steve Nicklin, Appointed Auditor

Nickalls House, Metro Centre, Gateshead NE11 9NH

Sunderland City Council - Audit for the year ended 31 March 2009

Confirmation that to the best of your knowledge and belief, having made appropriate enquiries of other directors and officers of the Council, the following representations in connection with our audit of the financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

Acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with "*The Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice*" which present fairly the financial position and financial performance of Sunderland City Council, and for making accurate representations to us.

Uncorrected misstatements

Confirmation that having reviewed current guidance you are satisfied that the prior period adjustment in respect of FRS17 liabilities, although not required by CIPFA 'Statement of Recommended Practice' should remain in the financial statements as it provides the reader with a more complete picture of the impact of the new requirements.

Confirmation that there are no other identified errors in the financial statements which remain uncorrected, other than those of a trivial nature, so far as you are aware.

Supporting records

Confirmation that:

- all the accounting records have been made available to us for the purpose of our audit and that so far as you are aware

- all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records
- all other records and related information, including minutes of all Council and Committee meetings, have been made available to us.

Going Concern

Confirmation that you are satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Irregularities

Acknowledgement of your responsibilities for the design and implementation of internal control systems to prevent and detect fraud or error.

Confirmation that so far as you are aware there have been no:

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

Also confirmation that you have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

Confirmation that so far as you are aware:

- there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.
- the Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance
- there has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

Confirmation of the reasonableness of the significant assumptions within the financial statements. For assertions in the financial statements relating to fixed assets and long term investments, including the Council's shareholding in Newcastle Airport, confirmation of:

- the appropriateness of the measurement method and basis of valuation used;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- the consideration of subsequent events relevant to the fair value measurement.

Group entities

Confirmation that you are satisfied that group accounts are not required.

Assets

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

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

Compensating arrangements

Confirmation that there are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements you have no other lines of credit arrangements.

Contingent liabilities

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

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

Confirmation you are satisfied that the position with respect to equal pay and single status claims has been properly reflected in the accounts.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties.

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

Post balance sheet events

Confirmation that since the date of approval of the financial statements by the Audit and Governance Committee on behalf of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Confirmation that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

Confirmation you are satisfied that the shared costs, and loans and investments administered by the Council on behalf of Tyne and Wear FRA and the North of England Open Air Museum Joint Committee have been correctly allocated between the three sets of financial statements.

Confirmation that the following have been properly reflected in the financial statements:

- The current position with respect of equal pay and single status claims.
- The current value of long term investments, including the Authority's shareholdings in Newcastle Airport.

Confirmation that this letter has been discussed and agreed by those charged with governance on 29 September 2009

Signed on behalf of Sunderland City Council

Signed

Name

Position

Date

Appendix 3 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the Audit Commission criteria.

Appendix 3 – Value for money criteria

Code Criteria	Description	Met
1	Does the organisation: • integrate financial planning with strategic and service planning processes on a medium- to long-term basis; • engage local communities and other stakeholders in the financial planning process; • manage spending within available resources and is financially sound over the medium term; and • recognise individual and collective responsibilities for financial management and values and develops financial skills.	**Yes**
2	Does the organisation: • understand its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance; • take account of this understanding of its costs and performance in decision making and commissioning; and • identify the scope for making efficiencies and is on track to achieve planned efficiencies.	**Yes**
3	Does the organisation: • produce relevant, timely and reliable financial monitoring and forecasting	**Yes**

Code Criteria	Description	Met
	information; • use financial and related performance information to monitor performance during the year; • produce financial reports that are clear, relevant and concise to support strategic decision making; • prepare accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position; and • publish reports that provide an objective, balanced and understandable assessment of the organisation's performance in the year.	
4	Does the organisation • have a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of needs; • involve local people, partners, staff and suppliers in commissioning services; • seek to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT; • understand the supply market and seeks to influence and develop that market; • evaluate different options (internal, external and jointly with partners) for procuring services and supplies; and	**Yes**

Code Criteria	Description	Met
	• review the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives.	
5	Does the organisation: • produce relevant and reliable data and works with partners to ensure the quality of partnership data; • understand the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making; • ensure data security and compliance with relevant statutory requirements; and • monitor performance against its priorities and targets, and addresses underperformance.	**Yes**
6	Does the organisation: • adopt, promote and demonstrate, the principles of good governance; • maintain focus on its purpose and vision; • demonstrate a strong ethical framework and culture; and • apply the principles and values of good governance to its partnership working.	**Yes**
7	Does the organisation: • have effective risk management which covers partnership working;	**Yes**

Code Criteria	Description	Met
	• have a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and • have a sound system of internal control including internal audit.	
8	Does the organisation: • understand and quantify its use of natural resources and identify the main influencing factors; • manage performance to reduce its impact on the environment; and • manage the environmental risks it faces, working effectively with partners.	**Yes**
9	Does the organisation: • have a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes; • manage its asset base to ensure that assets are fit for purpose and provide value for money; and • work with partners and community groups to maximise the use of its assets for the benefit of the local community.	**Yes**

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.

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.

Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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Sunderland City Council

Item No. 6(c)

Sunderland City Council

Statement of Accounts

2008/2009

Contents   Page

Cabinet 2008/2009

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

Member	Portfolio
P. Watson	Leader of the Council
Mrs F. Anderson	Deputy Leader of the Council
D. Allan	Resources
Mrs P. Smith	Children's Services
E. Timmins	Adults Services
J. Blackburn	Planning and Transportation
H. Trueman	Housing and Public Health
Ms K. Rolph	Neighbourhood and Street Services
B. Charlton	Regeneration and Community Cohesion
M. Speding	Culture and Leisure

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

Cabinet from 13th May 2009

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

Introduction

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

With regard to corporate governance, we are pleased to be able to report that the Council considers an annual review of its Code of Corporate Governance, and Cabinet received the review of 2008/2009 in June 2009. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council has the majority of documentary evidence, processes and measures in place and identified a small number of areas for improvement and development, which will be acted upon during 2009/2010.

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

Elsewhere within the Statement of Accounts, a Statement Reporting Reviews on Internal Control and Internal Financial Control has been included, which replaces the Annual Governance Statement. This Statement confirms that there are sound systems in place. We will continue to ensure action is taken when necessary to maintain and develop the system of internal control in the future.

Councillor Paul Watson Leader of the Council	Dave Smith Chief Executive	Keith Beardmore Director of Financial Resources

Dated: 29th September 2009

Certification of the Statement of Accounts

As Chairman of the Audit and Governance Committee held on 29th September 2009, I hereby acknowledge receipt of the audited Statement of Accounts for 2008/2009 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 29th September 2009 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

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

Dated: 29th September 2009

Foreword by the Director of Financial Resources

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2008/2009. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2008'. The Code of Practice constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2003 and Amendments to those Regulations in 2006, and the Local Government and Housing Act 1989.

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

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

2. **Statement Reporting Reviews on Internal Control and Internal Financial Control**
   This statement sets out the principal arrangements that are in place to ensure a sound system of internal control is maintained.

3. **Statement of Responsibilities for the Statement of Accounts**
   This discloses the respective responsibilities of the Authority and the Chief Finance Officer.

4. **The Core Financial Statements**

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

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

   Statement of Total Recognised Gains and Losses (STRGL)
   This statement shows all of the Council's gains and losses arising in the financial year.

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

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

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

6. **Supplementary Statements**

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

Foreword by the Director of Financial Resources (Continued)

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

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

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2008/2009 to be met from Government Grants and local taxpayers was approved at £243.153m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts and including both the Police and Fire and Rescue Authority precepts, was set at £1,288.75 for 2008/2009. This represented a Council Tax increase of 3.39% over the 2007/2008 Band D Council Tax of £1,246.52. The Council again set the lowest Council Tax level in the whole of the North East region for 2008/2009 for the second consecutive year and continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

The table on the next page summarises the financial position for the year 2008/2009 for General Fund Balances, which is made up of the Council's General Reserve and Balances held by Schools under the Local Management Scheme, in accordance with the Statement of Recommended Practice (SORP) and shows the original budget and the revised budget positions for 2008/2009 as compared to the actual position for 2007/2008.

Foreword by the Director of Financial Resources (Continued)

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

Note 1– General Reserve

The above table shows a decrease in the general reserve balance of £0.455 million. This differs to the forecast at the revised estimate stage by £0.057 million and is after taking into account the creation of a limited number of reserves reported to Cabinet as part of the outturn report.

The movement in the general reserve balance takes account of the following additions to balances:

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

and the following use of balances;

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

Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the SORP, forms part of the Statement of Movement in General Fund Balances. The movement in school balances during 2008/2009 amounted to a net return to balances of £0.170m (£1.429m net return to balances in 2007/2008), which means that this effectively reduced spending by schools and is reflected in the Statement of Accounts within the Income and Expenditure Account on the Education cost of service line.

As a result, the balance of this reserve as at 31st March 2009 increased to £5.771m compared to £5.601m as at 31st March 2008. Further details are set out in Note 48 on Page 90.

Capital Expenditure and Income

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

Foreword by the Director of Financial Resources (Continued)

Euro

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

Comprehensive Performance Assessment (CPA)

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

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

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

Building Schools for the Future

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

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

The project consists of two procurements:

- A design and build contract for three new academies – Academy 360 (at Pennywell), Red House Academy and Castle View Enterprise Academy - a new build project at Washington school and major refurbishments at St Robert of Newminster and Biddick schools; and,

- An ICT managed service contract which will provide services to the above six schools/academies, plus Sandhill View and Oxclose schools. Oxclose school benefited from a 'Quick Win' project under the BSF programme which involved a £11m refurbishment that was completed in May 2007.

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

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

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

Foreword by the Director of Financial Resources (Continued)

Following the submission of an Expression of Interest in November 2008, the Council was invited by Partnerships for Schools to make a Readiness to Deliver submission by 8th May 2009 for the remaining 9 secondary and 5 secondary special schools in the city. This was the subject of a report to Cabinet on 8th April 2009. The submission will consist of 2 follow on projects to complete the programme for the secondary school estate. If the submission is successful the Council will be invited to an assessment panel in June 2009, and if deemed to be 'ready' a Remit Meeting will follow in October 2009, which will mark formal entry into the programme.

Accounting for Pensions

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

The Council continues to comply fully with this Standard and the Accounting Policy on Pages 26 and 27 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

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

The financial health of the Council is consequently being affected by the accounting requirements in respect of FRS17. However, the Pension Fund Reserve Deficit reflected in the Balance Sheet (page 44), as assessed by the Actuary, as at 31st March 2009, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice. The date of the next actuarial review is 31st March 2010.

Cost of Pensions

The cost of pensions to the Council continues to increase year on year and has now become one of the major items of expenditure the Council has to meet each year but over which it has very little control. The government has recently completed a review of the public sector pension arrangements and implemented changes in light of that review designed to modernise the arrangements whilst seeking to ensure that they are more affordable.

Efficiency

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

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

The Council's Improvement Agenda

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

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

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

Changes to the Statement of Recommended Practice (SORP) 2008

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

- Financial Reporting Standard 17 (FRS17) has been amended to align its disclosure requirements more closely with the requirements of International Accounting Standard 19 (IAS19) Employee Benefits. There are significant changes to the disclosure requirements as well as a change to the basis on which the value of quoted securities are measured, these changes are fully reflected in the Statement of Accounts for both 2007/2008 and 2008/2009.

- From 1st April 2008 Area Based Grant (ABG) replaced Local Area Agreement (LAA) Grant. Whereas LAA Grant was restricted to support the achievement of LAA targets, ABG is a non-ring-fenced general grant provided by the Government which allows Council's full control over how this funding is used. Details of general grants, which Council's can determine how to spend, are now to be included as an additional note to the core financial statements.

- The Cash Flow Statement can now be constructed using the indirect method whereby the net revenue cash flow from operating activities for the financial year is derived by means of a reconciliation from the surplus / deficit on the Income and Expenditure Account for the year. Previously the direct method was used where major gross cash receipts and payments are disclosed in total to calculate the net revenue cash flow from operating activities for the financial year.

Foreword by the Director of Financial Resources (Continued)

- The Annual Governance Statement has been changed and renamed as the "Statement Reporting Reviews on Internal Control and Internal Financial Controls". This brings the statement in line with the CIPFA framework issued in 2007, "Delivering Good Governance in Local Government: Framework".

- The Application of Accounting Standards has been updated for changes in Accounting Standards, Financial Reporting Standards (FRS's) and Urgent Issue Task Force (UITF) Abstracts.

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

Major Acquisitions, Capital Works and Disposals during 2008/2009

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

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

The main schemes are listed below for information, and show the amounts of expenditure incurred during 2008/2009, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

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

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

Tangible Fixed Asset Impairments

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

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

Economic downturn

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

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

Foreword by the Director of Financial Resources (Continued)

- The impact of the economic downturn on the Council's ability to generate capital receipts from the sale of surplus assets as demand for development sites has reduced significantly. The reduced capacity to generate capital receipts has a direct impact on the resources available for the Council's capital programme.

- The impact of the economic downturn on the generation of income from fees and charges for Council services.

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

Finally, in preparing the final accounts for 2008/2009 consideration has been given to the ongoing potential impact of the downturn resulting in some limited earmarking of resources.

Treasury Management

In line with the best accounting practice, the Council must follow the Treasury Management Policy agreed by full council each year and this Policy for 2008/2009 is now included in detail within the Accounting policies, on Page 32.

The economic downturn and unprecedented global crisis has meant great uncertainty within the financial markets over the past year and this uncertainty is continuing into 2009/2010. The Council has had to navigate these very difficult times by carefully managing the council cash resources and I am pleased to report that the Council was not affected by the Icelandic Banks collapse in October 2008 and has, and continues to, operate a prudent and cautious approach to Treasury Management. The Council follows professional standards and best practice in this specialist area and continues to develop its Treasury Management expertise and knowledge in order to safeguard the Council resources and reduce the risks that inevitably exist in this complex area.

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

Authority's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 4th March 2009 detailed the 2008/2009 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Authority is required to set borrowing limits for the following three financial years. The limits for 2008/2009 were as follows:

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

Single Status

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

Equal Pay claims

Both prior to and during 2008/2009, the Council has received a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Following the receipt of legal advice from leading Counsel, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. Whilst a large number of claims have been settled, a large number of other claims remain outstanding where the legal advice is that offers of settlement should not be made. These claims will be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

Insurance Provision

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements which aim to embed risk management throughout the organisation. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself and this is one of the main reasons why it is possible to return provisions for insurance costs to Council balances in 2008/2009.

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

Airport Revaluation

The Council holds a 9.41% share in Newcastle International Airport Limited through a Holding Company arrangement and the value of these shares has now to be re-assessed each year, in order to reflect the fair value of the shareholding in the Council's accounts, in accordance with best accounting practice. The valuation of £12.609m previously shown in the Council's accounts reflected the Councils share of the last full Airport valuation carried out some years ago, (December 2001 – where the Airport was valued at £134m in total). A revised valuation, based on its mid range Equity value of £15.975m for the Airport in total as at 31st December 2008, has been derived from information supplied by independent valuers (Deloitte) which reflects a number of indicators used to assess the Airports fair value.

The Council's share of this new valuation has therefore seen its shareholding worth reduce significantly by £11.106m to a valuation of £1.503m in 2008/2009 and this figure is now included within the Council's accounts. The valuation reflects factors such as the company's present trading performance (which remains very competitive), its net debt position (which includes the company's net refinancing debt totalling almost £300m), and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been significantly impaired, (fallen in value), as a direct result of the economic downturn and the depressed state of the financial markets during 2008/2009.

Foreword by the Director of Financial Resources (Continued)

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

Area Based Grant

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

Whilst the introduction of the Area Based Grant provides more flexibility in how this funding can be used by the Council, each of the grants that have been transferred into the new Area Based Grant came with clear grant conditions and performance expectations and these have been applied to date accordingly. It is considered that in the majority of instances, that these performance expectations will remain and are consistent with the Sunderland Strategy and Local Area Agreement and will be considered through the Comprehensive Area Assessment and other service based inspections in the future.

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

The Council's initial allocation for Area Based Grant for 2008/2009 was £25.2 million and this amount was subsequently increased in November 2008 to almost £25.4m which can be compared to an equivalent grant total of specific grants (which were ring-fenced to spend on specific service areas) for 2007/2008 of £23.0 million.

This initiative was welcomed by the Council and will help to allow the Council to re-direct resources into its service priority areas in order to improve the key services provided to the people of Sunderland. The grant is fully accounted for within the accounts of the Authority in accordance with government guidelines.

South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Sunderland , Gateshead and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. The Partnership has been provisionally awarded £73.5m of PFI Credits by the Department for Environment, Food and Rural Affairs (Defra) following the approval of the Outline Business Case in July 2008. The Partnership, is being led by Gateshead Council, who is currently carrying out the procurement and tendering processes which are anticipated will be completed by September 2010.

Further Information

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

Keith Beardmore CPFA
Director of Financial Resources
29th September 2009

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

1. To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Financial Resources.

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

The Director of Financial Resources Responsibilities

The Director of Financial Resources is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2009.

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

Keith Beardmore CPFA
Director of Financial Resources

29th September 2009

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sunderland City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the City Treasurer and auditor

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

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

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

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

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

Basis of audit opinion

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

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

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

Opinion

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

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

Authority's Responsibilities

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

Auditor's Responsibilities

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Best Value Performance Plan

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

Audit Certificate

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

Signature:

Date: **September, 2009**

Name: Mr S. Nicklin

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) 2008 issued by the Chartered Institute of Public Finance and Accountancy except where disclosed below**.** The analysis of service expenditure included in the Income and Expenditure Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level. The accounting convention adopted is mainly historical cost, modified by the revaluation of certain categories of tangible fixed assets and stores.

2. Tangible Fixed Assets

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

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

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

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

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

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

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

Infrastructure assets, community assets and vehicles, plant, furniture and equipment have been included at historical cost, net of depreciation.

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

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

Revaluation Gains and Impairments
All assets are revalued by the Head of Land and Property at a minimum of every five years under a rolling programme. However due to the economic downturn experienced over 2008/2009 and the dramatic fall in property values, all assets were re-assessed for impairment. Material changes to asset valuations are adjusted in the interim, as they occur. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, in future years, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Statement of Accounting Policies (Continued)

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Asset values may decrease following a review of asset categories for reductions in value, following revaluation or following a reassessment of an asset's value once the historic cost of capital projects has been added to the asset's value. In such circumstances this impairment is accounted for by either, charging the loss to the relevant service revenue account where the impairment is attributable to a clear consumption of economic benefits, or writing the loss off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

All assets not subject to depreciation are assessed, in accordance with FRS 11, by the Council's Valuer each year for any material impairment. As mentioned earlier, the Council has seen its asset valuations significantly impaired because of the economic downturn and most of the impairments are included within net cost of service in the Income and Expenditure Account in accordance with the SORP.

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

Disposals

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

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

Depreciation

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

Depreciation on all operational assets has been calculated on a straight line basis by taking the net asset value at 1st April 2007 divided by the future life expectancy.

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

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

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

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

Statement of Accounting Policies (Continued)

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

3. Intangible Assets

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

4. Revenue Expenditure Funded from Capital under Statute

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

5. Charges to Revenue for Fixed Assets

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

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

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

The Council, on 5th March 2008, adopted a policy for calculating MRP whereby all borrowing as at 31st March 2008 and any new borrowing supported by the Government is calculated by using regulation 28 of the Capital Financing regulations of the Local Government Act 2003 (this is 4% of the Council's opening credit ceiling balance) and any new unsupported borrowing taken out in 2008/2009 will be calculated based on the life of the asset the borrowing is used to enhance or create. In addition the Council makes voluntary MRP payments where appropriate to accelerate the payback period for any borrowing taken out in regard to invest to save schemes and where a full option appraisal process shows financing by borrowing offers better value for money to the council than leasing.

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

Statement of Accounting Policies (Continued)

6. Debtors and Creditors

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

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

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

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

c) Creditors
The Council uses a procurement module, within its Financial Management System, to account for the bulk of its creditors each year. This means that all orders for goods and services must be processed through the system with the effect that the system records and identifies all creditors as being both commitments (where the goods have been received by 31st March 2009 but not yet invoiced) and creditor payments (where the goods have been received and invoiced but not paid until the following financial year), automatically. This means that there is a significant reduction in the need for manual intervention. The method of accounting for creditors is an important aspect of the Statement of Accounts and the policy adopted by the Council complies fully with the SORP.

7. Stocks, Stores and Work in Progress

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

8. Cost of Support Services

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

9. Provisions and Reserves

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. The provision is charged to the appropriate service revenue account in the year the Council becomes aware of the obligation, based upon the best estimate of the likely settlement amount. When payments are made these are charged directly to the provision set up in the Balance Sheet.

Provisions, however, by their nature, are estimates and these are reviewed annually by the Council to ensure they are adequate to meet the anticipated liabilities. Any amount subsequently not required is credited back to the appropriate service revenue account.

The Notes on the provisions made by the Council are reflected in Notes 42 and 43, Page 86 and 87. The provisions are based on the full known estimated costs and in the case of the level of the Insurance Provision as at 31st March 2009, this has been verified as appropriate by independent risk valuers.

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

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

The Notes on the level of reserves held by the Council as at 31st March 2009 and their purpose are reflected in Note 52, Pages 98 to 102.

10. Internal Interest

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

11. Delegated Budgets

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

12. Pension Costs

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

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

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

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

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

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

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

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

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

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

b) Teachers Pension Scheme

The pension costs relating to Teachers are classified as a Defined Contribution Scheme which is an 'un-funded' scheme administered nationally by Capita Teachers Pensions (CTP) on behalf of the Department for Children, Schools and Families (DCSF). The CPT uses a notional fund as the basis for calculating the employers' contribution rate paid by each local education authority. As such it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means in effect the scheme is not subject to the requirements of Financial Reporting Standard 17 (FRS17) and that the Council only accounts for actual pension costs made in the financial year in accordance with the prescribed rate notified by the CPT within its revenue accounts and no earmarked balances are required to be shown on the balance sheet. The cost of the Teachers Pension Scheme for 2008/2009 is shown in Note 8a, Page 52 to Income and Expenditure section of the Notes to the Core Financial Statements. The Council, however, is also responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued in the pensions liability described in Note 41b, Page 85 to the Balance Sheet section of the Notes to the Core Financial Statements in accordance with FRS17.

c) Discretionary Benefits

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

13. Government Grants

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

Statement of Accounting Policies (Continued)

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

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

14. Area Based Grant

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

ABG is a general grant, which should be included in the Income & Expenditure Account within General Government Grants. An analysis of these grants is shown in Note 16, Pages 60 and 61 of the notes to the core financial statements.

15. External Interest

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

16. Redemption of Debt

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

For 2008/2009 the Minimum Revenue Provision (MRP) comprises a statutory element under regulation 28 of the Capital Financing Regulations of the Local Government Act 2003. Under this regulation, borrowing is repaid at 4% of the debt outstanding within the Council's Consolidated Advances and Borrowing Pool. The MRP is increased by contributions the Council voluntarily makes to this provision. The Statement of Accounts for 2008/2009 has been prepared to fully comply with statutory and Prudential Code requirements which Note 11 to the Core Financial Statements refers to on Page 56.

17. Accounting for Leases

Rental payments under operating leases are fully charged to service revenue accounts in the year that they are incurred based on a fixed amount rental basis. The Council currently has no finance leases. See Note 25, Pages 72 and 73 to the Balance Sheet.

18. Related Companies and Group Accounts

The Council has financial relationships with a number of related companies, joint ventures and joint arrangements. Details of the Council's interest in these organisations and the nature of the relationships are disclosed in Note 53, Pages 103 and 106 to the Balance Sheet.

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

Statement of Accounting Policies (Continued)

19. Other Investments

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

20. Long Term Contracts

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

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

21. Estimation

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

a) Pension Liabilities
Pensions Liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll forward method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Pension Fund liabilities have been assessed by Hewitt Associates Ltd, an independent firm of actuaries, who also estimate the Pension Fund position as at 31st March 2009 based on their latest full valuation of the scheme carried out as at 31st March 2007 and also their assessments of future movements in the return on pension assets and future pension liabilities as at 31st March 2009. See Note 8c, Pages 52 and 53, and Notes 41a / 41b on Pages 81 and 85.

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

22. Landfill Allowances Trading Scheme (LATS)

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

The value of these allowances, when first introduced in April 2006, was £20.20, a value determined by Department for Environment, Food and Rural Affairs (DEFRA), until a proper trading market emerged, as few authorities had traded these allowances in the first year of the scheme. As trading commenced in 2006/2007 a market value of £17.98 was established, however as councils have introduced measures to address their waste targets, market demand for allowances fell significantly in 2007/2008 to £5.00. The fair value of the LATS assets can only be established by examining the market for their trading value, in 2008/2009 LATS assets were trading at between £Nil and £0.10 as all unused allowances Council's hold at the end of 2008/2009 are forfeited in accordance with government guidelines consequently they have no or little value. The allowances have been

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

Statement of Accounting Policies (Continued)

23. Value Added Tax (VAT)

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

24. Financial Instruments

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

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

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

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

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

25. Financial Liabilities

Financial liabilities, are initially measured at fair value and carried at their amortised cost. All PWLB loans reflect fair value as calculated by reference to the 'premature repayment' set of rates in force as at 31st March 2009 and for all other market debt the rates were taken from the market on 31st March 2009 using bid prices where applicable, any discount rate used reflects the rates available for an instrument with the same terms as for a comparable lender. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the Effective Rate of Interest for the instrument. For most borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

Statement of Accounting Policies (Continued)

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

26. Financial Assets

Financial assets are classified into two types:

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

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

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

Soft Loans
A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the SORP 2008, the difference between the interest payable to the council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading. This charge is then reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on Council Tax.

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

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

- Instruments with quoted market process – the market price;

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

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

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

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

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

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

Instruments entered into before 1st April 2006

The Council entered into a number of financial guarantee instruments that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that a Contingent Liability note has been included in Note 54 pages 106 and 107 to the Balance Sheet.

27. Treasury Management

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

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

a) Treasury Management activities are defined as:

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

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

c) Effective treasury management supports the achievement of the council's business and service objectives. Consequently, there must be commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Further information relating to the Council's Treasury management policy and strategy can be found on the Council's website at:

http://cmis/CMISWebPublic/Binary.ashx?Document=7802

28. Events after the Balance Sheet Date

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

Note 57 to the accounts includes details of one such adjusting event and sets out a number of events that have occurred after the Balance Sheet date which need to be disclosed in accordance with the SORP but are not recognised in the Statement of Accounts as they are regarded as non-adjusting events.

Statement Reporting Reviews on Internal Control and Internal Financial Controls

SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a Code of Corporate Governance in place which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. A copy of the Code is on the Council's website at http://www.sunderland.gov.uk/Public/Editable/Themes/CityCouncil/corporate/corporategovernance/codeofcorporategovernance.pdf or can be obtained from the Director of Financial Resources or the Chief Solicitor.

This Statement explains how the Council has complied with the SOLACE/CIPFA Framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2009 and up to the date of approval of the Annual Report and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

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

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

SP1: Prosperous City
SP2: Healthy City
SP3: Safe City
SP4: Learning City
SP5: Attractive and Inclusive City

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

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

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

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

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

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

- Wide distribution of the Corporate Improvement Plan, as well as a summary version, including on the Council's website and intranet;
- Issuing of an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been;
- Through the Council's corporate Investors in People (IIP) processes;
- Sunrise magazine, issued to all residents.

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

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

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

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

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

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

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

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

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

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

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

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

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

Directorates have established delegation schemes, although these may require updating in some areas to reflect recent organisational changes.

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

The following are in place:

- Members' Codes of Conduct;
- Employees' Code of Conduct;
- Registers of Interests, Gifts and Hospitality.

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

The Director of Financial Resources is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Council's financial affairs.

The Chief Solicitor is the Council's Monitoring Officer who has maintained an up-to-date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.

The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.

Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Codes of Conduct;
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Procurement Codes of Practice;
- Code of Practice for Partnerships;
- Treasury Management Strategy based upon CIPFA's Treasury Management Codes;
- Directorate / department budget management schemes.

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

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

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

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

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

There are clearly defined capital expenditure guidelines in place.

Appropriate project management disciplines are utilised.

The Council participates in the National Fraud Initiative and subsequent investigations.

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

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

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

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

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

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

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

- receive and consider the external audit plan;

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

- receive and consider the annual report of internal audit;

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

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

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

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

- make recommendations or comments to Cabinet or Council as appropriate.

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

The Chief Solicitor is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards. Internal audit work is planned on the basis of risk.

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

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

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

Monitoring records held by the Chief Solicitor reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:

The Council has a Members Training and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of training and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Council strategic objectives. In addition Members have access to a Personal Development Plan, which sets out the skills, knowledge, expertise and competence required to carry out the role as an Elected Member and confirms their personal responsibility for continuous professional development.

The Elected Member Training and Development Strategy aims:

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

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

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

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

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

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

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

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

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

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

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

REVIEW OF EFFECTIVENESS

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

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

The role of the Council:

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

The role of the executive:

- The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Statement Reporting Reviews on Internal Control and Internal Financial Controls.

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

The role of the Audit and Governance Committee:

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

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

- review decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
- consider any matter affecting the area or its inhabitants; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented.
- The role of the Council's Standards Committee includes the following:
- promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
- monitoring the operation of the Members' Code of Conduct;
- monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
- considering reports and complaints relating to the conduct of Members of the Council;
- supporting the Monitoring Officer in his role.

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

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

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

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

- the Council is improving well;

- the Council continues to improve outcomes for local people;

- prosperity is being enhanced through the development of most key regeneration sites. Services for children and young people are all good, with education attainment improving at most key stages.

- people are healthier, fewer people smoke, and the new Aquatic Centre is helping vulnerable groups become healthier.

- services for adults are excellent with increasing numbers being helped to live at home.

- crime is reducing, fewer young people are re-offending, and domestic violence is being actively tackled. Streets are cleaner and the recycling and composting rates have improved, although remaining below average.

- the Council's strategies and objectives reflect those of the Sunderland Community Strategy and Local Area Agreement, with local partners positive about their interaction with the Council.

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

- the Council has good capacity to sustain improvement, delivers good value for money and has significant revenue and capital reserves allocated to improvement projects.

- it has invested in training for Councillors and staff to improve their ability to deliver change, with better project management skills in place; and a greater understanding of diversity, equality and community cohesion issues.

- The Council has secured the highest rating (4 out of 4) for the Use of Resources element of the Comprehensive Performance Assessment.

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

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed for the continuous improvement of the Council's Corporate Governance and Internal Control Arrangements.

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

Councillor Paul Watson Leader of the Council	Dave Smith Chief Executive	Keith Beardmore Director of Financial Resources

Dated: 29th September 2009

Income and Expenditure Account for the Year Ended 31 March 2009

Cost of Services	Note	2008/2009 Gross Expenditure £	2008/2009 Gross Income £	2008/2009 Net Expenditure £	Restated 2007/2008 Net Expenditure £
Continuing Services					
Central Services					
Corporate and Democratic Core		**9,680,190**	**4,018,475**	**5,661,715**	14,627,191
Central Services to the Public		**33,790,846**	**28,451,455**	**5,339,391**	5,466,305
Other Operating Income and Expenditure		**7,308,991**	**7,369,507**	**(60,516)**	137,564
Court Services		**771,519**	**65,222**	**706,297**	514,390
Cultural, Environment and Planning Services					
Cultural and Related Services		**46,535,048**	**13,380,226**	**33,154,822**	29,642,532
Environmental Services		**31,771,393**	**10,315,278**	**21,456,115**	18,396,579
Planning and Development Services		**31,983,904**	**17,814,778**	**14,169,126**	8,731,472
Children's and Education Services					
Education Services		**287,160,290**	**240,414,519**	**46,745,771**	46,036,383
Children's Social Care		**35,471,196**	**3,687,960**	**31,783,236**	28,153,470
Highways, Roads and Transport Services		**31,932,409**	**10,771,372**	**21,161,037**	17,756,211
Housing Services		**121,009,733**	**116,209,242**	**4,800,491**	3,284,553
Adult Social Care		**108,155,463**	**40,016,381**	**68,139,082**	60,111,852
Non Distributed Costs		**13,096,325**	**3,328,998**	**9,767,327**	8,510,988
Exceptional Item - Insurance Provision		**27,936**	**595,556**	**(567,620)**	(1,284,615)
Exceptional Item - Equal Pay Provision		**0**	**0**	**0**	(305,427)
Net Cost of Continuing Services		**758,695,243**	**496,438,969**	**262,256,274**	239,779,448
Discontinuing Services					
Connexions Tyne and Wear		**0**	**0**	**0**	607,652
Net Cost of Services		**758,695,243**	**496,438,969**	**262,256,274**	240,387,100
Loss/(Gain) on the Disposal of Fixed Assets		**301,558**	**0**	**301,558**	39,318,000
Impairment of Landfill Allowances	36	**227,520**	**0**	**227,520**	417,424
Parish Council Precepts		**50,268**	**0**	**50,268**	48,804
Levies		**18,109,925**	**0**	**18,109,925**	17,633,143
(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services	2	**37,910**	**550,849**	**(512,939)**	(54,143)
Interest Payable and Similar Charges		**8,544,017**	**0**	**8,544,017**	9,775,319
Contribution of Housing Capital Receipts to Government Pool		**53,517**	**0**	**53,517**	62,577
Interest and Investment Income		**0**	**11,380,448**	**(11,380,448)**	(12,475,539)
Pension Interest Cost and Expected Return on Pension Fund Assets	8c	**15,190,000**	**0**	**15,190,000**	6,120,000
Net Operating Expenditure		**801,209,958**	**508,370,266**	**292,839,692**	301,232,685
Demand on the Collection Fund		**0**	**91,700,867**	**(91,700,867)**	(88,288,757)
General Government Grants	16	**0**	**44,162,322**	**(44,162,322)**	(20,609,806)
Non-Domestic Rates Redistribution		**0**	**132,944,980**	**(132,944,980)**	(120,982,887)
(Surplus) / Deficit for the year		**801,209,958**	**777,178,435**	**24,031,523**	71,351,235

Statement of Movement on the General Fund Balance for the Year Ended 31 March 2009

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	**2008/2009 £**	Restated 2007/2008 £
Deficit / (Surplus) for the year on the Income and Expenditure Account		**24,031,523**	71,351,235
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	20	**(23,746,784)**	(69,383,265)
Reduction in General Fund balance for the year		**284,739**	1,967,970
General Fund balance brought forward		**(17,608,945)**	(19,576,915)
General Fund balance carried forward		**(17,324,206)**	(17,608,945)
Amount of General Fund balances held by schools under local management schemes	5	**5,770,795**	5,601,315
Amount of General Fund balances generally available for new expenditure	48	**11,553,411**	12,007,630
		17,324,206	17,608,945

Statement of Total Recognised (Gains) and Losses (STRGL) for the Year Ended 31 March 2009

	Notes	**2008/2009** **£**	Restated 2007/2008 £
Deficit for the year on the Income and Expenditure Account		**24,031,523**	71,351,235
Actuarial (gains) / losses on pension fund asset and liabilities	21	**185,460,000**	(86,230,000)
Surplus arising on revaluation of fixed assets	22	**68,022,169**	237,206,238
Other (gains) / losses required to be included in the STRGL	23	**11,870,337**	366,428
Total recognised losses for the year		**289,384,029**	222,693,901

Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £	31 March 2009 £	31 March 2008 (Restated) £	31 March 2008 (Restated) £
Tangible Fixed Assets					
Operational Assets	24				
Land and Buildings		**684,582,198**		771,846,807	
Infrastructure		**190,925,621**		187,247,555	
Vehicles, Plant, Furniture and Equipment		**30,736,206**		26,309,178	
Community Assets		**0**		0	
Non Operational Assets	24				
Investment Properties		**40,141,372**		44,747,303	
Assets Under Construction		**80,285,576**		27,694,466	
Assets Held For Disposal		**87,828,000**	**1,114,498,973**	99,734,101	1,157,579,410
Intangible Assets	26		**1,319,956**		1,145,476
Total Fixed Assets			**1,115,818,929**		1,158,724,886
Long Term Investments	27a		**31,524,554**		17,630,116
Long Term Debtors	28 to 33		**22,720,961**		23,571,777
Total Long Term Assets			**1,170,064,444**		1,199,926,779
Current Assets					
Short Term Investments	27b	**135,109,765**		189,406,351	
Stocks and Stores	34	**970,087**		1,357,030	
Work In Progress		**1,123,681**		400,315	
Debtors	35	**40,579,651**		39,576,582	
Landfill Usage Allowance	36	**3,651,084**		3,878,604	
Cash - School Bank Accounts		**1,063,569**		1,549,882	
Cash in Hand - Imprests		**785,205**	**183,283,042**	870,844	237,039,608
Current Liabilities					
Short Term Borrowing		**(32,241,271)**		(35,110,213)	
Creditors	37	**(84,484,029)**		(84,505,077)	
Liability to DEFRA - Landfill Usage	36	**(3,651,084)**		(3,651,084)	
Cash Overdrawn	38	**(11,426,983)**	**(131,803,367)**	(17,086,306)	(140,352,680)
Net Current Assets			**51,479,675**		96,686,928
Total Assets Less Current Liabilities			**1,221,544,119**		1,296,613,707
Long Term Liabilities					
Long Term Borrowing	39	**(139,092,938)**		(169,172,653)	
Grants and Contributions Deferred Account	40	**(223,957,728)**		(165,058,729)	
Liability Relating to defined Pension Scheme	41	**(428,930,000)**		(243,820,000)	
Insurance Provision	42	**(3,268,480)**		(3,488,906)	
Other Provisions	43	**(5,040,258)**	**(800,289,404)**	(4,434,675)	(585,974,963)
Total Assets Less Liabilities			**421,254,715**		710,638,744
Reserves					
Revaluation Reserve	44	**131,449,749**		203,612,550	
Available-for-Sale Financial Instruments Reserve		**0**		0	
Capital Adjustment Account	45	**561,274,739**		591,975,164	
Deferred Credits	46	**2,685,450**		3,243,288	
Usable Capital Receipts Reserve	47	**6,424,538**		12,796,832	
Available for Sale Reserve (Newcastle Airport)	27a	**1,503,168**		12,608,730	
Pensions Reserve	41	**(428,930,000)**		(243,820,000)	
Insurance Reserve		**5,384,156**		6,449,164	
General Fund Balance - LMS Schools Reserve	48	**5,770,795**		5,601,315	
General Fund Balance - General Reserve	48	**11,553,411**		12,007,630	
Delegated Budgets Reserve	49	**11,499,435**		7,874,424	
Financial Instruments Adjustment Account	51	**(441,571)**		(380,457)	
Capital Reserves	52	**25,234,973**		16,316,432	
Revenue Reserves	52	**87,699,493**		81,442,518	
Collection Fund	64 to 68	**146,379**		911,154	
Total Net Worth			**421,254,715**		710,638,744

Cash Flow Statement for the Year Ended 31 March 2009

	Notes	2008/2009		2007/2008 (Restated)	
		£	£	£	£
	58				
Net Cash Flows from Revenue Activities			**(18,045,127)**		(32,326,306)
Dividends from Joint Ventures and Associates					
Cash Inflows					
Dividends Received			**(204,208)**		0
Return on Investments and Servicing of Finance					
Cash Outflows					
Interest Paid		**8,544,017**		9,775,319	
Cash Inflows					
Interest Received		**(11,176,168)**	**(2,632,151)**	(12,475,539)	(2,700,220)
Capital Activities					
Cash Outflows					
Purchase of Fixed Assets		**98,843,197**		53,607,652	
Purchase of Long Term Investments		**30,000,000**		5,000,000	
Other Capital Cash Payments		**53,517**	**128,896,714**	717,519	59,325,171
Cash Inflows					
Sale of Fixed Assets		**(1,174,442)**		(4,079,449)	
Capital Grants Received		**(84,280,671)**		(54,625,713)	
Other Capital Cash Receipts		**(5,844,379)**	**(91,299,492)**	(58,959,887)	(117,665,049)
Acquisition and Disposals					
Cash Inflows					
Receipts on Long Term Loan Notes			**(455,178)**		(455,178)
Net Cash (Inflows) / Outflows before Financing	62		**16,260,558**		(93,821,582)
Management of Liquid Resources					
Net Increase / (Decrease) in Short Term Deposits	60	**(54,296,586)**		96,903,236	
Net Increase / (Decrease) in Other Liquid Deposits	60	**0**	**(54,296,586)**	0	96,903,236
Financing					
Cash Outflows					
Repayment of Amounts Borrowed	61	**58,341,552**		1,360,961	
Cash Inflows					
New Loans Raised	61	**(2,680)**		(1,980)	
New Short Term Loans	61	**(25,390,215)**	**32,948,657**	(2,879,655)	(1,520,674)
Increase / (Decrease) in Cash	59		**(5,087,371)**		1,560,980

Notes to the Core Financial Statements

Note 1 – Prior Year Adjustment to the previous years Statement of Accounts (2007/2008)

a) FRS17
The Accounting Standards Board (ASB) published an Amendment to Financial Reporting Standard 17 (FRS17) 'Retirement Benefits' on 7 December 2006, following an Exposure Draft issued in May 2006. The amendment is effective for accounting periods beginning on or after 6 April 2007. The Chartered Institute of Public Finance and Accounts (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2008 (A Statement of Recommended Practice) now incorporates this change.

The key changes introduced by the Amendment are as follows:

- Disclosures show separate reconciliations of liabilities and assets from the prior year. This requirement means that the disclosures are now consistent with those reported under International Accounting Standard 19 (IAS19).
- Disclosure of the principal actuarial assumptions used at the balance sheet date, which includes disclosure of mortality rates.
- Unfunded liabilities should be separately disclosed.
- The fair value of asset comprises the bid value for quoted securities, rather than the mid market value. This is also in line with requirements of (IAS19).

The 2007/2008 comparative figures have been amended and restated to take into account the above changes, in line with guidance issued in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2008 (A Statement of Recommended Practice) (SORP 2008). So that the required changes in 2008/2009 can be compared to the previous year's accounts.

b) Representation of Cash Flow Statement
In line with SORP 2008 the Council has adopted the indirect method of formulating the cash flow statement, whereby the net cash flow from revenue activities is derived by means of a reconciliation from the surplus or deficit on the Income and Expenditure Account for the year as apposed to the direct method, whereby major classes of cash receipts and gross cash payments are disclosed. The 2007/2008 comparative cash flow statement has been restated to reflect this change.

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 in 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 2008/2009 are shown below:

	2008/2009			2007/2008		
	Expenditure	**Income**	**Net Expenditure**	Expenditure	Income	Net Expenditure
City Print Services	**2,186,346**	**2,164,837**	**21,509**	1,880,314	1,916,815	(36,501)
City Stores	**287,828**	**287,828**	**0**	1,083,043	924,442	158,601
General Highways	**5,584,418**	**5,864,537**	**(280,119)**	5,291,789	5,327,792	(36,003)
Education and Civic Buildings Maintenance	**8,582,035**	**8,852,765**	**(270,730)**	9,579,537	9,668,752	(89,215)
Networking Services	**265,276**	**248,875**	**16,401**	231,002	282,027	(51,025)
	16,905,903	**17,418,842**	**(512,939)**	18,065,685	18,119,828	(54,143)

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:

	2008/2009			2007/2008 Restated		
	Expenditure	**Income**	**Net Expenditure**	Expenditure	Income	Net Expenditure
	£	**£**	**£**	£	£	£
Retail Market	**278,042**	**445,311**	**(167,269)**	245,820	468,566	(222,746)
Industrial Estates	**4,444,387**	**3,197,378**	**1,247,009**	1,628,368	1,960,716	(332,348)
Miscellaneous Land and Properties***	**16,379,918**	**4,299,950**	**12,079,968**	11,174,677	3,170,833	8,003,844
Building Regulations (See Note 12, Page 57)	**731,386**	**734,300**	**(2,914)**	824,060	806,293	17,767
Building Control (See Note 12, Page 57)	**298,735**	**14,972**	**283,763**	191,506	18,122	173,384
Car Parks (Civil Parking Enforcement)*	**938,819**	**387,289**	**551,530**	728,249	257,968	470,281
Car Parks (Other)*	**2,304,443**	**1,957,114**	**347,329**	1,735,574	1,984,273	(248,699)
Cash in Transit Service	**367,880**	**426,564**	**(58,684)**	340,843	429,111	(88,268)
Refuse Collection	**3,766,058**	**86,550**	**3,679,508**	3,320,887	28,475	3,292,412
Other Cleaning	**4,505,550**	**111,618**	**4,393,932**	4,020,496	140,082	3,880,414
Grounds Maintenance	**5,975,576**	**461,033**	**5,514,543**	5,658,297	480,005	5,178,292
Leisure Management	**8,103,409**	**4,679,249**	**3,424,160**	7,665,199	4,409,450	3,255,749
Other Catering	**500,079**	**462,408**	**37,671**	487,140	434,349	52,791
Building Cleaning	**4,248,209**	**2,962**	**4,245,247**	4,180,032	140,101	4,039,931
School and Welfare Catering	**6,357,628**	**573,108**	**5,784,520**	6,299,353	1,259,575	5,039,778
Port of Sunderland**	**4,623,749**	**3,578,121**	**1,045,628**	4,510,959	3,689,337	821,622
Derwent Hill	**1,351,002**	**1,132,613**	**218,389**	1,314,592	1,056,639	257,953
Support Services to Schools	**4,439,080**	**2,165,563**	**2,273,517**	4,570,290	2,302,917	2,267,373
Trade Refuse	**522,215**	**462,024**	**60,191**	523,740	468,050	55,690
Training Centres	**1,398,483**	**1,433,313**	**(34,830)**	1,376,139	1,266,958	109,181
Allotments	**202,691**	**93,853**	**108,838**	131,544	69,096	62,448
Building Maintenance Surveying	**3,334,391**	**3,330,452**	**3,939**	164,055	181,768	(17,713)
Connexions Hub	**4,262,320**	**4,709,710**	**(447,390)**	0	0	0
	79,334,050	**34,745,455**	**44,588,595**	61,091,820	25,022,684	36,069,136

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 £898,859 deficit (2007/2008 £221,582 deficit).

Notes to the Core Financial Statements (Continued)

Note 2 – Trading Services (Continued)

** Port of Sunderland includes Capital charges, FRS17 and bi-annual dredging costs totalling £926,433 (for 2007/2008 £623,364). In addition the position includes a transfer of surplus against budget of £167,631 to the Port Reserve (for 2007/2008 £42,072). The net expenditure position excluding these items is therefore £48,436 surplus (2007/2008 £198,258 deficit).

*** Miscellaneous Land and Property includes impairment charges of £12,549,636 (2007/2008 £8,747,592). The net expenditure position excluding these charges is therefore £469,668 surplus (2007/2008 £817,439 surplus).

Note 3 - Publicity

Section 5(i) of the local Government Act 1986, requires local authorities to keep an account of their expenditure on publicity. The Council has established a revised coding structure to report more accurately net publicity related expenditure.

	2008/2009 £	2007/2008 Restated £
Employees	**379,755**	354,100
Running Expenses	**17,554**	(72,446)
Staff Recruitment Advertising	**1,085,370**	888,759
General Advertising and Publicity	**1,448,358**	1,519,051
Connexions - Marketing (Not Council Related)	**0**	201,609
	2,931,037	2,891,073

Note 4 – Local Authority (Goods and Services) Act 1970

Work may be carried out under the Act for other local and public authorities. Information to be disclosed is to indicate the scale of the operations and the nature of the activities the Council has been engaged in during the financial year. None of the activities represent a significant proportion of the Councils total related capacity.

	2008/2009 £	Restated 2007/2008 £
Supply of Goods		
Issue from Central Stores to Sunderland University, Stockton Borough Council, Colleges and Voluntary Bodies	**0**	50,050
Supply of Services		
Printing services provided to Sunderland University, Stockton Borough Council, Colleges and Voluntary Bodies	**4,165**	8,505
Hospital Library Services to Teaching Primary Care Trust	**5,256**	5,088
Buildings Repairs and Maintenance to Sunderland University, Teaching Primary Care Trust, Colleges and Police Authority	**34,540**	24,688
Support Services to Houghton Keipier Sports College (Foundation)	**13,729**	14,039
Payroll Services to City of Sunderland College	**25,856**	25,225

Notes to the Core Financial Statements (Continued)

Note 5 – 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 31 March 2009 totalled £5,770,795 (31 March 2008 £5,601,315). 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 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 44.

Note 6 – Industrial Loans at Subsidised Rates of Interest

Economic Development Regulations requires 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 made in the 2008/2009, the details of which are shown below:

Date of Loan Awarded	Amount of Loan £	Term	Interest Rate %	**Balance at 31 March 2009 £**	Balance at 31 March 2008 £
01/02/2009	50,000	36 Months	1.61	**48,643**	0

In accordance with the SORP 2008, the difference between the interest payable to the council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading; in 2008/2009 this amounted to £2,938 (2007/2008 £Nil). This charge is then reversed out through the Statement of Movement on the General Fund Balance to mitigate any effect on Council Tax.

Note 7 - 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 7 - Subjective Summary (Continued)

	2008/2009			Restated 2007/2008
	Gross Expenditure £	Gross Income £	Net Expenditure £	Net Expenditure £
Employee Expenses	290,640,413	0	290,640,413	304,255,301
Premises Related Expenses	37,877,383	70,340	37,807,043	35,022,881
Transport Related Expenses	10,042,985	0	10,042,985	9,517,112
Supplies and Services	78,581,808	0	78,581,808	85,696,094
Third Party Payments (See Note 13 Page 58 for more details)	112,999,073	0	112,999,073	105,469,687
Transfer Payments	118,372,912	0	118,372,912	110,448,385
Support Services	26,913,836	0	26,913,836	25,036,892
Capital Items	82,328,234	5,500,197	76,828,037	70,245,446
Government Grants	0	362,023,733	(362,023,733)	(369,083,009)
Other Grants, Reimbursements and Contributions	0	57,178,202	(57,178,202)	(61,444,322)
Customer and Client Receipts	0	68,663,901	(68,663,901)	(66,900,399)
Transfer from Provisions	0	567,620	(567,620)	(7,553,605)
Appropriation to Provisions	938,599	0	938,599	1,920,967
Recharges	0	2,434,976	(2,434,976)	(2,244,330)
Net Cost of Services	758,695,243	496,438,969	262,256,274	240,387,100
Loss/(Gain) on the Disposal of Fixed Assets	301,558	0	301,558	39,318,000
Impairment of Landfill Allowances	227,520	0	227,520	417,424
Parish Council Precepts	50,268	0	50,268	48,804
Other Levies	18,109,925	0	18,109,925	17,633,143
(Surplus)/Deficit on Trading Undertakings not included in net	37,910	550,849	(512,939)	(54,143)
Interest Payable and Similar Charges	8,544,017	0	8,544,017	9,775,319
Contribution of Housing Capital Receipts to Government Pool	53,517	0	53,517	62,577
Interest and Investment Income	0	11,380,448	(11,380,448)	(12,475,539)
Pensions Interest Cost and Expected Return on Pension	15,190,000	0	15,190,000	6,120,000
Net Operating Expenditure	801,209,958	508,370,266	292,839,692	301,232,685
Demand on the Collection Fund	0	91,700,867	(91,700,867)	(88,288,757)
General Government Grants (See Note 16 Pages 60 and 61)	0	44,162,322	(44,162,322)	(20,609,806)
Non-Domestic Rates Redistribution	0	132,944,980	(132,944,980)	(120,982,887)
(Surplus)/Deficit for the Year	801,209,958	777,178,435	24,031,523	71,351,235
Capital Financing Costs	61,835,964	90,298,201	(28,462,237)	(44,872,119)
Housing Capital Receipts	0	53,517	(53,517)	(62,577)
PFI Residual Interest Appropriation	213,962	0	213,962	225,319
Transfer to Earmarked Reserves	7,120,566	4,928,432	2,192,134	33,332,167
Loss / (Gain) on the Disposal of Fixed Assets	0	301,558	(301,558)	(39,318,000)
Financial Instruments Adjustments	0	61,113	(61,113)	(56,683)
Delegated Budgets Underspend Carried Forward - Other	10,632,786	0	10,632,786	6,389,484
Delegated Budgets Underspend Carried Forward - Social Services Pooled Budgets	142,990	0	142,990	88,158
Delegated Budgets Underspend Carried Forward - Supporting People	723,660	0	723,660	1,300,134
Contribution to / (from) Balances - Connexions	0	0	0	(248,571)
Appropriation from Pension Reserve	350,000	0	350,000	(8,100,000)
PFI Appropriation Account	29,798	214,252	(184,454)	(286,076)
Transfer from Specific Reserves	208,757	1,273,768	(1,065,011)	(10,117,268)
Delegated Budget Surplus Brought Forward - Other	0	6,486,133	(6,486,133)	(6,435,961)
Delegated Budget Surplus Brought Forward - Social Services Pooled Budgets	0	88,158	(88,158)	(3,294)
Delegated Budget Surplus Brought Forward - Supporting People	0	1,300,135	(1,300,135)	(1,217,978)
Increase in General Fund for the Year	882,468,441	882,183,702	284,739	1,967,970

Notes to the Core Financial Statements (Continued)

Note 8 – Pension Costs

Note 8a – 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 2008/2009 the council paid £12.861m to the Teachers Pensions Agency in respect or teachers retirement benefits, representing 14.2% of the pensionable pay. (The figures for 2007/2008 were £12.831million representing 14.1% 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 41b Page 85 of the Balance Sheet.

Note 8b – Other Employees (Excluding Teachers)

In 2008/2009 the Council paid employers contributions of £20.624m (2007/2008 £19.515 million) into the Tyne & Wear Pension Fund, which represents 14.57% (2007/2008 13.47%) of pensionable pay. The contribution rate is determined by the actuary based on triennial actuarial valuations, the last review completed at 31 March 2007. Under Pension Regulations overall contribution rates are set to meet 100% of the overall liabilities of the fund over a defined period. An additional £10.266m (equivalent to 7.25% of Pensionable Pay) was paid into the Fund during 2008/2009, (for 2007/2008 £10.397million equivalent to 7.18% 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 41a Pages 82 to 85 of the Balance Sheet.

Note 8c – 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's 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.

Under the 2008 Statement of Recommended Practice (SORP) the Council has adopted the amendments to FRS17, Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of the change is that the value of scheme assets at 31 March 2008 has been restated from £642.97m to £640.77m, a decrease of £2.20m, resulting in an increase in the pension deficit of £2.20m (31 March 2008: increase of £2.32m).

Notes to the Core Financial Statements (Continued)

Note 8c – 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 maybe 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 2009. 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 Councils 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	10.253

(iv) The Council recognise 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 8c – FRS Disclosures (Continued)

Local Government Pension Scheme	2008/2009 £m	Restated 2007/2008 £m
Income and Expenditure Account		
Net Cost of Services:		
Current Service Cost (per Actuary)	**18.49**	27.07
Past Service Costs (per Actuary)	**0.91**	9.64
Net Operating Expenditure:		
Interest Costs	**60.18**	52.41
Expected Return on Scheme Assets	**(44.99)**	(46.29)
Net Charge to the Income and Expenditure Account	**34.59**	42.83
Statement of Movement on General Fund Balance: Reversal of net charges made for retirement benefits on accordance with FRS17	**0.35**	(8.10)
Actual amount charged against General Fund Balance for pensions in the year: Employers contributions payable to the scheme	**34.94**	34.73

In addition to the recognised gains and losses included in the Income and Expenditure account, actuarial loss of £185,460,000 (£86,230,000 gain 2007/2008 restated) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of losses recognised in the STRGL is £100,050,000.

(v) Further information can be found in South Tyneside Councils 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.

Note 9 – Officer Emoluments and Members Allowances

Note 9a – Officer Emoluments

The number of employees, whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000:

Remuneration Band	Number of Employees	
	2008/2009	2007/2008
£50,000 - £59,999	**142**	111
£60,000 - £69,999	**36**	36
£70,000 - £79,999	**29**	15
£80,000 - £89,999	**8**	10
£90,000 - £99,999	**5**	3
£100,000 - £109,999	**4**	4
£110,000 - £119,999	**0**	1
£120,000 - £129,999	**1**	0
£130,000 - £139,999	**0**	0
£140,000 - £149,999	**0**	0
£150,000 - £159,999	**1**	0
£160,000 - £169,999	**0**	0
£170,000 - £179,999	**0**	1
£180,000 - £189,999	**0**	0

Note 9b – Members Allowances

	2008/2009 £000	2007/2008 £000
Total Members Allowances paid in the Year	**1,004**	995

Note 10 – 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). Details of transactions with government departments are set out in Note 63 of the Cash Flow Statement on Page 111.

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

Notes to the Core Financial Statements (Continued)

Note 10 – Related Party Transactions (Continued)

Council Members
In respect of 2008/2009 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £4.087m made by the Authority in 2008/2009 (£5.545m in 2007/2008), of which £0.430m (£0.979m for 2007/2008) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £2.430m (£2.618m for 2007/2008) payments to companies and £1.227m (£1.948m for 2007/2008) to voluntary organisations.

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 2008/2009 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Authority.

Other Relevant Information
Details of the Councils 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.

Note 11 – Minimum Revenue Provision

For 2008/2009 the Minimum Revenue Provision is based upon 4% of the value of the Councils Consolidated Advances and Borrowing Pool as at 1 April 2008 together with any contributions the Council voluntarily makes to this provision. The Accounting Policies on Page 28 provides more detail on accounting for MRP in order to comply with the requirements of the SORP. The provisions are as follows:

	2008/2009	2007/2008
	£	£
Statutory MRP	**8,231,116**	8,213,232
Voluntary MRP	**735,794**	687,589
	8,966,910	8,900,821

Notes to the Core Financial Statements (Continued)

Note 12 – Building Regulations Charging Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities can not be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable (Building Regulations) and non-chargeable (Building Control) activities.

	2008/2009			2007/2008		
	Chargeable Building Regulation £	**Non Chargeable Building Control £**	**Total Building Control Function £**	Chargeable Building Regulation £	Non Chargeable Building Control £	Total Building Control Function £
Expenditure						
Employee Expenses	**471,324**	**192,513**	**663,837**	515,293	125,395	640,688
Transport Related Expenses	**9,385**	**3,833**	**13,218**	11,252	0	11,252
Supplies, Services and Other Expenses	**50,670**	**20,697**	**71,367**	86,730	21,408	108,138
Agency and Contracted Services	**13,929**	**5,689**	**19,618**	29,681	0	29,681
Central and Support Services	**186,078**	**76,003**	**262,081**	181,104	44,703	225,807
Total Expenditure	**731,386**	**298,735**	**1,030,121**	824,060	191,506	1,015,566
Income						
Building Regulation Charges	**(734,300)**	**0**	**(734,300)**	(806,293)	0	(806,293)
Miscellaneous	**0**	**(14,972)**	**(14,972)**	0	(18,122)	(18,122)
Total Income	**(734,300)**	**(14,972)**	**(749,272)**	(806,293)	(18,122)	(824,415)
(Surplus)/Deficit for Year	**(2,914)**	**283,763**	**280,849**	17,767	173,384	191,151

Notes to the Core Financial Statements (Continued)

Note 13 – 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 City Treasurer's Department, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

	2008/2009 £m	2007/2008 £m
Residential, Nursing and Home Care Provision	**48.8**	45.1
Fostering and Adoption Service	**5.5**	5.3
Payments to Voluntary Organisations	**4.9**	5.0
Health Trust	**2.9**	3.1
Supporting People Contracts	**6.5**	5.9
Highways Maintenance	**13.0**	12.8
Waste Disposal	**7.0**	7.1
Grounds maintenance Contracts	**0.2**	0.2
Council Services provided to Schools Delegated Budgets	**3.4**	3.2
School Meals Contract provided to Schools	**6.3**	5.7
School Placements for Special Education in Other Authorities	**1.2**	1.3
Museums Service - Joint Authority	**0.9**	0.9
Other Payments	**12.4**	9.9
Total Agency Payments	**113.0**	105.5

Note 14 – Long Term Contracts – Private Finance Initiative (PFI)

The Council's first PFI scheme, Sandhill View 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 Authority accounts for the net amount of the unitary charge for the PFI contract but reduces this amount by the effect of the PFI Government Grant support received in the financial year to which it relates and is included on the Education Services line within the Income and Expenditure Account.

The Council is also committed to making future payments of £59.432m 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 £28.583m 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 £30.849m 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, which includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will until 31 August 2028. The Authority accounts for the net amount of the unitary charge for the PFI contract but this amount is reduced by the effect of the PFI Government Grant support received in the financial year to which it relates and is included in the Highways, Roads and Transport Services line within the Income and Expenditure Account.

Notes to the Core Financial Statements (Continued)

Note 14 – Long Term Contracts – Private Finance Initiative (PFI) (Continued)

The Council is also committed to making further payments estimated at £181.348m 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 £42.338m 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 £139.010m 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 a
lso 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 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

Period	Unitary Payments £m	PFI Government Grant £m	Net Cost £m
2009/2010	10.912	3.733	7.179
2010/2011 - 2013/2014	45.306	14.935	30.371
2014/2015 - 2018/2019	60.619	18.669	41.950
2019/2020 - 2023/2024	65.428	18.669	46.759
2024/2025 - 2028/2029	58.515	14.915	43.600
Total	240.780	70.921	169.859

Note 15 – 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.

Notes to the Core Financial Statements (Continued)

Note 15 – Pooled Budgets (Continued)

	2008/2009 £'000	2007/2008 £'000
Sunderland City Council	**(991)**	(970)
Sunderland Teaching Primary Care Trust	**(1,265)**	(1,239)
Total Funding	**(2,256)**	(2,209)
Gross Expenditure	**2,381**	2,228
Net (Funding) / Expenditure	**125**	19

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.

	2008/2009 £'000	2007/2008 £'000
Sunderland City Council	**(869)**	(850)
Sunderland Teaching Primary Care Trust	**(1,355)**	(1,325)
Learning Disabilities Development Fund	**(475)**	(368)
Total Funding	**(2,699)**	(2,543)
Gross Expenditure	**2,511**	2,433
Net (Funding) / Expenditure	**(188)**	(110)

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.

	2008/2009 £	2007/2008 £
Sunderland City Council	**(1,235)**	(1,160)
Sunderland Teaching Primary Care Trust	**(991)**	(930)
Total Funding	**(2,226)**	(2,090)
Gross Expenditure	**2,127**	2,002
Net (Funding) / Expenditure	**(99)**	(88)

Note 16 – 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.

	2008/2009 £	2007/2008 £
Revenue Support Grant	**18,507,022**	20,303,425
Local Area Business Growth Incentive Scheme Grant	**272,850**	306,381
Area Based Grant (ABG)	**25,382,450**	0
Total General Government Grant Received	**44,162,322**	20,609,806

Notes to the Core Financial Statements (Continued)

Note 16 – General Government Grants (Continued)

Area Based Grant replaced Local Area Agreement Grant in 2008/2009. Area Based Grant is a non-ring fenced general grant, 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. In 2007/2008 the council received £14,776,455 of Local Area Agreement Grant, however this was reflected in the income of the service it was allocated to in accordance with the SORP.

Note 17 – Audit Costs

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

	2008/2009 **£**	2007/2008 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor.	**352,737**	378,819
Fees payable to the Audit Commission for the certification of grant claims and returns	**46,557**	72,094
Total Costs	**399,294**	450,913

Note 18 – Dedicated Schools Grant (DSG)

Details of the deployment of DSG receivable for 2008/2009 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £	Individual Schools Budget (ISB) £	Total £
Original grant allocations of Schools budget for the current year in the authority's budget	11,009,383	147,851,933	158,861,316
Adjustment to finalised grant allocation	0	0	0
DSG receivable for the year	11,009,383	147,851,933	158,861,316
Actual Expenditure in the year	10,182,378	148,774,358	158,956,736
(Over) / underspend for the year	827,005	(922,425)	(95,420)
Planned top-up funding of ISB from Council resources	0	0	0
Planned top-up funding of Central Expenditure from Council resources	0	0	0
Transfer of contingencies to ISB	(674,957)	922,425	247,468
(Over) / underspend from prior year			
(Over) / underspend carried forward to 2009/2010	152,048	0	152,048

From 2006/2007, the arrangements for government support for the funding of schools changed. Previously funds were provided as part of the Council's overall Revenue Support Grant; however the Council now receives a specific grant known as the Dedicated Schools Grant (DSG) in its place. For 2008/2009 the council received £158.861m compared to £158.576m in 2007/2008. 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 twofold: (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 Statement of Movement on the General Fund Balance

Note 19 – 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 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 20 – Reconciling Items for the Statement of Movement on the General Fund Balance

	Notes	2008/2009		2007/2008 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		**(139,350)**		(118,694)	
Depreciation and impairment of fixed assets		**(75,766,674)**		(67,390,749)	
Government Grants Deferred amortisation		**20,214,446**		15,824,773	
Net revenue expenditure funded from capital under statute		**(6,985,878)**		(6,892,500)	
Net gain / (losses) on sale of fixed assets		**(301,558)**		(39,318,000)	
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		**(61,113)**		(56,683)	
Net Charges made for retirement benefits in accordance with FRS17	**8c**	**(34,590,000)**	**(97,630,127)**	(42,830,000)	(140,781,853)
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	**11**	**8,231,116**		8,213,232	
Capital expenditure charged in year to the General Fund Balance		**12,294,721**		4,804,222	
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		**(53,517)**		(62,577)	
Employers contributions payable to the Tyne and Wear Pension Fund and retirement benefits payable direct to pensioners	**8c**	**34,940,000**	**55,412,320**	34,730,000	47,684,877
Voluntary MRP			**735,794**		687,589
Transfer to or from Earmarked Reserves	**52**				
Surplus transferred (from) / to Connexions Balances		**0**		(248,571)	
Residential Homes Reserve		**(27,159)**		70,500	
General Capital Reserve		**2,924,960**		3,798,454	
Other Miscellaneous Reserves		**281,983**		83,346	
General Revenue Reserves - Port		**87,605**		380,232	
Inward Investment Reserve		**(196,565)**		(199,312)	
Play Areas Reserve		**(326,129)**		1,703,331	
Amenity Areas Reserve		**0**		763,749	
SAP Development Reserve		**(79,442)**		379,869	
Apprentice Back pay Reserve		**0**		217,609	
Strategic Investment Reserve		**4,035,047**		5,318,566	
Service Pressures and Priorities Reserve		**(1,109,826)**		(774,056)	
Economic Development Reserve		**(225,000)**		1,225,000	
Repairs and Renewals Reserve		**136,288**		1,288,465	

Notes to the Core Financial Statements (Continued)

Note 20 – Reconciling Items for the Statement of Movement on the General Fund Balance (Continued)

Table continued from Page 63

	Notes	2008/2009 £	2008/2009 £	2007/2008 (Restated) £	2007/2008 (Restated) £
Transfer to or from Earmarked Reserves (Continued)					
Waste Disposal Reserve		**85,115**		345,000	
Energy Costs Reserve		**(1,000,000)**		1,000,000	
Commuted Sums		**175,845**		1,814,404	
Commuted Sums in respect of S38 Reserve		**0**		84,535	
Pilotage Cutter Replacement Reserve		**3,211**		119,854	
Strategic Investment Plan Reserve		**5,993,579**		6,747,000	
Insurance Reserve		**(1,065,009)**		350,192	
School Meals Consortium Reserve		**(81,122)**		(58,288)	
School Meals Reserve		**(180,000)**		0	
Standard Fund Reserve		**0**		(5,704,722)	
Landfill Allowance Trading Scheme (LATS) Reserve		**(227,520)**		(350,699)	
Sandhill View PFI Smoothing Reserve		**29,966**		353,522	
Derwent Hill Investment Reserve		**0**		(12,558)	
School Community Activity Reserve		**(356,999)**		2,322,627	
Street Lighting PFI Smoothing Reserve		**29,798**		700,020	
Children's Services Modernisation Reserve		**50,000**		(107,000)	
External Placements Reserve		**150,000**		250,000	
Youth Offending Service Building Reserve		**0**		74,116	
Education Redundancy Reserve		**739,083**		133,230	
Connexions Hub Tyne and Wear Reserve		**219,897**		517,313	
Connexions Hub Reserve		**0**		380,608	
Pupil Referal Unit Reserve		**84,931**		0	
Extra District Fees Reserve		**77,000**		0	
Safeguarding Reserve		**452,806**		0	
Connexions Hub Agreement		**379,370**		0	
Targeting Support Reserve		**954,610**		0	
Modernisation and Service Pressures Reserve		**800,000**		0	
Unknown Future Pensions		**331,531**		0	
Highways Maintenance Reserve		**185,000**		0	
Civil Parking Enforcement		**100,653**		0	
VCD Support		**70,000**		0	
Industrial Units Reserve		**307,000**		0	
Economic Downturn		**300,000**	**14,110,507**	0	22,966,336
Appropriations					
PFI Appropriations Account		**(214,252)**		(286,076)	
PFI Residual Interest Account		**213,962**		225,319	
Delegated Budget Surplus		**4,146,653**		(46,477)	
Delegated Budget Surplus - Social Services Pooled Budgets		**54,832**		84,864	
Delegated Budget Surplus - Supporting People		**(576,473)**	**3,624,722**	82,156	59,786
Net additional amount required to be credited to the General Fund Balance for the year			**(23,746,784)**		(69,383,265)

Notes to the Core Financial Statements (Continued)

Note 21 – Movement on the Pension Reserve and Details of the Actuarial Gains and Losses

Note 21a – Movement on the Pensions Reserve

	Restated				
	Balance at 1 April 2007 £m	Movement 2007/2008 £m	Balance at 1 April 2008 £m	**Movement 2008/2009 £m**	**Balance at 31 March 2009 £m**
Pensions Reserve (Please see Note 41 for further details)	(321.950)	78.130	(243.820)	**(185.110)**	**(428.930)**

Note 21b – Actuarial Gains / Losses included in the STRGL

The actuarial gains and losses identified as part of the movement on the Pensions Reserve for 2008/2009 showed a loss of £185,460,000 (£86,230,000 gain in 2007/2008 restated), 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's advice.

	2006/2007		2007/2008 Restated		**2008/2009**	
	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	(3.950)	(0.6)% Assets	(35.340)	(4.0)% Liabilities	**(119.070)**	**(12.3)% Liabilities**
b) Changes in the assumptions underlying the present value of pension liabilities	5.200	0.5% Liabilities	111.750	12.6% Liabilities	**(62.260)**	**(6.4)% Liabilities**
c) Experienced gains and losses on pension liabilities	(2.070)	0.2% Assets	9.820	(1.5)% Assets	**(4.130)**	**0.8% Assets**
Total Gains / (Losses) included in the STRGL	(0.820)		86.230		**(185.460)**	

Volatility of results of FRS17 and reasons for variation
The results reported under FRS17reporting standard can charge 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 2009 the investment return on fund assets was lower than assumed at the start of the year. This led to a loss 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 21b – 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's liabilities' section of the Total Actuarial Loss.

Note 22 – Movement in Unrealised Value of Fixed Assets showing Surplus arising on the revaluation of fixed assets

	2008/2009 Fixed Asset Restatement Account £	2007/2008 Fixed Asset Restatement Account £
Gains on revaluation of Fixed Assets in year	**34,762,978**	237,206,238
Impairment losses on fixed assets not charged to Income and Expenditure Account	**(102,785,147)**	0
Surplus arising on the revaluation of fixed assets as reported as part of the STRGL	**(68,022,169)**	237,206,238
Impairment losses on fixed assets charged to income and expenditure account	**(47,943,717)**	(41,261,001)
Build up of residual interest in PFI schemes	**285,786**	225,319
Total increase / (decrease) in unrealised capital resources in year	**(115,680,100)**	196,170,556

This shows the extent to which the value of the Authorities 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.

In 2008/09 impairment of assets have been charged to the Income and Expenditure Account other than where an increase in asset value has been recognised in the Revaluation Reserve for a particular asset. In these circumstances the impairment value reduces the balance in the Revaluation Reserve to zero for the particular asset first then any impairment value over and above this increase in the Revaluation Reserve is charged to Income and Expenditure Account

Note 23 – Analysis of other Gains / Losses

	2008/2009 £	2007/2008 £
Movement in the Collection Fund Balance	**764,775**	366,428
Reduction in the fair value of the shareholding holding in Newcastle Airport	**11,105,562**	0
Total losses	**11,870,337**	366,428

More details of the reduction in the fair value of the airport can be found on Pages 16 and 17 of the Director of Financial Resources Foreword.

The details of the Collection Fund are included on Pages 112 to 115.

Notes to the Core Financial Statements (Continued)

Notes to the Balance Sheet

Note 24 – Movement of Fixed Assets

	Operational Land & Buildings £	Infra-structure £	Vehicles, Furniture, Plant & Equipment £	Investment Properties £	Assets Under Construction £	Assets held for disposal £	Total £
Gross Book Value 31 March 2008	797,544,782	232,596,617	46,271,881	44,747,303	27,694,466	99,734,101	1,248,589,150
Reclassifications	**8,034,546**	**2,035,132**	**0**	**127,000**	**(10,757,678)**	**561,000**	**0**
Additions (Capital Expenditure)	**15,417,256**	**7,487,692**	**8,314,528**	**0**	**70,659,717**	**0**	**101,879,193**
Disposals (Sales)	**0**	**0**	**0**	**(95,000)**	**0**	**(350,000)**	**(445,000)**
Transfer of Assets	**0**	**0**	**0**	**0**	**(1,006,000)**	**(25,000)**	**(1,031,000)**
Revaluations	**24,837,652**	**0**	**0**	**3,521,210**	**0**	**1,036,000**	**29,394,862**
Impairments	**(127,419,302)**	**0**	**(370,034)**	**(8,159,141)**	**(6,304,929)**	**(13,128,101)**	**(155,381,507)**
Gross Book Value at 31 March 2009	**718,414,934**	**242,119,441**	**54,216,375**	**40,141,372**	**80,285,576**	**87,828,000**	**1,223,005,698**
Accumulated Depreciation and Impairment	**25,697,975**	**45,349,062**	**19,962,703**	**0**	**0**	**0**	**91,009,740**
Depreciation on Revalued Assets	**(9,955,939)**	**0**	**(370,034)**	**0**	**0**	**0**	**(10,325,973)**
Depreciation for Year	**18,090,700**	**5,844,758**	**3,887,500**	**0**	**0**	**0**	**27,822,958**
Depreciation Carried Forward	**33,832,736**	**51,193,820**	**23,480,169**	**0**	**0**	**0**	**108,506,725**
Net Book Value 31 March 2008	771,846,807	187,247,555	26,309,178	44,747,303	27,694,466	99,734,101	1,157,579,410
Net Book Value 31 March 2009	**684,582,198**	**190,925,621**	**30,736,206**	**40,141,372**	**80,285,576**	**87,828,000**	**1,114,498,973**
Nature of Asset Holding							
Owned	**684,582,198**	**190,925,621**	**30,736,206**	**40,141,372**	**80,285,576**	**87,828,000**	**1,114,498,973**

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 24 – Movement of Fixed Assets (Continued)

Capital expenditure by service was as follows:

	2008/2009 £	2007/2008 £
Capital Expenditure:		
Leader / Deputy Leader	**3,288,134**	3,463,076
Resources	**1,978,674**	2,788,145
Children's Services	**82,084,428**	20,121,929
Adults Services	**2,245,074**	1,799,151
Planning and Transportation	**10,741,671**	14,995,980
Housing and Public Health	**8,417,602**	5,640,943
Neighbourhood and Street Services	**994,999**	768,430
Regeneration and Community Cohesion	**5,737,939**	9,552,333
Culture and Leisure	**8,042,594**	14,312,116
	123,531,115	73,442,103
Sources of Finance:		
Loans	**9,719,675**	9,347,927
Capital Receipts	**8,019,753**	13,055,202
Government Grants	**88,814,384**	38,131,826
Other Grants and Miscellaneous Contributions	**4,682,582**	8,102,928
Revenue	**4,190,429**	4,066,165
Reserves	**8,104,292**	738,055
	123,531,115	73,442,103

Expenditure on fixed assets for 2008/2009 was £101.879m (£54.653m in 2007/2008) expenditure on intangible assets was £0.314m (£0.207m in 2007/2008) and the remainder £21.338m (£18.582m in 2007/2008) 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)

	2008/2009 £	2007/2008 £
Opening Capital Financing Requirement at 1 April	**204,723,332**	204,276,226
Prior Year Adjustment	**305,213**	0
Capital Investment		
Operational Assets	**101,879,193**	51,771,294
Non Operational Assets	**0**	2,881,945
Intangible Assets	**313,829**	206,558
Deferred Charges	**21,338,094**	18,582,306
Sources of Finance		
Capital Receipts	**(8,019,753)**	(13,055,202)
Government Grants and Other contributions	**(93,496,967)**	(46,234,754)
Direct Revenue Financing (includes minimum revenue provision)	**(21,261,631)**	(13,705,041)
Closing Capital Finance Requirement	**205,781,310**	204,723,332
Explanation and Movements in Capital Financing Requirement		
Increase / (Decrease) in underlying need to borrow (Supported by government financial assistance)	**963,457**	(190,790)
Increase in underlying need to borrow (Unsupported by government financial assistance)	**94,521**	637,896
Movement in Capital Financing Requirement	**1,057,978**	447,106

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 2008/2009, 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 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).

Notes to the Core Financial Statements (Continued)

Note 24 – Movement of Fixed Assets (Continued)

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 2008, 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 2008, 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. The assessment for impairment carried out in 2008/2009 reflected the general global economic downturn and subsequent decrease in asset values. As a consequence net assets have been reduced by £150.7m to reflect impairment in the year. Impairment has taken place throughout the council's asset portfolio, in particular the value of schools and educational establishments has decreased by £98.3m, assets held for disposal have been impaired by £13.1m, investment properties have been impaired by £8.2m, managed offices and industrial units have been impaired by £7.4m, sports centres have been impaired by £4.5m and residential homes have been impaired by £3.4m.

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 24 – Movement of Fixed Assets (Continued)

	Operational Land and Buildings £	Non-Operational Assets £	Infrastructure £	Vehicles. Furniture & Plant £	Total £
Valued at Historical Costs	9,097,860	75,959,104	242,119,441	54,216,375	381,392,780
Valued at Current Value in					
2004/2005	15,185,700	27,694,194	0	0	42,879,894
2005/2006	34,036,000	8,473,180	0	0	42,509,180
2006/2007	3,698,000	4,012,000	0	0	7,710,000
2007/2008	8,161,000	620,000	0	0	8,781,000
2008/2009	648,236,374	91,496,470	0	0	739,732,844
Total as at 31 March 2009	**718,414,934**	**208,254,948**	**242,119,441**	**54,216,375**	**1,223,005,698**
Total as at 31 March 2008	797,544,782	172,175,870	232,596,617	46,271,881	1,248,589,150

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 and schools which will become academies are still included in the analysis until work to the assets has been completed and the asset ownership transfers to the governing body of the school.

	31 March 2009	**31 March 2008 Restated**		**31 March 2009**	**31 March 2008 Restated**
Schools	91	91	Multi Storey Car Parks	3	3
Other Education Establishments	13	13	Kilometres of Highway	1,234	1,221
Children's Homes and Day Centres	3	3	Museums and Galleries	4	4
Elderly Persons Homes	0	1	Libraries	14	15
Centres / Homes for Physical Disability	4	4	Leisure Centres (Multi-Purpose)	3	3
Centres / Homes for Learning Disability	27	27	Leisure facilities including swimming pools	2	3
Centres / Homes for the Mentally Ill	23	23	Sports Complexes	6	6
Social Services Multi-Purpose Centre	1	1	Tennis Centre	1	1
Social Services Administrative Offices Etc.	13	13	Crematorium	1	1
Factory Units / RE Government Centre	128	127	**Community Assets**		
Port	1	1	Reclaimed Land (Hectares)	450	450
Pilotage Vessels	2	2	Parks and Open Spaces (Hectares)	3,895	3,895
Retail market	1	1	Country Parks (Hectares)	241	241
Civic Centre and Offices	11	11	Miles of Coastline	6	6
Theatre	1	1	Cemeteries	10	10
Tourist Information Centre	1	1	Allotments (Hectares)	83	83
Off Street Car parks	32	30			

Notes to the Core Financial Statements (Continued)

Note 24 – Movement of Fixed Assets (Continued)

It is estimated that the Council has commitments under capital contracts of approximately £87.5m of approved capital spending which may be incurred over the next few years (£82.6m in 2009/10, and £4.9m in future years). The largest of these commitments are, £39.2m relating to the Building Schools for the Future Programme, £10.4m for Building Schools for the Future ICT contract, £6.6m for two new area pools at Hetton and Silksworth, £6.5m relating to area renewal schemes at Hetton Downs, Eppleton and Castletown, £2.5m relating to play pathfinder funded schemes and £2.4m relating to the digital challenge programme. It is anticipated that all major schemes will be completed in 2009/2010 with the exception of Biddick School and St Roberts of Newminster School under the Building Schools for the Future Programme which are planned for completion in 2010/2011.

Note 25 – 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 2008/2009 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 2008/2009 was £Nil (2007/2008 £637,632).

The total operating lease rentals paid in 2008/2009 was £822,876 (2007/2008 £992,993).

The liability for remaining primary period rentals of operating leases for 2008/2009 was £835,966 (2007/2008 £1,526,266). The outstanding liability can be analysed as follows:

	At 31 March 2009 £	At 31 March 2008 £
Leasing Expiring in 1 year	393,830	635,825
Leasing Expiring in 2 to 5 years	442,136	869,752
Leasing Expiring in 6 years and over	0	20,689
	835,966	1,526,266

Operating Leases – Land and Buildings
The Council is lessee of a small number of short term property leases. The annual payment is currently £600,797 (2007/2008 £865,846) relating to the following periods:

	At 31 March 2009 £	At 31 March 2008 £
Leasing Expiring in 1 year	283,155	376,854
Leasing Expiring in 2 to 5 years	124,267	246,290
Leasing Expiring in 6 years and over	193,375	242,702
	600,797	**865,846**

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 25 – Lease and Hire Purchase Agreement (Continued)

	At 31 March 2009 £	At 31 March 2008 £
Rental Premises (including a market)	1,136,950	1,094,000
Industrial Premises	1,848,080	1,626,000
Other	2,853,690	2,339,000
	5,838,720	**5,059,000**

Note 26 – 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	1,350,239
Amortisation to 1 April 2008	(204,763)
Balance at 1 April 2008	1,145,476
Expenditure in Year	**313,829**
Written off to revenue in year	**(139,349)**
Balance at 31 March 2009	**1,319,956**

Software Licences have been purchased in the year for use on a number of the Councils 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 27 – Investments

Note 27a – Long Term Investments

The Authority invests the majority of its funds internally in the Consolidated Advances and Borrowing Pool (CABP), most of which are short term investments and as such are not shown in the analysis below. The CAPB had £30,000,000 of long term investments at 31st March 2009 which are shown below. These are investments held in various Financial Institutions which have been taken out for a period over 365 days. 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 2009 £	At 31 March 2008 £
Government Securities	**5,240**	5,240
NIAL Holdings PLC (Newcastle International Airport Ltd)	**1,503,168**	12,608,730
Newcastle Airport LA Holding Co Ltd	**1,845**	1,845
Other Shares / Unit Trusts	**14,301**	14,301
Other Long Term Investments	**30,000,000**	5,000,000
	31,524,554	17,630,116

The market value of Government securities for 2008/2009 is £9,189 (2007/2008 £8,272) and of Other Shares and Unit Trusts for 2008/2009 is £57,328 (2007/2008 £86,231)

Notes to the Core Financial Statements (Continued)

Note 27a – Long Term Investments (Continued)

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

The Council's share of this new valuation has therefore seen its shareholding worth reduce significantly by £11.106m to a valuation of £1.503m in 2008/2009 and this figure is now included within the Council's accounts. The valuation reflects factors such as the company's present trading performance (which remains very competitive) its net debt position (which includes the company's net refinancing debt totalling almost £300m) and the fact that both the Airport market and the valuation of its major assets (land and buildings) have been significantly impaired, (fallen in value), as a direct result of the economic downturn and the depressed state of the financial markets during 2008/2009.

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.

Notes to the Core Financial Statements (Continued)

Note 27a – Long Term Investments (Continued)

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.

The Council's share of the loan notes amount to £4.552m and this balance has reduced to £1,821m as at 31 March 2009 (31March 2008 £2.276m) because the Council has received six annual repayment instalments to date totalling £2.731m. Interest on the remaining loan notes held is also received by the Council each year. (Note 52 on Pages 98 and 102 provide more details of the financial arrangements in place).

There was no dividend declared for 2008 (2007 £Nil dividend). There are no outstanding balances owed to or from NIAL at the year end. NIAL Group Limited made a profit before tax of £2.357m (2007 loss of £0.605m) and a loss after tax of £10.227m (2007 £2.171m).

However, the company agreed to pay a dividend of £2.171m in respect of the financial year ending 31st December 2007. 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 was £1.107m and the Council's share was £0.204m. This figure has been included in the 2008/2009 accounts.

The airport continued to meet its senior debt repayments in 2008/2009. Dividends are expected to be made in future years as the airport increases trade and become more profitable. Note 52 on Pages 98 and 102 provides more details of the existing financial arrangements in place.

Note 27b – Short Term Investments

The Council has short term investments of £135,109,765 as at 31 March 2008 (£189,406,351 restated at 31 March 2008) comprising of £112,042,395 (£119,560,251 for 2007/2008) invested with Banks and £23,067,370 (£69,846,100 for 2007/2008) with Building Societies. Of the short term investments held by the Council, £708,674 (£871,603 for 2007/2008) 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 43, Pages 86 and 87 for details).

Notes to the Core Financial Statements (Continued)

Note 28 – 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 01/04/2008 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2009 £
Housing Associations, Housing Purchase, Improvements etc	224,955	0	(75,978)	148,977
Industrialists	0	45,812	0	45,812
	224,955	45,812	(75,978)	194,789

The amounts outstanding at 31 March 2009 include £2,234 in respect of arrears of principal (£3,242 2007/2008).

Note 29 – 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.

	01/04/2008 £	Advances £	Repayments £	31/03/2009 £
Long Term Loan Notes - Newcastle Airport	2,276,610	0	(455,178)	1,821,432

Note 30 – Residual Interest in PFI Scheme

The Council entered into a PFI scheme for the provision of Sandhill View Community Learning Centre. The contract expires in September 2027. The Council has also entered into a PFI contract to provide replacement highway signs and street lighting which includes ongoing maintenance. The contract for this expires in August 2028. A long term debtor has been established which will be used to build up the residual interest in the facilities so that by the end of the contract term the residual interest is recorded as an asset at its expected fair value. A notional interest rate for fixed assets of 3.5%, as recommended by CIPFA, has been used to determine the profiling for each years accounting entries.

	Outstanding 01/04/2008 £	Add New Advances £	Less Repayments £	Outstanding 31/03/2009 £
Sandhill View PFI Residual Interest	886,041	213,962	0	1,100,003
Street Lighting & Highway Signs PFI Residual Interest	81,360	71,824	0	153,184
	967,401	285,786	0	1,253,187

Notes to the Core Financial Statements (Continued)

Note 31 – 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 01/04/2008 £	**Add New Advances £**	**Less Repayments £**	**Outstanding 31/03/2009 £**
Tyne and Wear Fire and Rescue Authority	19,093,258	**0**	**(763,730)**	**18,329,528**
Beamish Open Air Museum	232,331	**0**	**(9,293)**	**223,038**
	19,325,589	**0**	**(773,023)**	**18,552,566**

Note 32 – Long Term Debtors – Car Loan Advances

This represents the debt outstanding on car loans made to employees

	Outstanding 01/04/2008 £	**Add New Advances £**	**Less Repayments £**	**Outstanding 31/03/2009 £**
Car Loan Advances	16,731	**14,384**	**(10,167)**	**20,948**

Note 33 – 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 01/04/2008 £	**Add New Advances £**	**Less Repayments £**	**Outstanding 31/03/2009 £**
Other Long Term Debtors	760,491	**148,851**	**(31,303)**	**878,039**

Notes to the Core Financial Statements (Continued)

Note 34 – 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 2009 £	31 March 2008 £
Direct Labour Organisation - Stores	**162,888**	173,382
Central Purchasing - Stores	**26,500**	306,434
Cleaning Stores	**61,843**	48,418
Winter Maintenance - Road Salt	**134,706**	232,776
School Catering	**137,784**	149,313
ILC Equipment	**221,973**	204,244
Other Stock in Hand	**224,393**	242,463
	970,087	1,357,030

Note 35 – Debtors

	31 March 2009		31 March 2008	
	£	**£**	£	£
Government Grants		**4,428,763**		1,566,950
Revenues and Customs (VAT)		**3,596,566**		5,292,074
Tyne & Wear Connexions		**0**		1,540,270
Council Taxpayers Arrears		**11,686,368**		11,296,893
National None Domestic Ratepayers Arrears		**1,774,831**		850,438
NNDR Pool Contribution		**1,560,067**		285,272
Sunderland Teaching Primary Care Trust		**1,553,363**		1,822,284
Sundry Debtors		**17,830,121**		17,795,364
		42,430,079		40,449,545
Other Debtor Related Items (*see footnote below)				
Deferred PFI for Street Lighting and Highway Signs	**2,153,719**		2,264,603	
Deferred PFI for Sandhill View	**3,237,692**	**5,391,411**	3,412,884	5,677,487
Less: Provision for Bad Debts				
Council Tax	**(5,772,110)**		(5,579,742)	
National Non Domestic rates	**(635,651)**		(22,133)	
Housing Benefit	**(423,988)**		(541,078)	
Miscellaneous	**(410,090)**	**(7,241,839)**	(407,497)	(6,550,450)
		40,579,651		39,576,582

* It should be noted that the above items under this heading are treated as prepayments and categorised as Debtors according to SORP but they are not specifically true debtors as they are accounting entries required to properly account for the impact of PFI schemes which the Council has entered into.

Note 36 – Landfill Usage Allowance and Liability to DEFRA – Landfill Usage

The accounting entries relate to the new system introduced by the government in respect of the Landfill Allowance Trading Scheme (LATS). This is a 'cap and trade' scheme which will run for the next 15 years, from 1st April 2005 to 31st March 2020. Under the scheme each responsible local authority, known as the Waste Disposal Authority (WDA), has been allocated landfill trading allowances for each year of the scheme and also targets (cap) to reduce their Biodegradable Municipal Waste (BMW). The allowances can be traded by authorities to ensure that they meet their Biodegradable Municipal Waste (BMW) targets each year. This means that an Authority that has achieved its target can sell excess allowances to other authorities or retain them to enable them to achieve future targets. Authorities below their target face a fine of £150 per tonne for every tonne above their target and will seek to purchase other WDA's available allowances.

2008/2009 represents the first year of the scheme for WDA's in England that allowances cannot be retained and all allowances held at 30th September 2009 in respects of LATS awarded up until 2008/2009 are lost. The fair value of the LATS assets can only be established by examining the market for their trading value, in 2008/2009 LATS assets were trading at between £Nil and £0.10. It has therefore considered prudent to write down the value of these allowances to zero.

The value of the Landfill Usage Allowances of £Nil for 2008/2009, (£444,790 for 2007/2008), reflects the 2008/2009 market value of the allowances of £Nil, (in 2007/2008 this value was provided at a price of £5.00 per allowance in accordance with DEFRA advice). The accounting treatment complies fully with the SORP.

The value of the liability to DEFRA of £Nil for 2008/2009, (2007/2008 £378,065), also reflects the value of the allowances used by the Authority in 2008/2009 at the market value of £Nil, (in 2007/2008 this value was agreed at £5.00 per allowance in accordance with DEFRA advice). The accounting entries are in accordance with SORP and the surplus allowances are valued at the market price as at 31 March 2009 of £Nil (value as at 31 March 2008 as £227,520) currently reflected in general balances in the form of an earmarked reserve.

As the value of the allowances held at the beginning of the year, (45,450 in total), fell in value from £5.00 to £Nil during the year the loss on value of £227,520 (known as impairment) has been accounted for in the Income and Expenditure Account in accordance with the SORP. The table below shows the summary position that LATS have a net nil value on the Balance Sheet.

	Landfill Usage Allowances Allocated £	Less Used During the year £	LATS earmarked Reserves £
Opening balances as at 1 April 2008	3,878,604	3,651,084	227,520
Impairment of allowances during the year	**(227,520)**	**0**	**(227,520)**
Transactions during the year	**0**	**0**	**0**
Closing balances as at 31st March 2009	3,651,084	3,651,084	0

Notes to the Core Financial Statements (Continued)

Note 37 - Creditors

	31 March 2009		31 March 2008	
	£	**£**	£	£
Sundry Creditors		**(46,560,825)**		(40,156,779)
Tyne & Wear Single Programme (TWSP)*:				
Newcastle CC	**0**		(2,495,935)	
South Tyneside MBC	**0**		(1,037,091)	
North Tyneside MBC	**0**		(972,813)	
Gateshead Council	**0**		(1,145,344)	
Learning and Skills Council	**0**	**0**	(2,856,152)	(8,507,335)
Receipts in advance		**(9,498,727)**		(6,748,443)
Connexions		**0**		(2,340,729)
Government Grants received in advance		**(28,424,477)**		(26,751,791)
		(84,484,029)		(84,505,077)

* There are no outstanding creditor balances in respect of Tyne & Wear Single Programme for 2008/2009 as the grant funding is now managed by each organisation in their own right rather than by the Council.

Note 38 – Cash Overdrawn

The actual cash in hand at the bank at 31st March 2009 was £0.030m (£0.156m overdrawn as at 31 March 2008), 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 2008/2009 show an overdrawn cash balance of £11.427m (2007/2008 was £17.086m), 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.

Note 39 – Loans Outstanding – Long Term Borrowing

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

	31 March 2009 £	31 March 2008 £
Source of Loan		
Public Works Loan Board	**98,500,000**	128,500,000
Mortgage Loans	**40,470,875**	40,546,590
3% Funded Debt	**122,063**	126,063
	139,092,938	169,172,653
An analysis of loans by maturity		
Maturing in 1-2 years	**12,342**	19,573
Maturing in 2-5 years	**85,561**	100,550
Maturing in 5-10 years	**79,797**	118,408
Maturing in more than 10 years	**138,915,238**	168,934,122
	139,092,938	169,172,653

Notes to the Core Financial Statements (Continued)

Note 39 – Loans Outstanding – Long Term Borrowing (Continued)

At 31 March 2009 £39.5m of the mortgage loans related to money market LOBO (Lender Option Borrower Option) loans. Originally these loans had a stepped interest rate structure but £34.5m 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 2009 is £40.247m (£40.241m at 31 March 2008), which are included in the maturing in more than 10 years category of the above table,

Note 40 – 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.

	31 March 2009 £	31 March 2008 £
Balance brought forward 1 April	**165,058,729**	146,368,600
Grants applied to capital investment in year	**79,113,445**	34,514,902
Amounts credited in the Income and Expenditure Account	**(20,214,446)**	(15,824,773)
Total movement on Grants and Contributions Deferred Account	**58,898,999**	18,690,129
Balance carried forward 31 March	**223,957,728**	165,058,729

The balance of £223.958m as at 31 March 2009, (£165.059m as at 31 March 2008) 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 in proportion to the assets impairment charged.

Note 41 – Liability Related to Defined Pension Scheme and Pensions Reserve

Note 41a – Local Government Pension Scheme

Note 8, Pages 52 to 54 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 2009 are as follows:

Notes to the Core Financial Statements (Continued)

Note 41a – Local Government Pension Scheme

Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of scheme assets:

	2008/2009 £m	2007/2008 £m
1 April	**640.77**	664.27
Expected rate of return	**44.99**	46.29
Actuarial gains and losses	**(164.06)**	(81.63)
Employers Contributions	**31.62**	31.33
Contributions by Scheme participants	**9.04**	8.53
Benefits paid	**(23.98)**	(28.02)
31 March	**538.38**	640.77

Reconciliation of fair value of scheme liabilities:

	2008/2009 £m	2007/2008 £m
1 April	**884.59**	986.22
Current service cost	**18.49**	27.07
Interest Cost	**60.18**	52.41
Contributions by scheme participants	**9.04**	8.53
Actuarial gains and losses	**21.40**	(167.86)
Benefits paid	**(27.30)**	(31.42)
Past service costs	**0.91**	9.64
31 March	**967.31**	884.59

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.

The actual return on scheme assets in the year was a loss of £119,070,000(2007/2008 £35,340,000 loss)

Scheme History

	2004/2005* £m	2005/2006* £m	2006/2007 Restated £m	2007/2008 Restated £m	**2008/2009 £m**
Present value of scheme liabilities	(809.69)	(934.30)	(986.22)	(884.59)	**(967.31)**
Fair value of scheme assets	478.28	615.61	664.27	640.77	**538.38**
Surplus / (Deficit) in the scheme	(331.41)	(318.69)	(321.95)	(243.82)	**(428.93)**

* 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).

Notes to the Core Financial Statements (Continued)

Note 41a – Local Government Pension Scheme (Continued)

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 £428.93 million as at 31 March 2009, (£243.82 million as at 31 March 2008 restated) 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 2010 is £32.21m, contributions may also be required towards the strain in the fund. In addition, £3.44m 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 2009.

The main assumptions used in their calculations have been:

Notes to the Core Financial Statements (Continued)

Note 41a – Local Government Pension Scheme (Continued)

	2008/2009	2007/2008
Long-term expected rate of return on assets in the scheme:		
Equity Investments	**7.00%**	7.60%
Corporate Bonds	**5.80%**	4.60%
Government Bonds	**4.00%**	6.80%
Property	**6.00%**	6.60%
Other	**1.60%**	6.00%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	**19.9 years**	19.1 years
Women	**22.8 years**	22.1 years
Longevity at 65 for future pensioners:		
Men	**22.1 years**	21.0 years
Women	**25.0 years**	23.3 years
Rate of inflation	**3.50%**	3.70%
Rate of increase in salaries	**5.00%**	5.20%
Rate of increase in pensions	**3.50%**	3.70%
Rate for discounting scheme liabilities*	**6.60%**	6.80%
Take-up of opinion to convert annual pension into retirement lump sum	**75.00%**	50.00%

* 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 may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

Reserve

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 Fund:

	31 March 2009		31 March 2008	
	Long Term Return %	**Fund Assets %**	Long Term Return %	Fund Assets %
Equity Investments	**7.0**	**66.1**	7.6	63.7
Government Bonds	**4.0**	**10.2**	4.6	11.0
Other Bonds	**5.8**	**10.4**	6.8	8.9
Property	**6.0**	**8.4**	6.6	10.5
Other Assets	**1.6**	**4.9**	6.0	5.9
Average Long Term Expected Rate of Return	**6.2**	**100.0**	7.0	100.0

Notes to the Core Financial Statements (Continued)

Note 41a – Local Government Pension Scheme (Continued)

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/2009 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009.

	2004/2005	2005/2006	2006/2007	2007/2008 Restated	**2008/2009**
Total Pension Fund Assets (£m)	478.28	615.61	664.27	664.77	**538.38**
Difference between expected and actual return on assets (£m) Gains / (Losses)	17.01	88.27	(3.95)	81.64	**(164.06)**
Difference between expected and actual return on assets as a percentage of Total Assets (%)	3.56	14.34	(0.59)	12.28	**(30.47)**
Total Pension Fund Liabilities (£m)	809.69	934.30	986.22	884.59	**967.31**
Experienced Gains and (Losses) on Liabilities (£m)	15.01	(0.52)	2.07	9.82	**(4.13)**
Experienced Gains and (Losses) on Liabilities as a percentage of total liabilities (%)	1.85	(0.06)	0.21	1.11	**(0.43)**

- 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, 31 March 2006 and 31 March 2005 and includes the experience relating to unfunded liabilities.

Note 41b – 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 42 – 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 2008		(3,488,906)
Expenditure during the year: Settlement of claims		**2,633,619**
		(855,287)
Income during the year:		
Charges to Service Committees	**(2,809,042)**	
Interest	**(171,771)**	**(2,980,813)**
		(3,836,100)
Less: Transfer to Earmarked Reserves		**567,620**
Balance at 31 March 2009		**(3,268,480)**

The most recent valuation of this provision was carried out in March 2009, by independent valuers, who have confirmed that the provision is adequate to meet its assessed liabilities.

Note 43 – 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 also reviewed each year to ensure they are required and sufficient to meet future anticipated costs and are also fully compliant with the requirements of FRS12.

	At 1 April 2008 £	Deduct Expenditure During Year £	Add Income During Year £	**At 31 March 2009 £**
Guarantee Bonds*	(871,603)	333,016	(170,087)	**(708,674)**
Back on the Map**	(3,519,360)	0	(380,079)	**(3,899,439)**
Equal Pay Probable Payments***	(43,712)	0	0	**(43,712)**
Adult Services Strain on the Fund****	0	0	(388,433)	**(388,433)**
	(4,434,675)	333,016	(938,599)	**(5,040,258)**

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 grant funding held by the Council in anticipation of future schemes being brought forward by the BoTM which meets the grant criteria in operation. The funding is time limited to 31st March 2011, being the deadline date the government has set BoTM to utilise this funding. Any balance after this point in time is to be returned to central government.

Notes to the Core Financial Statements (Continued)

Note 43 – 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.

**** To fund the strain on the fund payments made to meet a known tax bill on claims settled as at 31st March 2009 which relate to 70 staff accepting voluntary redundancy during March 2009 (i.e. staff from Home Care, Older Persons and Day Care Unit).

Note 44 – 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.

	2008/2009 £	2007/2008 £
Balance as at 1 April 2008	**203,612,550**	0
Add: Upwards Revaluation	**34,762,978**	237,206,238
	238,375,528	237,206,238
Less:		
Excess of current costs over historic cost depreciation	**(3,039,632)**	(2,488,598)
Revaluation gain transfer following downwards revaluation	**0**	(4,770,292)
Prior Year revaluation applied against downward revaluation	**(102,785,147)**	0
Revaluation gain written off following disposal and transfers	**(1,101,000)**	(26,334,798)
Balance as at 31 March 2009	**131,449,749**	203,612,550

Notes to the Core Financial Statements (Continued)

Note 45 – Capital Adjustment Account

The Capital Adjustment Account was a new account 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.

	2008/2009		2007/2008	
	£	£	£	£
Balance at 1 April		**591,975,164**		633,626,563
Add:				
Capital Financing				
Capital Receipts Applied	**8,019,753**		13,055,202	
Revenue	**4,190,429**		4,066,165	
Government Grants	**74,647,720**		26,711,867	
Other Grants and Contributions	**4,465,725**		7,803,034	
Use of Capital Reserves	**8,104,292**	**99,427,919**	738,055	52,374,323
Excess of current cost over historic cost depreciation		**3,039,632**		2,488,598
Revaluation gain transfer following downwards revaluation		**0**		4,770,292
Revaluation gain written off following disposals and transfers		**1,101,000**		26,334,798
Build up of residual interest in PFI schemes		**285,786**		225,319
Government Grants Deferred applied to revenue		**20,214,446**		15,824,773
Minimum Revenue Provision		**8,966,910**		8,900,821
		725,010,857		744,545,487
Less:				
Revenue Expenditure Funded from Capital Under Statute written down	**(6,954,573)**		(6,862,453)	
Deferred PFI Debtor	**(286,076)**		(286,076)	
Depreciation applied to Revenue	**(27,822,958)**		(26,129,748)	
Amortisation Applied to Revenue	**(139,349)**		(118,694)	
Impairment Applied to Revenue	**(47,943,717)**		(41,261,001)	
Carrying amount of fixed assets following disposals and transfers	**(1,476,000)**		(43,397,449)	
Addition to Government Grants Deferred	**(79,113,445)**	**(163,736,118)**	(34,514,902)	(152,570,323)
Balance at 31 March		**561,274,739**		591,975,164

Note 46 - 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 2009 these amounted to £2,685,450 (31 March 2008 £3,243,288)

Notes to the Core Financial Statements (Continued)

Note 47 – 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 2008/2009. This amount is also shown in the income and expenditure account (Page 37) as required by the SORP.

	2008/2009 £	2007/2008 £
Balance of Usable Capital Receipts at 1 April	**12,796,832**	21,296,548
Add:		
Sources of Capital Receipts during year*	**1,700,976**	4,618,063
	14,497,808	25,914,611
Less:		
Pooled Housing Receipts	**(53,517)**	(62,577)
Financing Capital Expenditure	**(8,019,753)**	(13,055,202)
Balance of Usable Receipts at 31 March	**6,424,538**	12,796,832
Amounts Receivable in year*		
Capital Receipts	**1,174,442**	4,079,449
Mortgage repaid	**71,356**	83,436
Long Term Loan Notes repaid	**455,178**	455,178
Total	**1,700,976**	4,618,063

In 2008/2009 capital receipts of £1,174,442 (2007/2008 £4,079,449) were generated mainly due to the sale of assets at Houghton Sports Complex and St Peters Wharf. (The major disposals in 2007/2008 related to assets at the former Wellbank School and the sale of assets to aid regeneration at Washington, Hendon and High Street West.)

During 2008/2009 the council transferred The Woodlands, Washington to Housing 21 for a nominal sum as part of its extra care housing strategy (in 2007/2008 Leonard House, Silksworth and Silksworth Library were transferred to Housing 21 for a nominal sum as part of the extra care housing strategy and Houghton Kepier School was transferred to the governing body responsible for running the foundation school.)

Note 48 – General Fund Balances

General Fund Balances as reported in the Statement of Accounts on Page 42 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 2008/2009.

	2008/2009 £	2007/2008 £
Schools Locally Managed - Reserve	**5,770,795**	5,601,315
General Reserve	**11,553,411**	12,007,630
Total General Fund Balance	**17,324,206**	17,608,945

Notes to the Core Financial Statements (Continued)

Note 48 – General Fund Balances (Continued)

When the 2009/2010 original budget was set, balances were estimated to reduce by £4.049 million as a result of contributions of £1.150 million to the revenue budget and £2.899 million to the Capital Programme.

As part of the budget setting process for 2009/2010 a review of the 2008/2009 contingencies and non delegated budgets was undertaken and balances were estimated to increase by £3.537 million at that time. This took into account:

- Savings on interest on balances of £8.150 million,
- Additional income of £0.469 million in respect of income received from the Local Authority Business Growth Initiative (£0.211million) and Safer and Stronger Communities Fund Neighbourhood Element (£0.258million).
- Repayment of Temporary Capital Financing of £0.456million
- Transfer of £5.538 million to reserves to support capital programme pressures.

The final general balances position of £11.553 million is £0.057million more than forecast 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 9 and 10 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 2009 comprised individual surpluses totalling £6.563m, (£5.988m for 2007/2008) and deficits totalling £0.792m, (£1.283m for 2007/2008). Centrally held contingencies due to be redistributed to schools in 2009/2010 totalled £0.152m, (Contingencies held at the end of 2007/2008 to be redistributed to schools in 2008/2009 totalled £0.149m (restated)). The net surplus at 31 March 2009 totals £5.771m (2007/2008 was £5.601m).

Note 49 – Delegated Budgets Reserve

	31 March 2009 £	31 March 2008 £
Delegated Budgets - General	**10,948,878**	7,194,979
Delegated Budgets - Other	**550,557**	679,445
Total General Fund Balance	**11,499,435**	7,874,424

The amount of Delegated Budgets - General has increased during 2008/2009 by a net movement of £3.754m. 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 25th June 2009. The net increase is primarily attributable to the revised arrangements for Working Neighbourhoods Fund under the Area Based Grant mechanism (£3.343m) which came into effect in 2008/2009 and which is committed to implementing the Working Neighbourhood's Strategy as reported to Cabinet in December 2008.

Notes to the Core Financial Statements (Continued)

Note 49 – Delegated Budgets Reserve (Continued)

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 £10.949m carried forward, a significant amount has been earmarked for use in 2009/2010.

The amount of Delegated Budgets - Other has reduced during 2008/2009 by a net movement of £0.128m, (in 2007/2008 there was a net reduction in surplus of £0.086m). This mainly represents the planned use of the former Careers Service budget surplus of £0.149m during 2008/2009. The level of surplus relating to the Careers Service budget now stands at £0.148m however there remain a number of commitments against this surplus, (2007/2008 was £0.297m). The Tyne Wear Partnership/City Regions surplus has increased by £0.020m to a level of £0.402m in 2008/2009, (2007/2008 £0.382m) with most of this total being earmarked to fund specific issues related to the costs associated with the closure of the TWP arrangements and also to meet initiatives set by its replacement organisation the City Regions.

Note 50 – 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 2009 £000	31 March 2008 £000	31 March 2009 £000	31 March 2008 £000	31 March 2009 £000	31 March 2008 £000
Borrowings						
Financial Liabilities at amortised cost	139,093	176,841	43,668	44,527	182,761	221,368
Total Borrowings	**139,093**	**176,841**	**43,668**	**44,527**	**182,761**	**221,368**
Investments						
Available for Sale Assets	1,525	12,630	0	0	1,525	12,630
Loans and receivables	30,000	5,000	135,109	189,406	165,109	194,406
Total Investments	**31,525**	**17,630**	**135,109**	**189,406**	**166,634**	**207,036**

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 50 – Financial Instruments (Continued)

	2008/2009				2007/2008			
	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	(8,639)	0	0	(8,639)	(9,720)	0	0	(9,720)
Interest payable and similar charges	(8,639)	0	0	(8,639)	(9,720)	0	0	(9,720)
Interest Income	97	10,051	0	10,148	0	10,883	0	10,883
Interest and Investment Income	97	10,051	0	10,148	0	10,883	0	10,883
Net Gain / (loss) for the year	(8,542)	10,051	0	1,509	(9,720)	10,883	0	1,163

Fair Value of Assets and Liabilities Carried at Amortised Cost

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

Methods and assumptions in valuation technique.

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

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

The rates quoted in this valuation were obtained by our treasury management consultants from the market on 31 March 2009, using bid prices were 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 064/08.
- 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.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Notes to the Core Financial Statements (Continued)

Note 50 – Financial Instruments (Continued)

The fair values are calculated as follows:

Fair Value of Liabilities carried at Amortised Cost

	31 March 2009		31 March 2008	
	Carrying Amount £000	**Fair Value £000**	Carrying Amount £000	Fair Value £000
PWLB	**99,644**	**98,427**	130,003	132,273
LOBO's	**40,597**	**42,449**	40,595	43,132
Stock	**138**	**129**	5,914	6,118
Other	**243**	**291**	329	365
Bank Overdraft	**11,427**	**11,427**	17,086	17,086
Short Term Borrowing	**30,712**	**30,669**	27,441	27,441
Financial Liabilities	**182,761**	**183,392**	221,368	226,415

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 2009		31 March 2008	
	Carrying Amount £000	**Fair Value £000**	Carrying Amount £000	Fair Value £000
Deposits with Banks & Building Societies	165,110	165,975	194,406	194,487
Financial Assets	**165,110**	**165,975**	194,406	194,487

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 Councils 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 50 – Financial Instruments (Continued)

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

2007/2008	Amount at 31 March 2008 £000	Historical Experience of default	Historical Experience adjusted for market conditions as at 31 March 2008 £000	Estimated maximum exposure to default and uncollectability £000
Deposits with Banks and other financial institutions	194,406	0.00%	0	0
Bonds and other securities	0	0.00%	0	0
Deposits with Banks & Building Societies	39,577	0.32%	0	127
Financial Assets	**233,983**		**0**	**127**

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.

Note 50 – Financial Instruments (Continued)

Loans Outstanding	31 March 2009 £000	31 March 2008 £000
Public Works Loans Board	**99,644**	130,003
Market Debt / Loan Board	**40,597**	40,595
Temporary Borrowing	**30,712**	27,441
Local Bonds	**56**	54
Other	**325**	6,189
Total	**171,334**	204,282
Less than 1 year	**32,233**	35,110
Between 1 and 2 years	**21**	19
Between 2 and 5 years	**86**	101
Between 5 and 10 years	**80**	118
More than 10 years	**138,914**	168,934
Total	**171,334**	204,282

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

Notes to the Core Financial Statements (Continued)

Note 50 – Financial Instruments (Continued)

According to this assessment strategy, at 31st March 2009, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2009 £000	31 March 2008 £000
Increase in interest payable on variable rate borrowings	**407**	330
Increase in interest received on variable rate borrowings	**2,338**	1,893
Impact on Income and Expenditure Account	**2,745**	**2,223**
Decrease in fair value of 'available for sale' investment assets	**0**	0
Impact on STRGL	**2,745**	**2,223**
Decrease in fair value of fixed rate investment assets	**(1,121)**	(628)
(No impact on I&E Account or STRGL)		
Decrease in fair value of fixed rate borrowing liabilities	**(20,730)**	(29,890)
(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 £1,503,168 (2007/2008 Restated £12,608,730) 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 2008/2009.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2007/2008 £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 2009 was £61,081 in total (the value at 31st march 2008 was £94,503).

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.

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 were 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.

Notes to the Core Financial Statements (Continued)

Note 50 – Financial Instruments (Continued)

Soft Loans

The value of soft loans given by the City of Sunderland amounted to £70,948, £20,948 of this total represents the value of car loan advances outstanding as at 31.03.2009 (2007/2008 £18,029 restated) and a low interest loan for £50,000 (2007/2008 £Nil). 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	2,938

Note 51 – 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.

	2008/2009 £	2007/2008 £
Balance at 01 April	**380,457**	323,774
Premiums	**(186,850)**	(186,850)
Discounts	**239,579**	239,579
LOBO's	**5,554**	3,954
Soft Loans	**2,831**	0
Balance at 31 March	**441,571**	380,457

Notes to the Core Financial Statements (Continued)

Note 52 – 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 44). 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:	**2008/2009** **£**	2007/2008 Restated £	Purpose of the Reserve
Unutilised RCCO Reserve	**7,559,250**	5,897,962	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	**12,740,579**	6,747,000	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	**4,576,836**	3,336,163	Usable capital receipts set aside to fund future capital projects previously approved.
Children's Social Care Capital Reserves	**358,308**	335,307	Reserve earmarked for capital developments within Children's Services.
Total Capital Reserves	**25,234,973**	16,316,432	

Notes to the Core Financial Statements (Continued)

Note 52 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	**2008/2009** **£**	2007/2008 Restated £	Purpose of the Reserve
Strategic Investment Reserve	**56,183,729**	52,148,682	A reserve established to address some of the Council's key developments and strategic priorities.
Service Pressures and Priorities Reserve	**1,778,472**	2,888,298	Reserve established to address approved service pressures and priorities.
Other Miscellaneous Reserves	**737,227**	455,243	Numerous small revenue reserves set up for specific purposes.
Repairs and Renewals Reserve	**1,424,752**	1,288,465	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**	1,225,000	This reserve was established to fund future economic development grants.
Energy Costs Reserve	**0**	1,000,000	Reserve established to meet the anticipated increase in energy costs additional to the provision included in the 2008/2009 budget.
Economic Downturn Reserve	**300,000**	0	To mitigate the potential budgetary impact of the economic downturn.
SAP Development Reserve	**300,426**	379,869	Reserve established to fund future developments to the SAP system.
Sandhill Centre PFI Smoothing Reserve	**2,803,570**	2,773,605	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Education Meals Consortium Reserve	**261,882**	343,004	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	**2,366,915**	2,723,913	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
School Meals Reserve	**0**	180,000	This corporate reserve was established to fund a potential deficit in the provision of school meals.
Children's Services Modernisation Reserve	**81,875**	31,875	The reserve is to fund one-off transitional costs associated with the Children's Social Services Modernisation Programme.

Notes to the Core Financial Statements (Continued)

Note 52 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	**2008/2009** **£**	2007/2008 Restated £	Purpose of the Reserve
Connexions Related Reserves	**1,117,819**	897,922	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.
Connexions Pensions Reserve	**331,531**	0	Mitigate financial impact of pension rights transferred to the Council from Connexions.
Connexions Hub Agreement	**379,370**	0	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	**400,000**	250,000	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	**872,313**	133,230	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**	0	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	**77,000**	0	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	**452,806**	0	This reserve is set provide funding to respond to additional safeguarding needs arising from the Lord Laming report and revised external scrutiny arrangements.

Notes to the Core Financial Statements (Continued)

Note 52 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	**2008/2009** **£**	2007/2008 Restated £	Purpose of the Reserve
NEET Targeting Support Reserve	**954,610**	0	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	**7,636,842**	7,607,044	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Port General Reserve	**832,499**	744,894	The reserve is intended to meet the potential costs associated with the future investment needs of the Port.
Replacement Port Vessel Reserve	**123,065**	119,854	Established with contributions from ship owners in 1987/1988 towards the replacement of the pilot cutter vessels.
Highways Maintenance Service Pressures Reserve	**185,000**	0	This reserve has been established to meet future Highways maintenance service pressures in 2009/2010.
Civil Parking Enforcement Reserve	**100,653**	0	Reserve earmarked to complete a review of traffic orders in preparation for the possibility of enforcing moving traffic offences using Civil Parking Enforcement powers.
Adults Services Modernisation Reserve	**416,032**	416,032	The reserve was set up to fund the one off transitional costs associated with the Adults Services Modernisation Programme.
Residential Homes Reserve	**261,341**	288,500	The purpose of the reserve is to replace furniture in the Council's small homes for people with learning disabilities.
Adults Services Modernisation and Service Pressures Reserve	**800,000**	0	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care.
Inward Investment Reserve	**194,375**	390,940	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.
Landfill Allowance Trading Allowance Reserve	**0**	227,520	This reserve is required by regulation and will only have a real value if the Council can trade its surplus allowances before 31st March 2009 - please see Note 35, page 78 for further details.

Notes to the Core Financial Statements (Continued)

Note 52 – Analysis of Capital and Revenue Reserves (Continued)

Revenue Reserves:	**2008/2009** **£**	2007/2008 Restated £	Purpose of the Reserve
Play Areas Reserve	**1,377,202**	1,703,331	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	**763,749**	763,749	This reserve is set up to fund / finance with maintenance requirements of amenity areas.
Commuted Sums Reserve	**2,074,784**	1,898,939	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 (known as commuted sums). The funds are invested and earn interest and are drawn upon to fund the grounds maintenance carried out each year.
Apprentices Back Pay Reserve	**217,608**	217,609	Reserve established to fund potential back pay claims from apprentices.
Waste Disposal Reserve	**430,115**	345,000	Reserve established to meet the preparatory costs associated with the long term strategic waste disposal solution.
Community Development Support Reserve	**70,000**	0	Reserve established for the support and implementation of the Community Development Plan.
Industrial Units Reserve	**307,000**	0	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.
Total Revenue Reserves	**87,699,493**	81,442,518	

Notes to the Core Financial Statements (Continued)

Note 53 – 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 2007/2008 showed a consolidated trading profit after taxation of £0.679m and had net assets worth £14.464m. The company's audited accounts for 2008/2009 will be made available once approved by the Board at its AGM in January 2010.

Notes to the Core Financial Statements (Continued)

Note 53 – 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 73 to 75 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 reduction during 2008/2009 in the estimated valuation of the shareholding of £11.106m has been charged to the Council's Income and Expenditure Account as impairment.

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 2008 (2007 £Nil dividend). There are no outstanding balances owed to or from NIAL at the year end. NIAL Group Limited made a profit before tax of £2.357m (2007 loss of £0.605m) and a loss after tax of £10.227m (2007 £2.171m).

However, the company agreed to pay a dividend of £2.171m in respect of the financial year ending 31st December 2007. 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 has been included in the 2008/2009 accounts.

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

Newcastle Airport Local Authority Holdings Company Ltd.

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

Notes to the Core Financial Statements (Continued)

Note 53 – 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 73 to 75 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 31st 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 2008. 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 Counci's share is £0.204m. The fact that no dividend is to be received for 2008 was 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. The buildings, however, do remain the property of Sunderland City Council. The contract stipulates the amount to be paid by the Council to Live Nation which totalled £405,701 in 2008/2009, (£431,965 in 2007/2008). 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 2008/2009 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 £351 in 2008/2009 (surplus of £182 for 2007/2008) in year which will increase its reserves to meet future costs. It's reserves as at 31st March 2009 now stand at £7,020 (£6,669 restated as at 31st March 2008). In 2008/2009 the Council made a contribution of £26,340 (£27,750 for 2007/2008) 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 53 – 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 28) and the new requirements that applied from 1st April 2004.

Note 54 – 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 £0.656m (which represents 10% of the paid and outstanding claims currently being dealt with by MMI). The position with MMI and the level of claims is reviewed annually by the council and as a result no provision or reserve is considered necessary at this point as a solvent run off of MMI claims is anticipated.

The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils.

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

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

Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non environmental and environmental warranties. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo. The amount included in the Agreement stipulates that the Council's maximum liability to the Group in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made.

Notes to the Core Financial Statements (Continued)

Note 54 – Contingent Liabilities (Continued)

The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to the Sunderland Housing Group, (now known as Gentoo), on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has already sought advice from Queens's counsel on this matter. The Council is reasonably confident Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts in case the Council loses the action. A claim was received from Mowlem PLC, now known as Carillion, of approximately £1.000m in respect of the Queen Alexandra Bridge works which were completed in October 2006. This dispute has already been considered and rejected by an adjudicator and Carillion has served notice of their intention to refer the dispute for arbitration. Resolution of the final account for the contract is on-going however the contractor recently indicated to the council in early September 2009 that it is seeking a payment in the order of £0.600m. The council continues to reject the claim on the basis that the works were required to meet the contracted standard. Both of these claims continue to be resisted and in the light of the position with each dispute and the Council's best estimate of the assessed combined potential liability, should the Council lose these actions, is considered to be £0.800m plus potential costs.

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

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

Notes to the Core Financial Statements (Continued)

Note 55 – 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 2008 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 01/04/2008 £	Additions during the year £	Income £	Expenditure £	Balance at 31/03/09 £
Children Services Trust Funds	174,814	0	43,920	65,478	153,256
Adults Services Fund	71,103	0	1,848	1,600	71,351
	245,917	0	45,768	67,078	224,607

Note 56 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with Revenues and Customs in relation to overpaid output tax, the value of these claims amount to £4,767,185. However as there is no indication of the likelihood of these claims being paid they have been reflected as a contingent asset.

Note 57 – Post Balance Sheet Events

Non adjusting events

The Dedicated School Grant (DSG) statement within the accounts shows an unallocated contingency sum of £152,047. The School Forum at its meeting on the 21st May 2009 agreed to distribute this sum to schools based on pupil numbers in 2009/2010.

The Council entered into a Guarantee Bond with NSL Limited to guarantee the pension rights of those employees who transferred to the Council from NSL Limited. No adjustments have been made within the Council's Statement of Accounts as the value of the Guarantee Bond is only £53,700 and the likelihood of default is considered remote. In accordance with the SORP only the value of the guarantee payable has to be accounted for. In this case the value has been assessed as being below £2,700.

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

Adjusting event

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

Notes to the Core Financial Statements (Continued)

Notes to the Cash Flow Statement

Note 58 – Reconciliation of Revenue Activities

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

	2008/2009		2007/2008 (Restated)	
	£	£	£	£
(Surplus)/Deficit per Income and Expenditure Account		**24,031,523**		71,351,235
Non Cash Transactions				
Depreciation, Impairment and Government Grants Deferred Amortisation	**(55,691,578)**		(51,684,670)	
Deferred charges written to revenue	**(5,764,135)**		(5,685,085)	
Direct Revenue Financing	**12,294,721**		4,804,222	
Net Movement on Reserves and Provisions	**(17,735,227)**		(23,026,113)	
Pension interest cost and expected return on pension fund assets	**15,190,000**		6,120,000	
Other	**1,006,621**	**(50,699,598)**	611,445	(68,860,201)
Items on an accruals basis				
Increase / (Decrease) in Debtors	**(1,505,269)**		(12,817,452)	
(Increase) / Decrease in Creditors	**10,128,217**	**8,622,948**	(21,999,888)	(34,817,340)
Net Cash Flow from Revenue Activities		**(18,045,127)**		(32,326,306)

Note 59 – Increase / (Decrease) in Cash

	31/03/2009	31/03/2008	Movement 2008/2009	Movement 2007/2008
	£	£	£	£
Cash in Hand	**785,205**	870,844	**85,639**	76,832
Cash in School Bank Accounts	**1,063,569**	1,549,882	**486,313**	63,866
Cash Overdrawn	**(11,426,983)**	(17,086,306)	**(5,659,323)**	1,420,282
	(9,578,209)	(14,665,580)	**(5,087,371)**	1,560,980

Note 60 – Increase / (Decrease) in Liquid Resources

	31/03/2009	31/03/2008	Movement 2008/2009	Movement 2007/2008 Restated
	£	£	£	£
Short Term Deposits	**135,109,765**	189,406,351	**(54,296,586)**	9,690,236
Net Movement	**135,109,765**	189,406,351	**(54,296,586)**	9,690,236

Note 61 – Increase / (Decrease) in Financing

	31/03/2009	31/03/2008	Movement 2008/2009	Movement 2007/2008
	£	£	£	£
Long Term Borrowing	**(139,092,938)**	(169,172,653)	**30,079,715**	4,992,979
Short Term Borrowing	**(32,241,271)**	(35,110,213)	**2,868,942**	(6,513,653)
Net Movement	**(171,334,209)**	(204,282,866)	**32,948,657**	(1,520,674)

Notes to the Core Financial Statements (Continued)

Note 62 – Reconciliation of Net Cash Movement to Movement in Debt

	2008/2009 **£**	2007/2008 £
Decrease in cash during the year - Note 57	**5,087,371**	(1,560,980)
Decrease in liquid resources - Note 58	**(54,296,586)**	96,903,236
Decrease in financing - Note 59	**32,948,657**	(1,520,674)
	(16,260,558)	93,821,582
Represented by movement in:		
Net Debt at 1 April	**(29,542,095)**	(123,363,677)
Net Debt at 31 March	**(45,802,653)**	(29,542,095)
	16,260,558	93,821,582

Note 63 – Analysis of Other Government Grants

Government grants presented on the following table are on a cash received basis.

Notes to the Core Financial Statements (Continued)

Note 63 – Analysis of Other Government Grants (Continued)

	2008/2009 £	2007/2008 £
Revenue Support Grant	**18,507,022**	20,303,425
Redistributed National Non Domestic Rates	**132,944,980**	120,982,887
Area Based Grant	**23,784,617**	0
Local Area General Grants	**0**	1,597,833
Local Authority Business Growth Incentive Grant	**272,850**	306,381
Accountable Bodies Grants - New Deal for Communities etc	**9,262,543**	8,532,579
Housing Benefit Administration Subsidy	**3,856,096**	3,938,447
Council Tax Benefit Grant	**24,174,124**	22,854,342
House Benefit Rent Allowance Subsidy	**92,040,246**	85,227,327
Housing Benefit Overpayments Grant	**526,941**	514,089
Housing Benefit Incentive Grants	**21,969**	14,853
Home Office Grants	**288,317**	818,911
Safer and Stronger Communities	**281,000**	0
European Grants	**151,674**	516,895
Local Public Service Agreements	**1,776,277**	(22,410)
PFI Grant	**3,733,748**	3,733,748
Neighbourhood Renewal Fund	**391,331**	4,626,420
DCMS Free Swim Grant	**85,036**	0
DoT Local Transport Plan Grant	**392,587**	0
Homes and Communities Agency / English Partnerships	**3,830,175**	742,805
Single Housing Investment Pot	**2,177,451**	2,938,808
Disabled Facilities Grant	**1,025,000**	912,000
New Opportunities Fund	**191,187**	56,848
Youth Opportunities Fund	**312,785**	241,215
Sports England	**1,628,459**	1,225,679
Heritage Lottery Fund	**5,033**	292,792
One North East	**581,728**	363,699
Education:		
Schools Grant	**158,861,000**	158,576,000
Standards Fund	**31,801,369**	27,960,552
Supporting Children and Young People Group - Connexions	**1,675,488**	12,506,819
Youth Capital Fund	**173,800**	221,597
Positive Activities for Young People	**100,000**	335,729
Empowering Young People	**866,972**	649,982
Parenting Grant	**294,833**	151,223
Diploma Formula Grant	**171,684**	0
Play Pathfinder Grant	**138,840**	0
Other	**117,789**	35,054
Social Services - Department of Health Grants:		
Modernisation Fund - Adults	**0**	4,197,186
Modernisation Fund - Children's	**0**	3,139,211
Supporting People Services	**11,263,297**	11,502,879
Asylum Seekers	**212,588**	99,408
Sure Start	**10,943,846**	11,173,667
Youth Offending Service - Youth Justice Board Grants	**1,677,651**	1,547,770
Access	**0**	3,753,307
Improving the Care Home Environment	**0**	525,000
Social Care Reform Grant	**554,000**	0
Adult Stroke Grant	**100,000**	0
Mental Capacity Grant	**282,148**	
Learning Disability Grants	**314,858**	0
Other	**116,703**	1,443,849
Other	**298,274**	300,325
Total	**542,208,316**	**518,839,131**

Supplementary Statement

The Collection Fund Account for Year Ended 31 March 2009

	Note	2008/2009		2007/2008	
		£	£	£	£
Income					
Council Tax	64		**103,655,307**		100,358,056
Government Grants	67		**(2,628)**		(2,015)
Income from Business Rates	65		**74,489,457**		70,782,440
			178,142,136		171,138,481
Expenditure					
Precepts and Demands:					
City of Sunderland		**91,200,867**		87,788,757	
Tyne and Wear Fire and Rescue Authority		**5,762,913**		5,599,966	
Northumbria Police		**6,298,414**	**103,262,194**	5,974,679	99,363,402
Business Rates - Payment to pool	65	**73,356,027**		70,174,032	
Business Rates - Cost of collection and other allowances.	65 & 66b	**1,133,430**	**74,489,457**	608,408	70,782,440
Amounts Written Off:					
Council Tax	66a		**563,666**		322,573
Provision for uncollectable amounts:					
Council Tax			**192,368**		585,230
			178,507,685		171,053,645
Net Income (Deficit) for the Year			**(365,549)**		84,836
Add balance b/fwd from previous year			**1,031,287**		1,446,451
Less Amounts transferred to General Fund					
Council Tax Surplus			**(500,000)**		(500,000)
Fund Balance Carried Forward at 31 March	68		**165,738**		1,031,287

Notes to the Collection Fund Account

Note 64 – 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 £1,288.75 for 2008/2009, (£1,246.52 for 2007/2008), 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	**2008/2009 £ p**	2007/2008 £ p
A	**43,816.67**	43,810.54
B	**11,139.31**	10,907.21
C	**12,318.17**	12,307.93
D	**7,283.61**	7,177.77
E	**3,268.73**	3,240.59
F	**1,298.77**	1,274.00
G	**886.90**	876.29
H	**23.52**	26.46
	80,035.68	79,620.79

The income of £103,655,307 for 2008/2009, (£100,358,056 for 2007/2008), is receivable from the following sources:

	2008/2009 £	2007/2008 £
Billed to Council Tax Payers	**79,642,683**	77,444,776
Council Tax Benefits	**24,012,624**	22,913,280
Total	**103,655,307**	100,358,056

Notes to the Collection Fund Account (Continued)

Note 65 – 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 2007/2008 can be analysed as follows:

	2008/2009		2007/2008	
	£	**£**	£	£
Gross Rates Collectable		**74,489,457**		70,782,440
Less:				
Costs of Collection Allowance	**(331,599)**		(328,620)	
Other Allowances and Adjustments Reclaimable	**(179,229)**		(130,575)	
Amounts Written Off	**(622,602)**	**(1,133,430)**	(149,213)	(608,408)
Amount Payable to Pool		**73,356,027**		70,174,032

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 2008/2009 the Council received a contribution from the pool of £132,944,980 which is payable directly to the General Fund, (in 2007/2008 this figure was £120,982,887).

The Total Business Rateable value as at 31 March 2009 was £184,129,361, (the value as at 31st March 2008 was £185,561,337). The Business Rates Multiplier (poundage) for 2008/2009 was 46.2 pence compared to the previous years figure of 44.4 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 45.8 pence in 2008/2009, (compared to the 44.1 pence in 2007/2008).

Note 66 – 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 2008/2009 £563,666 (£322,573 for 2007/2008) 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 2008/2009 represents less than 0.55% (2007/2008 this was 0.32%) of the total sum.

b) Business Rates

In 2008/2009 £622,602 was written off, (2007/2008 £149,213), 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 Business Rates for 2008/2009 represents less than 0.84% (2007/2008 this was 0.21%) of the total sum.

Note 67 – Government Grants

	2008/2009	2007/2008
	£	£
Transitional Relief Grant	**(2,628)**	(2,015)

Notes to the Collection Fund Account (Continued)

Note 68 – Fund Balance

The fund balance can be analysed as follows:

	2008/2009 £	2007/2008 £
Sunderland City Council	**146,379**	911,154
Northumbria Police Authority	**10,109**	62,011
Tyne and Wear Fire and Rescue Authority	**9,250**	58,122
Total Collection Fund Balance	**165,738**	1,031,287

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 £10,109 and £9,250 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £146,379 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency Services
Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

BVACOP
The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
b) Facilitate accurate comparison between both services and authorities.
c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
d) Represent best practice.

Glossary of Terms (Continued)

Capital Charge
The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Capital Expenditure
Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

Capital Financing Charges
The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital Financing Requirement
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital Grants
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Fixed Assets
The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

Community Assets
These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Glossary of Terms (Continued)

Constructive Obligation
An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
The form of local taxation operated from April 1993, based on properties.

Credit Approvals
The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

Basic Credit Approvals - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

Supplementary Credit Approvals - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

Creditors
Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

Glossary of Terms (Continued)

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the City Council but not received at the date of the balance sheet.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Direct Service Organisation (DSO)
The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Glossary of Terms (Continued)

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges
Income arising from the provision of services, e.g. for the use of recreation facilities.

Formula Spending Shares (FSS's)
This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

FRS 1 – Cash Flow Statements
Requires the Authority to prepare a cash flow statement in a manner prescribed by the FRS. Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

FRS 3 – Reporting Financial Performance
The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

Glossary of Terms (Continued)

FRS 4 – Capital Instruments
This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the Council's sources of finance and associated costs, commitments and potential commitments.

FRS 8 – Related Party Disclosures
FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transaction with them.

FRS 11 – Impairment of Fixed Assets
FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

FRS 12 - Provisions, Contingent Liabilities and Contingent Assets
The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the notes to the accounts.

FRS 15 – Tangible Fixed Assets
This standard sets out the principles of accounting for tangible fixed assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

FRS 17 – Retirement Benefits
FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs. For 2004/2005 the Consolidated Revenue Account shows the effects of over/under funding of pension liabilities within the net cost of services.

FRS 18 – Accounting Policies
This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

General Fund
This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

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.

Appendix A

Changes to the Audited Statement of Accounts 2008/2009

Presented to:

The Audit and Governance Committee

29th September 2009

Summary of Changes

Page	Details of Change/s
16/74	Deloittes is replaced with Deloitte.
17	Treasurers Foreword includes sections on: The South Tyneside and Wear Waste Management Partnership, and, Further Information.
30	Accounting Policy Note 25 on Financial Liabilities was amended to differentiate between the valuation methodology used for PWLB and other market loan transactions in line with the details disclosed in Note 50 to the accounts.
32	Added to Accounting Policy Note 28 the fact the council had non adjusting post balance sheet events disclosed.
41	Income and Expenditure Account amended to remove airport impairment now regarded as a change due to market conditions. The amount is included in Note 23 (page 66) to the Statement of Total Recognised Gains and Losses (page 43) instead which also meant that this accounting transaction was removed from Note 20 (to the accounts) and as such had no impact on the general fund reserve.
41	The airport dividend (£204,280) is now included in the Interest and Investment Income line instead of the (Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services line to better reflect the SORP. Note 2 (page 47) has also been amended to remove the airport dividend from the table. Also Note 7 (page 51) also replicates this change.
42	The wording in the Statement of Movement on the General Fund Balance (SMOGFB) has been changed from 'Increase in General Fund balance for the year' to 'Reduction in General Fund Balance for the year'.
42	The SOMGFB deficit for the year and the amounts relating to note 20 have been amended to reflect the changes to the accounting treatment of the airport impairment but overall a neutral impact.
43	The narrative has been changed to read 'Surplus arising on Revaluation of Fixed Assets'. The wording '/ investment in Airport' has been removed. The impairment of the airport was added to this statement in Note 23 as referred to above and the opening deficit for the year was also amended because of this change which meant an overall neutral impact on the statement.

44 The narrative in 'Reserves' has been amended to read – 'Available for Sale Reserve (Newcastle Airport)' from 'Newcastle Airport Reserve'.

52 Note 8a – Teachers - the figure should read £12.861m not £12,861m and the double full stop after the word Families has been removed.

63 Note 20 – 'Write down of deferred charges to be financed from capital resources' has been changed to read 'Net revenue expenditure funded from capital under statute'.

63 Note 20 – airport impairment removed and the amount previously reported as reversal of capital de minimus expenditure charged to cost of services of £1,221,743 is now included in the line 'Net revenue expenditure funded from capital under statute'.

69 Note 24 – change to presentation of table by removing the line Prior Year Adjustment of £305,213 previously reported in the Movement in Capital Financing Requirement section and instead including this amount in 'Increase in underlying need to borrow (supported by government financial assistance)'. Wording also changed from Decrease to Increase / (Decrease).

72 Note 24 wording changed from '…..policy commitments…' to '…..commitments under capital contracts…..'

91 Note 50 first table – Figures previously included £32,233 of current financial liabilities at 31/3/09. This has been amended to include cash overdrawn of £11,427 (which was inadvertently excluded) and a minor typo of £8 to make the amended figure £43,668. The total for 2008/2009 has also been amended to show a figure of £182,761.

97 Note 51 – Table headings changed from 31 March 2009 £000 to 2008/2009 £ and the previous year to (2007/2008 £).

107 Note 54 – has been amended to reflect the latest position since the accounts were approved at 30th June 2009.

108 Note 57 – Post Balance Sheet Events updated to reflect the opening of 4 new secondary schools under BSF and the updated NNDR bad debt provision.

109 Cash Flow Statement Note amended to reflect the amended deficit on the face of the I&E account because of a small late adjustment that was missed initially from the Cash Flow Note. Furthermore there is also a corresponding adjustment to the line 'Other' in the note which needs to be amended from £935,798 to £1,006,619. The total however remains unchanged.

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **29 September 2009**

ASSESSMENT OF THE REMIT AND EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE

Report of the Director of Financial Resources

1. Purpose of Report

1.1 The purpose of this report is to present the outcome of the workshop held on 20th July 2009 to assess the remit and effectiveness of the Audit and Governance Committee. The report also sets out the format of the workshop and the decisions made as a result of the discussions.

2. Background

2.1 The Audit Commission's review of the Effectiveness of Internal Audit in May 2009 identified that the Committee had not reviewed its remit and effectiveness since its inception in April 2006. It was agreed at the Committee meeting on 22nd May 2009 that a workshop be held to carry out the review, this took place on 20th July 2009.

2.2 The format of the workshop included an assessment of the current Terms of Reference for the Committee against guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), '*Audit Committees: Practical Guidance for Local Authorities'*. A self assessment, based on the CIPFA guidance, was completed during the workshop following detailed discussion by committee members in relation to each area of the operation of the Committee. The self assessment was supported by a list of all of the previous reports which had been presented to the Committee, detailing the purpose of each report and its impact.

3. Outcome of the Workshop

3.1 The self assessment and supporting documentation, attached at Appendix 1, were considered during the workshop and discussed in detail by the committee members. The evidence or comments supporting the assessment are recorded on the self assessment. The external auditor also attended the workshop and provided advice or commentary as appropriate. Discussions concluded that, in the main, the current arrangements compare favourably to the CIPFA guidance. However, a number of recommendations were agreed where it was considered that the current arrangements could be improved or enhanced.

3.2 A number of the recommendations agreed during the workshop require amendments to the current Terms of Reference for the Committee. The proposed revised Terms of Reference, with the changes underlined, are attached at Appendix 2.

3.3 One of the recommendations related to the production of a forward plan of reports to be presented to the Committee. Appendix 3 shows the proposed schedule of reports for 2009/2010.

3.4 Action will be taken to address the remaining recommendations as appropriate throughout the rest of the financial year. A further report will be presented to the Committee demonstrating how the recommendations have been implemented.

4. Recommendations

4.1 The Committee is asked to:

- Agree the completed self assessment as an accurate reflection of the discussions held at the workshop, at Appendix 1.
- Agree to the recommendations documented within the self assessment.
- Agree for the proposed updated Terms of Reference to be submitted for agreement by Cabinet, and subject to Cabinet's agreement, Council at the next opportunity, at Appendix 2.
- Approve the proposed schedule of reports to be presented to the Committee, at Appendix 3.

5. Background Papers

- Chartered Institute of Public Finance and Accountancy (CIPFA), '*Audit Committees: Practical Guidance for Local Authorities'*
- Cabinet Report, 12th April 2006 regarding the creation of the Audit and Governance Committee
- Schedule of Report considered by the Audit and Governance Committee

Appendix 1

Assessment of the Remit and Effectiveness of the Audit and Governance Committee

Requirement	Yes	No	Evidence / Comment	Proposed Improvement (Actions)
Terms of Reference				
1. Have the committee's Terms of Reference been approved by full council?	X		Cabinet 12th April 2006 Council 17th May 2006 Amended 2009 to include Treasury Management	
2. Do the Terms of Reference follow the CIPFA model?	X		Current Terms of Reference In relation to the Audit and Governance Committee meeting privately with the head of internal audit and external auditor, the head of internal audit can currently meet privately with the Committee Chair if necessary. It was considered that these arrangements could be enhanced by providing the opportunity for the members of the Audit and Governance Committee to meet privately with the internal and external auditors to discuss any issues which may be appropriate. It was also suggested that a review of the remit and effectiveness of the Committee, including the Terms of Reference, be conducted on a regular basis.	1. The Terms of Reference to be updated for the opportunity for the head of internal audit and external auditor to meet privately with the Audit and Governance Committee periodically. 2. An informal meeting to take place at the end of a committee meeting each year with the head of internal audit and external auditor but no other officers of the Council. 3. The Terms of Reference to be updated with the requirement for an assessment to be undertaken of the remit and effectiveness of the Committee every three years.
Internal Audit process				
3. Does the committee approve the internal audit strategy and operational annual plan?	X		Meetings in March each year.	

Requirement	Yes	No	Evidence / Comment	Proposed Improvement (Actions)
4. Does the committee input into the internal audit operational annual plan?		X	The Operational Internal Audit Plan is presented to the March Committee for approval.	4. The Committee to be consulted by the head of internal audit at an early stage in relation to the key issues to be considered as part of preparing the following years Audit Plan.
5. Is the work of Internal Audit reviewed regularly?	X		Interim progress and annual reports are presented.	
6. Are summaries of quality questionnaires from managers reviewed?	X		A summary of the scores from Post Audit Questionnaires is provided in the Interim Progress Report and Annual Report. Results of benchmarking and surveys are also reported.	
7. Is the annual report, from the head of internal audit, presented to the committee?	X		Presented in May/June each year.	
8. Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	X		This is one of the Key Performance Indicators for Internal Audit which is scrutinised by the Committee.	
9. Does the committee take a role in overseeing: • Risk management strategies • Internal control statements • Anti-fraud, corruption and whistle blowing policies	X		Included within the Terms of Reference. Reports are considered in these areas. Anti-fraud, corruption and whistle blowing policies are reviewed annually.	5. Updates to Anti-Fraud and Whistle Blowing policies to be presented to the Committee in future
External Audit Process				
10. Are reports on the work of external audit and other inspection agencies presented to the committee?	X		Schedule of previous reports which have been considered by the Committee confirm this to be the case.	

Requirement	Yes	No	Evidence / Comment	Proposed Improvement (Actions)
11. Does the committee input into the external audit programme?		X		6. The Committee to be consulted by the Audit Commission at the same time as Internal Audit (refer to action 4. above).
Membership				
12. Has the membership of the committee been formally agreed and a quorum set?	X		Included within the Terms of Reference.	
13. Is the chair free of executive or scrutiny functions?	X		Co-opted.	
14. Are members sufficiently independent of the other key committees of the council?	X		Only one Cabinet Member on Committee – this maintains a link to the Executive but safeguards the Committee's independence.	
15. Have all members' skills and experiences been assessed and training given for identified gaps?		X	Members use their collective experiences and understanding to fulfil the Committee's role. However, it was considered that additional briefings would be beneficial on topical issues that are relevant to the Council which are not routinely reported to the Committee.	7. Additional briefings to be arranged to cover topical issues (to be agreed at the next meeting). 8. Members to be asked at the first meeting of each year if they require any further training / refresher sessions to be arranged.
16. Can the committee access other committees as necessary?	X		Included within the Terms of Reference.	
Meetings				
17. Does the committee meet regularly?	X		4 or 5 times per year.	

Requirement	Yes	No	Evidence / Comment	Proposed Improvement (Actions)
18. Are separate, private meetings held with the external auditor and internal auditor?		X	See requirement 2. Although it was considered that frank and open discussions can and do take place during the committee meetings, provision is to be made for a private meeting to be held between the internal and external auditors and members of the Committee.	See action 2. above.
19. Are meetings free and open without political influences being displayed?	X		It was considered that open discussions take place without political influences being displayed.	
20. Are decisions reached promptly?	X		Minutes of meetings.	
21. Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	X		Deadlines are in place.	
22. Does the committee have the benefit of attendance of appropriate officers at its meetings?	X		Finance / audit / legal officers always attend plus those from service areas are made available where appropriate.	
23. Do reports provide an appropriate level of detail to enable a level of challenge leading to sound decision making?	X		Although the information included within reports is comprehensive to allow decision making it was considered that there is too much detail included within the main body of the reports. There is also an element of duplication between some of the reports. It was considered that the reports could be more focused with supporting information being supplied in appendices.	9. Officers should consider the format and content of the reports presented to the Committee with the view of making them more focussed and reducing duplication. 10. A forward plan of reports to be presented to the next meeting for consideration.
Training				
24. Is induction training provided to members?	X		Sessions have been held.	
25. Is more advanced training available as required?	X		Specific Treasury Management training has been provided.	

Requirement	Yes	No	Evidence / Comment	Proposed Improvement (Actions)
26. Does the training fulfil Member's needs?	X		Members confirmed during the workshop that the training they have received has met their needs.	
Administration				
27. Does the authority's s151 officer (chief financial officer) or deputy attend all meetings?	X		Minutes of meetings.	
28. Are the key officers available to support the committee?	X		Minutes of meetings.	
Impact				
29. Does the audit committee have a positive impact on the control environment within the Council?	X		Examples include: • Management of leases • Implementation rates of audit recommendations • Continuing review of ICT disaster recovery • Letters to Schools re FMSiS Attached schedule of previous reports. It was considered that to demonstrate the impact that the Committee has had on the Council's control environment, that an annual report should be presented to Cabinet.	11. An annual report should be prepared and presented to Cabinet, to report on the work of the Audit and Governance Committee.

Appendix 2

Proposed Terms of Reference – Audit and Governance Committee

Composition

Membership

The Audit and Governance Committee will be composed of 7 Members as follows:

5 elected Members on a political balance basis;
2 Co-opted Members.

There will be no more than one Member of the Cabinet on the Committee.

Chairing the Committee

The Chairman will be one of the Co-opted Members.

Statement of Purpose

The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its main objectives are to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- independent scrutiny of the authority's financial and other performance to the extent that it reflects the authority's exposure to risk and weakens the control environment;
- oversee the financial reporting process.

Functions

To carry out the following delegated functions from Council:

a) to approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be).

In relation to the following functions to undertake the assurance and advisory role to:

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

c) be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;

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

e) receive and consider the external audit plan;

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

g) receive and consider the annual report of internal audit;

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

i) 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;

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

k) review the adequacy of and compliance with, the Councils Treasury Management Policy;

and make recommendations or comments to Cabinet or Council as appropriate.

Features of the Committee

a) The Committee will exercise delegated powers from Council in relation to item a) above and in relation to the remaining functions act as an advisory committee.

b) The Committee will treat the auditors, the executive and management equally.

c) The Committee can call any officer or agency of the Council as required.

d) The Committee will meet regularly, at least four times per year.

e) The Director of Financial Resources, Head of Audit and Procurement and the External Auditor will be regular attendees. Other attendees may include the Chief Solicitor and the Chief Executive. These officers all have access to the Committee, or the Chair, as required.

f) The Committee members will have the opportunity to meet privately and informally with the Head of Audit and Procurement and the external auditor, at a meeting following a normal Committee meeting, and otherwise as necessary, throughout the year.

g) The Committee will assess its effectiveness, including its Terms of Reference, every three years.

h) An Annual Report will be presented to Cabinet regarding the work of the Committee throughout the year.

Appendix 3

Proposed Schedule of Reports - Audit and Governance Committee 2009/2010

Month	Brief Description	Report of
May 2009	Treasury Management Report	Director of Financial Resources
	Effectiveness of Internal Audit 2008/2009	Director of Financial Resources / Chief Solicitor
	Review of Asset Management	Audit Commission
June 2009	Internal Audit Annual Report	Director of Financial Resources
	Unaudited Statement of Accounts 2008/2009	Director of Financial Resources
	Annual Report on Risk Management	Director of Financial Resources
	Annual Governance Review	Director of Financial Resources / Chief Solicitor
	Audit Fees 2008/2009 and 2009/2010	Audit Commission
September 2009	Summary of the Council's Vision	Chief Executive and Director of Financial Resources
	International Financial Reporting Standards report	Director of Financial Resources
	Annual Governance Report	Audit Commission
	Audited Statement of Accounts 2008/2009 report	Director of Financial Resources
	Assessment of the remit and effectiveness of the Audit and Governance Committee	Director of Financial Resources
November 2009	Treasury Management Report – Review of Last Year 2008/2009 and Second Quarterly Report for 2009/2010	Director of Financial Resources
	New Corporate Risk Profile	Director of Financial Resources
	Internal Audit Progress Report	Director of Financial Resources
	Use of Resources Report	Audit Commission
	Internal Audit Operational Plan - Consultation	Director of Financial Resources
	External Audit Plan - Consultation	Audit Commission
March 2010	Review of New Corporate Risk Profile	Director of Financial Resources
	Treasury Management Report – Third Quarterly Review for 2009/2010 and Treasury Management Policy Report for 2010/2011 (agreed by Full Council March 2009)	Director of Financial Resources
	Internal Audit Operational Plan	Director of Financial Resources
	Annual Audit and Inspection Letter	Audit Commission
	Proposed Schedule of Reports	Director of Financial Resources