

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the Council's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net (Increase) / Decrease before Transfers to / (from) earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council. The tables below show the details for both 2011/2012 and 2012/2013 as required by the Code of Accounting Practice.

Financial Statements (continued)

Movement in Reserves Statement for 2012/2013 (including 2011/2012 comparative information)

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2011 carried forward		(20,509)	(140,470)	(5,611)	(1,577)	(168,167)	(529,002)	(697,169)
<u>Movement in reserves during 2011/2012</u>								
Deficit on provision of services		64,003	0	0	0	64,003	0	64,003
Other Comprehensive Income and Expenditure		0	0	0	0	0	135,094	135,094
Total Comprehensive Income and Expenditure		64,003	0	0	0	64,003	135,094	199,097
Adjustments between accounting basis & funding basis under regulations		(71,473)	0	119	(4,277)	(75,631)	75,631	0
Net (Increase) / Decrease before transfers to Earmarked Reserves		(7,470)	0	119	(4,277)	(11,628)	210,725	199,097
Transfers to / (from) Earmarked Reserves		9,769	(9,769)	0	0	0	0	0
(Increase) / Decrease in 2011/2012		2,299	(9,769)	119	(4,277)	(11,628)	210,725	199,097
Balance at 31 March 2012		(18,210)	(150,239)	(5,492)	(5,854)	(179,795)	(318,277)	(498,072)
<u>Movement in reserves during 2012/2013</u>								
Deficit on provision of services		162,300	0	0	0	162,300	0	162,300
Other Comprehensive Income and Expenditure		0	0	0	0	0	(5,540)	(5,540)
Total Comprehensive Income and Expenditure		162,300	0	0	0	162,300	(5,540)	156,760
Adjustments between accounting basis & funding basis under regulations	7	(142,950)	0	(3,155)	(1,652)	(147,757)	147,757	0
Net (Increase) / Decrease before transfers to Earmarked Reserves		19,350	0	(3,155)	(1,652)	14,543	142,217	156,760
Transfers to / (from) Earmarked Reserves	8	(18,074)	18,074			0		0
(Increase) / Decrease in 2012/2013		1,276	18,074	(3,155)	(1,652)	14,543	142,217	156,760
Balance at 31 March 2013		(16,934)	(132,165)	(8,647)	(7,506)	(165,252)	(176,060)	(341,312)

Financial Statements (continued)

Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Financial Statements (continued)

Comprehensive Income and Expenditure Statement for 2012/2013 (including 2011/2012 comparative information)

2011/2012				Notes	2012/2013		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
39,421	32,362	7,059	Central services to the public		35,309	29,759	5,550
39,863	20,948	18,915	Culture and related services		33,017	7,801	25,216
30,440	4,687	25,753	Environment and regulatory services		29,011	4,964	24,047
30,311	11,856	18,455	Planning services		32,867	9,996	22,871
250,688	231,819	18,869	Education services		235,060	203,212	31,848
37,115	4,963	32,152	Children's Social Care		36,045	4,624	31,421
35,163	16,984	18,179	Highways and transport services		29,767	10,336	19,431
141,123	128,108	13,015	Other housing services		136,991	131,118	5,873
119,265	54,892	64,373	Adult social care		124,332	55,604	68,728
18,314	4,562	13,752	Corporate and democratic core		19,329	8,617	10,712
12,066	11,658	408	Non Distributed Costs		7,632	2,554	5,078
0	0	0	Exceptional item - Severance Costs		10,014	0	10,014
0	0	0	Exceptional item - Equal Pay Settlement/Provision		41,319	0	41,319
753,769	522,839	230,930	Cost of Services	28	770,693	468,585	302,108
70,309	0	70,309	Other operating expenditure	9	114,553	0	114,553
36,556	3,980	32,576	Financing and investment income and expenditure	10	13,180	5,877	7,303
0	269,812	(269,812)	Taxation and non-specific grant income	11	0	261,664	(261,664)
860,634	796,631	64,003	(Surplus) or Deficit on Provision of Services	28	898,426	736,126	162,300
		(18,856)	(Surplus) or deficit on the revaluation of Property, Plant and Equipment	12 and 24a			(38,635)
		0	(Surplus) or deficit on the revaluation of available for sale financial	24h			(15,605)
		153,950	Actuarial (gain) / loss on pension assets / liabilities	44			48,700
		135,094	Other Comprehensive Income and Expenditure				(5,540)
		199,097	Total Comprehensive Income and Expenditure				156,760

Financial Statements (continued)

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 Mar 12 £'000		Notes	31 Mar 13 £'000
1,073,995	Property, Plant and Equipment	12	977,297
11,357	Heritage Assets	13	11,357
63,551	Investment Property	14	68,923
2,368	Intangible Assets	15	2,185
817	Long Term Investments	16	16,787
27,968	Long Term Debtors	16	40,889
1,180,056	Long Term Assets		1,117,438
166,832	Short Term Investments	16	147,135
1,376	Inventories	17	1,335
28,988	Short Term Debtors	18	30,490
0	Assets Held for Sale	20	975
44,777	Cash and Cash Equivalents (In-hand & bank)	16	41,990
241,973	Current Assets		221,925
(12,080)	Cash and Cash Equivalents (overdrawn)	19	(18,093)
(36,707)	Short Term Borrowing	16	(35,849)
(42,822)	Short Term Creditors	21	(38,949)
(2,046)	Provisions	22	(35,556)
(8,301)	Grant Receipts in Advance - Capital	36	(6,882)
(101,956)	Current Liabilities		(135,329)
(183,432)	Long Term Borrowing	16	(179,744)
(628,736)	Other Long Term Liabilities	16/24d	(677,227)
(9,833)	Provisions	22	(5,751)
(822,001)	Long Term Liabilities		(862,722)
498,072	Net Assets		341,312
(179,795)	Usable Reserves	8 / 23	(165,252)
(318,277)	Unusable Reserves	24	(176,060)
(498,072)	Total Reserves		(341,312)

Financial Statements (continued)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011/2012 £'000		Notes	2012/2013 £'000
64,003	Net (surplus) or deficit on the provision of services		162,300
(133,015)	Adjust net (surplus) or deficit on the provision of services for non cash movement		(187,289)
12,789	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		21,311
(56,223)	Net cash flows from operating activities	25	(3,678)
32,422	Investing activities	26	4,439
12,348	Financing Activities	27	8,039
(11,453)	Net (increase) or decrease in cash and cash equivalents		8,800
21,244	Cash and cash equivalents at the beginning of the reporting period		32,697
32,697	Cash and cash equivalents at the end of the reporting period	19	23,897

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Notes to the Accounts (continued)

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/2013 financial year and its position at the year end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 and the Service Reporting Code of Practice 2012/2013, both based on International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.
- Residential Care fees administered through the Council's General Income Payments System (GIPS) are accounted for on a cash basis. This is a departure from the Code of Local Authority Accounting Practice, although the values of the transactions are not considered material to the Council's Accounts.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Notes to the Accounts (continued)

1.4 Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. The reason and impact of any necessary adjustments are explained in more detail in the accounts as required.

1.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.7 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is based on the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the

Notes to the Accounts (continued)

financial year in which the holiday absence occurs, but this accounting treatment ensures that there is no actual impact on the Council's cash reserves.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE) and
- The Local Government Pensions Scheme, administered by South Tyneside Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and as a result no liability for future payments of benefits is recognised in the Council's Balance Sheet. The Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension fund 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 Tyne and Wear Pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities at current bid price;
 - unquoted securities based on professional estimate;
 - unitised securities at current bid price;
 - property at market value;
- The change in the net pension liability is analysed into seven components:

Notes to the Accounts (continued)

(a) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

(b) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

(c) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

(d) 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

(e) Gains or 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 or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

(f) Actuarial gains and losses – changes in the net pension 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 (loss) or credited (gain) to the Pensions Reserve;

(g) contributions paid to the Tyne and Wear Pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also 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 those applied to the Local Government Pension Scheme.

1.8 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period– the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

All events taking place after the date of authorisation for issue are not required to be reflected in the Statement of Accounts.

Notes to the Accounts (continued)

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and these are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

Financial assets are classified into four types:

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment

Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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 made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Notes to the Accounts (continued)

Soft Loans (loans below market rate)

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 Code of Practice on Local Authority Accounting, 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 Movement in Reserves Statement to mitigate any effect on Council Tax.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement 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 prices – 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 fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale 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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

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 Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

1.10 Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and

Notes to the Accounts (continued)

- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

As the DWP no longer notifies authorities of individual separate amounts of housing and council tax benefits administration subsidy, all related income has been shown against the line for Central Services to the Public in the Comprehensive Income and Expenditure Account.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The only category of intangible assets for the Council is software licences; the asset life used for licences is between 5 and 10 years depending on licence conditions.

Notes to the Accounts (continued)

1.12 Interests in Companies & Other Entities

The Code of Practice requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which a Council has an interest. The Council has reviewed its partnership arrangements against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts.

1.13 Inventories

Inventories are included in the Balance Sheet at cost price, with the exception of inventories held by Building and Highways Maintenance Department within City Services and salt stock which is valued at latest price.

1.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rental income from investment property is accounted for within the Cost of Services in the Comprehensive Income and Expenditure Statement; this is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that it is accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15 Jointly Controlled Operations and Jointly Controlled Assets

Income, expenditure (other than direct payments from the Council to the entity), assets and liabilities of jointly controlled operations and assets are not recognised in the Council's financial statements because these transactions are not deemed materially significant. This is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that the Comprehensive Income and Expenditure Statement is credited and debited with its share of income and expenditure from the jointly controlled operation and that its share of assets and liabilities is presented on the council's balance sheet.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Notes to the Accounts (continued)

(a) The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(b) The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out

Notes to the Accounts (continued)

of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads & Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/2013 (SeRCOP). The charging method varies according to the service provision, with the most appropriate basis being agreed with the customer on an annual basis, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

1.18 Internal Interest

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

1.19 Delegated Budgets

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. 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.

1.20 Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be

Notes to the Accounts (continued)

measured reliably. Capital expenditure that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense in the year when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Capital projects that are still in progress are classed as 'non current assets under construction' and are shown in the balance sheet under the relevant asset category. For material capital schemes that have been completed an assessment is undertaken by the Valuation Manager to determine any change the capital scheme has made to an asset's value.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historic cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives, DRC is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Valuation Manager. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by N. Wood, the Council's qualified (ARICS) Chartered Surveyor. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

Notes to the Accounts (continued)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

Voluntary Aided Church schools and Foundation schools where the asset is not owned by the Council are not included on the Council's Balance Sheet. Assets for schools that transfer to academy status are transferred on a long lease with peppercorn rental and the asset is in effect owned by the school and its asset value is not therefore included on the Council's balance sheet. Community School assets are included on the Council's Balance Sheet.

De-Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account, i.e. the asset is not included in the balance sheet unless it is part of an overall project costing more than the established de-minimis level.

For all capital expenditure the de-minimis level is £20,000.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value divided by the future life expectancy. Depreciation is charged in the year following acquisition, with the exception of acquisition of buildings that are revalued at 31st March where depreciation is charged in the year the acquisition takes place.

The life expectancy for each asset category falls within the following ranges:

Asset Category	Years
Buildings	3 - 68
Infrastructure	5 - 40
Vehicles, plant and furniture	5 - 20

Notes to the Accounts (continued)

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A de-minimis level for considering componentisation has been set at £1m. A standard list of components is used by the Council:

- Building structure;
- Mechanical and electrical

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.

Disposals & Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Immediately before the initial classification of an asset as held for sale the carrying amount of the asset is measured in accordance with the relevant section of the code. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only 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 General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.21 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services where the responsibility for making available the non-current assets needed to provide the services passes to the PFI contractor.

Notes to the Accounts (continued)

Recognising assets and liabilities

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

Prepayments

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

Depreciation, impairment and revaluation

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

Minimum Revenue Provision (MRP) (England and Wales)

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

Capital financing requirement

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

1.22 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Notes to the Accounts (continued)

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.23 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.24 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.25 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.26 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged to the Comprehensive Income and Expenditure Statement so that there is no impact on the level of council tax.

1.27 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

1.28 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Notes to the Accounts (continued)

1.29 Treasury Management

The Local Government Act 2003 requires the Council to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments, and giving priority to the security and liquidity of those investments. The Department of Communities and Local Government issued revised investment guidance which came into effect from 1st April 2010 and CIPFA updated its Treasury Management in the Public Services Code of Practice in November 2011. The CIPFA Code of Practice has been fully adopted by the Council. A major requirement of the 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. The TMPS defines the policies and objectives of its treasury management activities;

a) Treasury Management activities are defined as:

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

b) The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks

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

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

<http://www.sunderland.gov.uk/committees/cm5/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/7886/Committee/1578/Default.aspx>

1.30 Carbon Reduction Commitment (CRC) Energy Efficiency Schemes

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme has completed its introductory phase and the second phase of the scheme will start in April 2013. The Council is required to purchase allowances retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of the Council's services and is apportioned to services on the basis of energy consumption.

1.31 Heritage Assets

The Council's accounting treatment relating to Heritage Assets fully complies with the Code of Practice. Further details can be found in Notes 48 and 49.

Notes to the Accounts (continued)

Note 2 – Accounting standards that have been issued but have not yet been adopted

IAS 19 Employee Benefits

The adoption of the 2011 amendments to IAS 19, Employee Benefits, by the Code will result in a change to the Council's accounting policy from 1st April 2013. The amendments require additional disclosures in the financial statements in order to provide an explanation of the Council's specific circumstances, explaining that there are new classes of components of defined benefit cost, re-measurements of the net defined benefit liability, and, where appropriate, new definitions or recognition criteria for service costs and termination benefit. The accounts will also assess the impact of these changes on both the Comprehensive Income and Expenditure Statement and the Balance Sheet.

If the revised IAS19 had been adopted for the accounting period ending 31st March 2013 then this would have increased the expense recognised for funded benefits from £40.1m to £59.22m. There would have been no effect on the Balance Sheet.

IAS 1 Presentation of Financial Statements

The adoption of the 2011 amendments to IAS 1, Presentation of Financial Statements, by the Code may result in a change to the Council's accounting policies from 1st April 2013 where the Council has gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services as set out in the amendments. Where appropriate, the Council will be required to detail the Council's circumstances, explain the revised groupings within the Comprehensive Income and Expenditure Statement and include a statement to the effect that all changes are presentational and do not impact on the amounts reported in the Comprehensive Income and Expenditure Statement.

IAS 12 Income Taxes

Where the Council considers that the 2010 amendments to IAS 12, Income Taxes, would have a material impact on any group accounts produced, then it will be required to demonstrate the impact of the change on its financial statements. There will be no impact on the Council's financial statements.

IFRS 7 Financial Instruments: Disclosures

The adoption by the Code of IFRS 7, Financial Instruments: Disclosures, will require a change of accounting policy from 1st April 2013 and a discussion of the impact that application of the IFRS is expected to have on the financial statements. It is unlikely that there will be any effect on the Council's financial statements as a result of this adoption.

Note 3 – Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Retirement benefit obligations – the Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 44.

Notes to the Accounts (continued)

- Provisions – provisions are measured at the Executive Director of Commercial and Corporate Services best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.
- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.
- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies. The selection of these residual values and estimated lives requires the exercise of management judgement.
- Valuation Newcastle Airport – the value of the Council's investment in Newcastle Airport is based on the open market value of shares at 16th November 2012.

Note 4 – Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £3.028m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of £41.307m, £4.928m of this relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.493m to the provision needed.*
Arrears	At 31 March 2013, the Council had a balance of debtors of £30.490m. A review of significant balances suggested that an impairment of doubtful debts of 18.63% (£5.681m) was appropriate. However, significant changes to the current economic climate could affect the adequacy of this provision.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £5.681m to be set aside as an allowance.*

Notes to the Accounts (continued)

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £134.38m. However, the assumptions interact in complex ways. During 2012/2013, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £1.54m as a result of estimates being corrected as a result of experience and increased by £87.24m attributable to updating of the assumptions.

* However, the above risks are mitigated as the Council fully assesses the likelihood of any variations during the budget process and includes a contingency provision as necessary. Throughout the year budget monitoring is carried out to ensure the actual position is in line with the budgeted provision and appropriate actions are taken as necessary.

Note 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £81.725m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged on the face of the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer.

As part of this loss, assets have been transferred to the following schools during 2012/2013;

School	Loss on Disposal £m	Date of Transfer
Southmoor Academy	£26.220m	1 st May 2012
Oxclose Community School Academy	£20.420m	1st November 2012
PortlandCollege	£7.075m	1 st August 2012
Hastings Hill Primary School	£5.084m	1st December 2012
Eppleton Academy Primary School	£4.853m	1 st June 2012
East Herrington Primary Academy	£4.316m	1 st July 2012
Farringdon Primary School	£4.087m	1 st December 2012
Fulwell Infant School Academy	£3.210m	1 st December 2012
Springwell Dene School	£3.047m	1 st February 2013
Holley Park Primary School	£2.829m	1 st August 2012
Barbara Priestman School	£2.133m	1 st August 2012
Non School		
Rainton Bridge Industrial Unit	(£1.300m)	21 st December 2012
Other Net (Gains) and Losses	(£0.249m)	
Total	£81.725m	

Notes to the Accounts (continued)

Note 6 – Events after the Balance Sheet date

Non Adjusting Events after the Balance Sheet date

There are a number of events that have taken place since the accounts were certified on 28th June which are judged to be non adjusting post balance sheet events, which need to be included in the financial statements.

Schools transferred to Academy Status

The following schools that were part of the Council's asset base at 31st March 2013 have since transferred to Academy status and the value of the assets that will be written out of the accounts are as follows.

- New Penshaw Academy - £3.245m
- Plains Farm Academy - £2.902m
- Biddick School Sports College - £23.935m
- Diamond Hall Infant School - £2.816m
- Farringdon Sports College - £13,418m

Church aided schools that have become academies have no impact on the value of the Council's asset base, as these were previously not included in the Council's asset register in accordance with the Code.

Severance Scheme

The Council introduced a targeted severance scheme to support the achievement of planned budget efficiencies in 2013/2014 and 170 employees have subsequently taken advantage of this scheme.

National Non Domestic Rates changes

From 1 April 2013 the regime around the income that Local Authorities collect from National Non Domestic or Business Rates changes from one where the Council collects purely on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies (Tyne and Wear Fire and Rescue Authority (TWFRA) in Sunderland's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April, but also those not yet collected from prior years and also appeals that were not resolved before that date.

In relation to Sunderland's Non Domestic Rates there is a general risk of non-collection and also the potential losses on appeal was estimated at £4.5m for prior year appeals as at 31 March 2013. Sunderland's share of these potential losses is 49%, with the balance being Government 50%, TWFRA 1%. This amounts to a potential loss to Sunderland of around £2.2m. These are potential losses at the point of change and if these losses are exceeded then the Council will further bear its share of that excess.

TWEDCO Voluntary Liquidation Update

Tyne and Wear Development Company Limited and its trading (Land Company Ltd) subsidiary ceased trading on 30th April 2013 as agreed previously. The Board of Directors also met on 30th April and formally approved the voluntarily liquidation of the Companies. This occurred on 9th July 2013.

Assets located within each shareholder council boundary transferred to that council, so Sunderland received industrial land and units with an asset value of £3,598,000 (as at 30.4.13) as a result of the Voluntary Liquidation process. Cash balances that remain with the Company, once all agreed liabilities have been met, are to be distributed on the basis of population, but as some matters are still being finalised and agreed, it is not currently possible to estimate how much cash resource the

Notes to the Accounts (continued)

Council will receive at this stage although the liquidation will be completed later within the current financial year (2013/2014).

Sunderland Live Limited

Operational from 1st April 2013, Sunderland Live Limited (SLL) is a wholly owned company established to plan, organise and deliver a range of public events within the council's area in accordance with the Business Plan. SLL had no operations or business dealings during the financial year ending 31st March 2013.

Note 7 – Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Notes to the Accounts (continued)

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				2012/2013			
	Usable			Movement in Unusable Reserves	Usable			Movement in Unusable Reserves
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments involving the Capital Adjustment Account:								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Charges for depreciation and impairment of non current assets	(38,189)	0	0	38,189	(46,236)	0	0	46,236
Revaluation losses on Property Plant and Equipment	(10,137)	0	0	10,137	(13,235)	0	0	13,235
Movements in the fair value of Investment Properties	(19,776)	0	0	19,776	5,372	0	0	(5,372)
Amortisation of intangible assets	(226)	0	0	226	(414)	0	0	414
Capital grants and contributions applied	12,551	0	0	(12,551)	5,074	0	0	(5,074)
Revenue expenditure funded from capital under statute	(7,915)	0	0	7,915	(26,960)	0	0	26,960
Amounts of non-current assets written off on derecognition, disposal or sale as part of the gain / (loss) on disposal	(51,423)	0	0	51,423	(99,151)	0	0	99,151
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Statutory provision for the financing of capital investment	11,577	0	0	(11,577)	10,941	0	0	(10,941)
Capital expenditure charged against General Fund balances	17,361	0	0	(17,361)	6,234	0	0	(6,234)
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	15,315	0	(15,315)	0	13,528	0	(13,528)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	11,038	(11,038)	0	0	11,876	(11,876)

Notes to the Accounts (continued)

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				2012/2013			
	Usable			Movement in Unusable Reserves	Usable			Movement in Unusable Reserves
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	237	(723)	0	486	2,709	(2,709)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	819	0	(819)	0	13	0	(13)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(23)	23	0	0	(10)	10	0	0
Adjustments involving the Deferred Capital receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	(37)	0	0	37
Transfer to the Capital receipts Reserve upon receipt of cash	0	0	0	0	0	(469)	0	469
Adjustments involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(121)	0	0	121	(127)	0	0	127

Notes to the Accounts (continued)

Note 7 - Adjustments between accounting basis and funding basis under regulations

	2011/2012				2012/2013			
	Usable			Movement in Unusable Reserves	Usable			Movement in Unusable Reserves
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,630)	0	0	35,630	(42,260)	0	0	42,260
Employer's pensions contributions and direct payments to pensioners payable in the year	37,400	0	0	(37,400)	39,200	0	0	(39,200)
Adjustments involving the Unequal Pay Back Pay Adjustment Account:								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(3,081)	0	0	3,081	0	0	0	0
Adjustments involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	381	0	0	(381)	285	0	0	(285)
Adjustments involving the Accumulated Absences Account:								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	226	0	0	(226)	2,137	0	0	(2,137)
Total Adjustments	(71,473)	119	(4,277)	75,631	(142,950)	(3,155)	(1,652)	147,757

Notes to the Accounts (continued)

Note 8 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/2013.

	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000	Transfers Out 2012/2013 £'000	Transfers In 2012/2013 £'000	Balance at 31 March 2013 £'000
General Fund Balance	12,419	(16,433)	11,584	7,570	(76,148)	76,148	7,570
Delegated Budget Reserves:							
Balances held by schools under a scheme of delegation	8,090	(7,603)	10,153	10,640	(10,609)	9,333	9,364
Delegated budgets reserve - general	9,971	(10,901)	6,340	5,410	(5,672)	4,703	4,441
Total Delegated Reserves	18,061	(18,504)	16,493	16,050	(16,281)	14,036	13,805
Capital Reserves:							
Unutilised RCCO Reserve	6,493	(4,680)	1,362	3,175	(1,095)	929	3,009
Strategic Investment Plan Reserve	9,837	(1,788)	0	8,049	(760)	94	7,383
Other General Capital Reserves	3,727	(352)	0	3,375	(61)	0	3,314
Children's Social Care Capital Reserve	192	0	0	192	0	0	192
Usable Capital Receipts	5,611	(842)	723	5,492	(23)	3,178	8,647
Capital Grants Unapplied	1,577	(11,039)	15,316	5,854	(11,876)	13,528	7,506
Total Capital Reserves	27,437	(18,701)	17,401	26,137	(13,815)	17,729	30,051
Earmarked Revenue Reserves:							
Insurance Reserve	3,948	(832)	569	3,685	(2,371)	2,617	3,931
Strategic Investment Reserve	61,314	(10,854)	18,119	68,579	(25,894)	9,838	52,523
Economic Development Reserve	300	0	0	300	(150)	0	150
Service Pressures Reserve	1,066	0	0	1,066	0	0	1,066
Sandhill Centre PFI Smoothing Reserve	2,709	(23)	0	2,686	(20)	0	2,666

Notes to the Accounts (continued)

Note 8 – Movements in usable reserves

	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000	Transfers Out 2012/2013 £'000	Transfers In 2012/2013 £'000	Balance at 31 March 2013 £'000
School Community Reserve	2,033	(1,980)	1,545	1,598	(1,452)	1,097	1,243
Connexions Hub Agreement	1,181	(637)	134	678	(169)	237	746
Education Redundancies Reserves	1,601	(1,378)	875	1,098	(218)	899	1,779
Street Lighting and Highways Signs PFI Smoothing Reserve	7,065	(381)	0	6,684	(426)	0	6,258
Adult Services Modernisation and Service Pressures Reserve	1,783	0	0	1,783	(1,625)	1,059	1,217
Play Areas Reserve	1,021	(168)	128	981	(158)	483	1,306
House Sale Income	1,428	(527)	255	1,156	(414)	200	942
WNF-Software City	2,600	(783)	0	1,817	(280)	0	1,537
WNF Visible Workshop and other projects	3,600	(50)	0	3,550	(2)	0	3,548
Modernisation Improvements	2,677	(196)	0	2,481	(1,017)	0	1,464
Utilities Reserve	1,043	0	0	1,043	0	0	1,043
Commercial and Economic Development Activity	1,500	0	0	1,500	0	0	1,500
Transition Enablement	0	0	3,967	3,967	(2,930)	0	1,037
Riverside Transfer	0	0	11,980	11,980	(130)	26	11,876
Weekly Collection Reserve	0	0	0	0	0	1,010	1,010
External Placements Reserve	360	0	1	361	(534)	1,530	1,357
Public Health Reserve	0	0	0	0	0	900	900
New Homes Bonus Reserve	0	0	577	577	(133)	1,152	1,596
Other Earmarked Reserves	13,021	(5,471)	4,918	12,468	(5,719)	6,382	13,131
Total Revenue Reserves	110,250	(23,280)	43,068	130,038	(43,642)	27,430	113,826
Total Reserves	168,167	(76,918)	88,546	179,795	(149,886)	135,343	165,252

Notes to the Accounts (continued)

Purpose of Earmarked Reserves

Capital Reserves:	Purpose of the Reserve
Un-utilised RCCO Reserve	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	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	Usable capital receipts set aside to fund future capital projects previously approved.
Revenue Reserves:	Purpose of the Reserve
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
Strategic Investment Reserve	A reserve established to address some of the Council's key developments and strategic priorities.
Economic Development Reserve	This reserve was established to fund future economic development grants.
Service Pressures Reserve	To mitigate the potential budgetary impact of the economic downturn.
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
School Community Reserve	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
Connexions Hub Agreement	The reserve is held as part of the current Hub agreement to provide for unforeseen costs.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of voluntary redundancies at schools as a result of falling pupil rolls within the Council's schools.
Adult Services Modernisation and Service Pressures Reserve	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care and modernisation investment requirements.
Play Areas Reserve	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.
House Sale Income	Reserve established from income owed to the Council for the care needs of clients in independent sector care homes.
WNF - Software City	Reserve established to help fund the development of Software City
WNF Visible Workshop	Reserve established to help fund the development of visible workshop.
Modernisation Improvements	Reserve established to assist with the financial implications of the Council's Modernisation plans including invest to save initiatives.
Utilities Reserve	Reserve established to protect the council against the future volatility of utility costs.
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.
Transition Reserve	Reserve established to meet the cost of future organisational changes

Notes to the Accounts (continued)

	Purpose of the Reserve
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.
Weekly Collection Reserve	Reserve held to smooth funding over the five year weekly collection scheme.
External Placements Reserve	Reserve held to meet future costs of external placements in respect of Children's Social Care
Public Health Reserve	Reserve to be used to fund spend on Public Health initiatives in 2013/2014.
New Homes Bonus Reserve	Reserve established to fund initiatives that will stimulate house building or bring empty homes back into use.
Other Earmarked Reserves	Numerous small revenue reserves set up for specific purposes.

Note 9 – Other operating expenditure

2011/2012 £'000		2012/2013 £'000
53	Parish Council Precept	54
19,047	Levies	18,047
23	Payments to the Government Housing Capital Receipts Pool	10
51,186	(Gain) / losses on the disposal of non current assets	81,725
0	(Gain) / losses on the derecognition of non current assets	14,717
70,309	Total	114,553

Note 10 – Financing and investment income and expenditure

2011/2012 £'000		2012/2013 £'000
9,718	Interest payable and similar charges	9,792
6,310	Pensions interest cost and expected return on pension fund assets	8,760
(3,641)	Interest receivable and similar income	(5,224)
(339)	Surplus on Trading Undertakings	(653)
752	Deficit on Trading Undertakings	0
19,776	Income and expenditure in relation to investment properties and changes in their fair value	(5,372)
32,576	Total	7,303

Note 11 – Taxation and non specific grant income

2011/2012 £'000		2012/2013 £'000
(96,009)	Council Tax Income	(97,142)
(120,771)	Non domestic rates	(145,368)
(40,481)	Non-ringfenced government grants	(5,398)
(12,551)	Capital grants and contributions	(13,756)
(269,812)	Total	(261,664)

Notes to the Accounts (continued)

Note 12 – Property, Plant and Equipment Movement on Balances 2011/2012

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation						
At 1 April 2011	885,965	76,359	286,795	24,896	1,274,015	54,973
Additions	9,174	7,326	6,297	16,660	39,457	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	12,643	0	0	0	12,643	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(8,400)	(25)	(2,587)	0	(11,012)	0
Derecognition	(54,163)				(54,163)	0
Other movements in Cost or Valuation	6,610	356	5,636	(12,602)	0	0
At 31 March 2012	851,829	84,016	296,141	28,954	1,260,940	54,973
Accumulated Depreciation and Impairment						
At 1 April 2011	53,849	35,362	69,372	0	158,583	9,419
Depreciation Charge	23,235	7,338	7,616	0	38,189	1,692
Depreciation written out to Revaluation Reserve	(6,212)	0	0	0	(6,212)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(875)	0	0	0	(875)	0
Derecognition	(2,740)	0	0	0	(2,740)	0
At 31 March 2012	67,257	42,700	76,988	0	186,945	11,111
Net Book Value						
At 31 March 2011	832,116	40,997	217,423	24,896	1,115,432	45,554
At 31 March 2012	784,572	41,316	219,153	28,954	1,073,995	43,862

Notes to the Accounts (continued)

Movement on Balances 2012/2013

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation							
At 1 April 2012	851,829	84,016	296,141	28,954	0	1,260,940	54,973
Additions	11,646	2,620	4,534	7,815	0	26,615	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	11,070	0	0	0	0	11,070	0
Revaluation increases / (decreases) recognised in the Provision of Services	(13,396)	(4,727)	0	0	0	(18,123)	0
Impairment charged to the Provision of Services	(3,325)	0	(960)	0	0	(4,285)	0
Derecognition recognised in the Provision of Services	(16,414)	0	0	0	0	(16,414)	0
Derecognition of assets held as embedded lease	0	(3,991)	0	0	0	(3,991)	0
Disposals	(91,445)	0	0	0	0	(91,445)	0
Other movements in Cost or Valuation	11,969	101	693	(16,105)	2,367	(975)	0
At 31 March 2013	761,934	78,019	300,408	20,664	2,367	1,163,392	54,973
Accumulated Depreciation and Impairment							
At 1 April 2012	67,257	42,700	76,988	0	0	186,945	11,111
Depreciation Charge	26,292	7,666	7,992	0	1	41,951	1,760
Depreciation written out to Revaluation Reserve	(27,565)	0	0	0	0	(27,565)	0
Depreciation recognised in the Provision of Services	(977)	(3,910)	0	0	0	(4,887)	0
Derecognition recognised in the Provision of Services	(1,697)	0	0	0	0	(1,697)	0
Derecognition of assets held as embedded lease	0	(1,641)	0	0	0	(1,641)	0
Disposals	(7,011)	0	0	0	0	(7,011)	0
At 31 March 2013	56,299	44,815	84,980	0	1	186,095	12,871
Net Book Value							
At 31 March 2012	784,572	41,316	219,153	28,954	0	1,073,995	43,862
At 31 March 2013	705,635	33,204	215,428	20,664	2,366	977,297	42,102

Notes to the Accounts (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land and Buildings – 3 – 68 years
- Vehicles, Plant and Equipment – 5 – 20 years
- Infrastructure - 5 – 40 years

Capital Commitments

As at 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/2014 and future years budgeted to cost £12.455m (As at 31 March 2012 £10.613m). The major commitments are:

- Washington Managed Workspace - £5.992m
- Old Sunderland Townscape Heritage Initiative - £1.305m
- Various other smaller schemes - £5.158m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on fair value using depreciated historical cost as a proxy for non-property assets that have short useful lives.

The significant assumptions applied in estimating the fair values are:

- Depreciated Replacement Cost method has been used where the asset is used by the Council to deliver services but the property is considered to be of a specialist nature in that there is little or no market evidence to support value
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value
- Assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulations
- The assets are free from contamination and deleterious or hazardous substances
- Current use fully complies with current planning legislation and consents and the existing use will continue for the near future and will remain viable
- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses
- Properties assessed by the DRC method of valuation are subject to the prospect and viability of the continuance of the occupation and use.

Notes to the Accounts (continued)

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historic cost	0	78,019	300,408	20,664	0	399,091
Valued at fair value as at:						
31 March 2013	247,883	0	0	0	2,367	250,250
31 March 2012	84,518	0	0	0	0	84,518
31 March 2011	187,972	0	0	0	0	187,972
31 March 2010	135,294	0	0	0	0	135,294
31 March 2009	106,267	0	0	0	0	106,267
Total Cost or Valuation	761,934	78,019	300,408	20,664	2,367	1,163,392

Note 13 – Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1st April 2011	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2012	9,140	556	1,661	11,357
Cost or Valuation				
1st April 2012	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2013	9,140	556	1,661	11,357

Further details of the Council's Heritage Asset holdings can be found in Notes 48 and 49.

Notes to the Accounts (continued)

Note 14 – Investment properties

Rental income and Direct Operating expenses from investment property is accounted for within the Cost of Services in the Comprehensive Income and Expenditure Statement; this is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that it is accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. Movement in the fair value of investment property has been accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

2011/2012 £'000		2012/2013 £'000
2,143	Rental income from investment property	1,257
(912)	Direct operating expenses arising from investment property	(583)
1,231	Net gain / (loss)	674

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or to undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year as reported on the balance sheet:

2011/2012 £'000		2012/2013 £'000
83,327	Balance at the start of the year	63,551
0	Disposals	(460)
(19,776)	Net gain / (losses) from fair value adjustments	5,832
	Transfers:	
0	To / (From) Property, Plant and Equipment	0
63,551	Balance at the end of the year	68,923

Gains in 2012/2013 from fair value adjustments reflect changes to planning status for some land and building assets (losses in 2011/2012 reflect the depressed market for land and building assets).

Note 15 – Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life for software is deemed to be between 5 and 10 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.414m charged to revenue in 2012/2013 was charged to administration cost centres and absorbed where appropriate as an overhead across service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

Notes to the Accounts (continued)

The movement on Intangible Asset balances during the year is as follows:

	2011/2012 Software Licences £'000	2012/2013 Software Licences £'000
Balance at start of year:		
Gross carrying amounts	2,219	3,304
Accumulated Amortisation	(710)	(936)
Net carrying amount at the start of the year	1,509	2,368
Additions		
Purchases	1,085	231
Amortisation for the period	(226)	(414)
Net carrying amount at the year end	2,368	2,185
Comprising		
Gross carrying amounts	3,304	3,535
Accumulated amortisation	(936)	(1,350)
	2,368	2,185

Software Licences have been purchased in the year for use on a number of the Council's IT systems. There are no items of capitalised software that are individually material to the financial statements.

Notes to the Accounts (continued)

Note 16 – Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Investments				
Loans and receivables	0	0	166,832	147,135
Available-for-sale financial assets	817	16,787	0	0
Unquoted equity investment at cost	0	0	0	0
Financial assets at fair value through profit and loss	0	0	0	0
Total Investments	817	16,787	166,832	147,135
Debtors				
Loans and receivables	27,968	40,889	44,777	41,990
Financial assets carried at contract amount	0	0	28,988	30,490
Total included in Debtors	27,968	40,889	73,765	72,480
Borrowings				
Financial liabilities at amortised cost	(183,432)	(179,744)	(48,787)	(53,942)
Financial liabilities at fair value through profit and loss	0	0	0	0
Total included in Borrowings	(183,432)	(179,744)	(48,787)	(53,942)
Other Long Term Liabilities				
PFI and finance lease liabilities	(39,976)	(36,707)	0	0
Total other long term liabilities	(39,976)	(36,707)	0	0
Creditors				
PFI and finance lease liabilities	0	0	(1,593)	(1,250)
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount	0	0	(49,530)	(44,581)
Total creditors	0	0	(51,123)	(45,831)

Notes to the Accounts (continued)

Income, Expense, Gains and Losses

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

	2011/2012				2012/2013			
	Financial Liabilities	Financial Assets		Total	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	£'000	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	£'000
Interest Expense	(6,590)	0	0	(6,590)	(6,772)	0	0	(6,772)
Total expenses in Surplus or Deficit on the Provision of Services	(6,590)	0	0	(6,590)	(6,772)	0	0	(6,772)
Interest Income	0	3,549	0	3,549	0	5,131	0	5,131
Total expenses in Surplus or Deficit on the Provision of Services	0	3,549	0	3,549	0	5,131	0	5,131
Net Gain / (loss) for the year	(6,590)	3,549	0	(3,041)	(6,772)	5,131	0	(1,641)

Notes to the Accounts (continued)

Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 124/13.
- For other market debt and investments the discount rate used is the rate 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, the fair values calculated are as follows:

Liabilities	31 March 2012		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB	142,917	166,371	137,883	164,535
LOBOs	40,215	41,437	40,208	42,697
Stock	102	88	98	83
Other	198	264	1,555	1,607
Bank Overdraft	12,080	12,080	18,093	18,093
Short Term Borrowing	36,707	36,707	35,849	35,884
Financial Liabilities	232,219	256,947	233,686	262,899

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.

Assets	31 March 2012		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Deposits with Banks & Building Societies	208,119	209,206	188,379	188,988
Financial Assets	208,119	209,206	188,379	188,988

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.

At 31st March 2013 the Council holds £23.888m of funds in relation to the North Eastern Local Enterprise Partnership (£25.270m at 31st March 2012). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

Notes to the Accounts (continued)

Note 17 – Inventories

2011/2012

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	1,210	139	344	1,693
Purchases	6,106	164	104	6,374
Recognised as an expense in the year	(6,147)	(171)	(344)	(6,662)
Written off balances	(29)	0	0	(29)
Balance outstanding at the year-end	1,140	132	104	1,376

2012/2013

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	1,140	132	104	1,376
Purchases	5,706	143	245	6,094
Recognised as an expense in the year	(5,856)	(156)	(104)	(6,116)
Written off balances	(19)	0	0	(19)
Balance outstanding at the year-end	971	119	245	1,335

Note 18 – Short Term Debtors

2011/2012 £'000		2012/2013 £'000
8,281	Central government bodies	5,911
780	Other local authorities	747
150	NHS bodies	952
19,777	Other entities and individuals	22,880
28,988	Total	30,490

Note 19 – Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

2011/2012 £'000		2012/2013 £'000
(8,589)	Cash held by the Council	(17,347)
36,278	Bank current accounts and Money Market Funds	41,244
5,008	Short-term deposits with banks and building societies	0
32,697	Total Cash and Cash Equivalents	23,897

Notes to the Accounts (continued)

Note 20 – Assets Held for Sale

A number of Council assets have been transferred from Property, Plant and Equipment and have been categorised as held for sale where the asset is available for immediate sale, there is a commitment to sell the asset, the asset has been actively marketed and a sale is expected within one year.

The carrying value of these assets is measured at fair value less costs to sell.

2011/2012 £'000		2012/2013 £'000
0	Balance outstanding at start of year	0
0	Transfer from non-current assets to current assets at year end	975
0	Balance outstanding at year-end	975

Note 21 – Short-Term Creditors

2011/2012 £'000		2012/2013 £'000
(9,469)	Central government bodies	(6,988)
(3,904)	Other local authorities	(4,442)
(2,943)	NHS bodies	(2,392)
(26,506)	Other entities and individuals	(25,127)
(42,822)	Total	(38,949)

Note 22 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 31 March 2011	4,026	5,648	9,674
Additional provisions made 2011/2012	3,148	5,135	8,283
Amounts used 2011/2012	(3,186)	(2,892)	(6,078)
Balance at 31 March 2012	3,988	7,891	11,879
Additional provisions made 2012/2013	2,004	35,964	37,968
Amounts used 2012/2013	(1,064)	(7,476)	(8,540)
Balance at 31 March 2013	4,928	36,379	41,307
Long Term provisions at 31st March 2013	4,928	823	5,751
Short Term Provisions at 31st March 2013	0	35,556	35,556

Included within other provisions: £0.351m back on the map temporary funding (2011/2012 £0.529m), £0.250m known transitional costs (2011/2012 £1.521m), £0.529m Carbon Reduction Commitments (2011/2012 £0.526m), £34.777m Unequal Pay back pay provision (2011/2012 £5.237m) and Guarantee Bonds of £0.129m (2011/2012 £0.078m). New provisions have been established in 2012/2013 relating to Guarantee Bond for ETEC Development Trust (£0.050m), City Centre property costs (£0.081m) and investment grants (£0.213m).

Notes to the Accounts (continued)

Note 23 – Usable Reserves

The total Usable Reserves held by the Council are £165.252m at 31st March 2013 (£179.795m at 31st March 2012) and these are detailed in the Movement in Reserves Statement. Movements in the Council's Usable Reserves are also detailed in Note 8 – Movement in Usable Reserves.

Note 24 – Unusable Reserves

2011/2012 £'000		Note	2012/2013 £'000
209,535	Revaluation Reserve	24a	216,565
702,662	Capital Adjustment Account	24b	584,700
(752)	Financial Instrument Adjustment Account	24c	(879)
(588,760)	Pensions Reserve	24d	(640,520)
1,130	Deferred Capital Receipts Reserve	24e	624
2,054	Collection Fund Adjustment Account	24f	2,339
(5,306)	Accumulated Absence Account	24g	(3,169)
795	Available for Sale Financial Instrument Reserve	24h	16,400
(3,081)	Unequal Backpay Account	24i	0
318,277	Total Unusable Reserve		176,060

The following tables show the detail for each line item as follows:

24a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are;

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/2012 £'000		2012/2013 £'000
196,351	Balance at 1 April	209,535
18,856	Upward revaluation of assets	58,937
0	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(20,302)
215,207	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	248,170
0	Revaluation gain transfers offsetting revaluation losses	0
4,635	Difference between fair value depreciation and historical cost depreciation	7,001
1,037	Accumulated gains on assets sold or scrapped	24,604
5,672	Amount written off to the Capital Adjustment Account	31,605
209,535	Balance at 31 March	216,565

24b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with

Notes to the Accounts (continued)

reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/2012 £'000		2012/2013 £'000
771,277	Balance at 1 April	702,662
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(38,189)	Charges for depreciation and impairment of non-current assets	(46,236)
(10,137)	Revaluation losses on Property, Plant and Equipment	(13,235)
(226)	Amortisation of intangible assets	(414)
(7,882)	Net revenue expenditure funded from capital under statute	(26,960)
0	Net Book Value written out on derecognition of non current assets to the Comprehensive Income and Expenditure Account	(14,717)
(51,423)	Amount of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	(84,434)
(107,857)		(185,996)
0	Adjusting amounts written out of the Unequal Backpay Account	(3,081)
5,672	Adjusting amounts written out of the Revaluation Reserve	31,605
(102,185)	Net written out amount of the cost of non current assets consumed in the year	(157,472)
	Capital financing applied in the year:	
819	Use of Capital Receipts to finance new capital expenditure	13
12,551	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	5,074
11,038	Application of grants to capital financing from the Capital Grants Unapplied Account	11,876
11,577	Statutory provision for the financing of capital investment charged against the General Fund balance	10,941
17,361	Capital expenditure charged against the General Fund balance	6,234
53,346		34,138
(19,776)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	5,372
702,662	Balance at 31 March	584,700

24c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was

Notes to the Accounts (continued)

outstanding on the loans when they were redeemed.

2011/2012 £'000		2012/2013 £'000
(631)	Balance at 1 April	(752)
100	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	99
(221)	Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(226)
(752)	Balance at 31 March	(879)

24d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/2012 £'000		2012/2013 £'000
(436,580)	Balance at 1 April	(588,760)
(153,950)	Actuarial gains or (losses) on pensions assets and liabilities	(48,700)
(35,630)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(42,260)
37,400	Employer's pensions contributions and direct payments to pensioners payable in the year	39,200
(588,760)	Balance at 31 March	(640,520)

24e) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2011/2012 £'000		2012/2013 £'000
1,650	Balance at 1 April	1,130
(35)	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	(37)
(485)	Transfer to the Capital Receipts Reserve upon receipt of cash	(469)
1,130	Balance at 31 March	624

24f) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from

Notes to the Accounts (continued)

council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2011/2012 £'000		2012/2013 £'000
1,673	Balance at 1 April	2,054
381	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	285
2,054	Balance at 31 March	2,339

24g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/2012 £'000		2012/2013 £'000
(5,533)	Balance at 1 April	(5,306)
5,533	Settlement or cancellation of accrual made at the end of the preceding year	5,306
(5,306)	Amounts accrued at the end of the current year	(3,169)
(5,306)	Balance at 31 March	(3,169)

24h) Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instrument Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable prices. The balance is reduced when the investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2011/2012 £'000		2012/2013 £'000
795	Balance at 1 April	795
0	Upward revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	15,605
795	Balance a 31 March	16,400

24i) Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the difference between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provision to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

Notes to the Accounts (continued)

2011/2012 £'000		2012/2013	
		£'000	£'000
0	Balance at 1 April		(3,081)
(3,081)	Increase in provision for back pay in relation to Equal Pay cases	0	
0	Cash settlement paid in year	0	0
0	Capitalisation Direction in accordance with statutory requirements	3,081	
0	Amount by which amounts charged for Equal Pay Claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	3,081
(3,081)	Balance at 31 March		0

Note 25 – Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/2012 £'000		2012/2013 £'000
3,641	Interest received	5,224
(9,718)	Interest paid	(9,792)
0	Dividends received	0

Note 26 – Cash Flow Statement – Investing Activities

2011/2012 £'000		2012/2013 £'000
43,770	Purchase of property, plant and equipment, investment property and intangible assets	26,526
0	Purchase of short-term and long-term investments	145,365
1,786	Other payments for investing activities	14,585
(238)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,709)
0	Proceeds from short-term and long-term investments	(165,000)
(12,896)	Other receipts from investing activities	(14,328)
32,422	Net cash flows from investing activities	4,439

Note 27 – Cash Flow Statement – Financing Activities

2011/2012 £'000		2012/2013 £'000
(455)	Capital receipts of short and long-term borrowing	(455)
(11,857)	Other receipts from financing activities	(1,369)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,210
3,140	Repayments of short and long term borrowing	5,840
21,520	Other payments for financing activities	2,813
12,348	Net cash flows from financing activities	8,039

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular;

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- expenditure on some support services is budgeted for centrally and not charged to portfolios.

The income and expenditure of the Council is recorded below in line with the portfolio structure used for internal financial reporting:

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2011/2012

	Leader and Deputy Leader	Cabinet Secretary	Children and Learning City	Prosperous City	Health and Well Being	Safer City and Culture	Attractive and Inclusive City	Sustainable Communities	Responsive Local Services and Customer Care	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees and Charges	(1,678)	(14,755)	(10,442)	(2,248)	(21,340)	(1,918)	(20,883)	(341)	(480)	(74,085)
Government grants	(25)	(149,306)	(205,979)	(507)	(11,054)	0	(2,206)	(946)	(1,635)	(371,658)
Other Grants, reimbursements and contributions	(4,000)	(3,632)	(8,210)	(1,462)	(28,291)	(1,784)	(1,281)	(80)	(59)	(48,799)
Total Income	(5,703)	(167,693)	(224,631)	(4,217)	(60,685)	(3,702)	(24,370)	(1,367)	(2,174)	(494,542)
Employee expenses	40,653	16,856	180,711	3,907	41,325	6,759	23,012	1,296	3,362	317,881
Other service expenditure	11,478	160,034	69,041	5,024	87,662	7,485	21,776	705	3,873	367,078
Total Expenditure	52,131	176,890	249,752	8,931	128,987	14,244	44,788	2,001	7,235	684,959
Net Expenditure	46,428	9,197	25,121	4,714	68,302	10,542	20,418	634	5,061	190,417

Internal reporting arrangements were reviewed early in 2012/2013 and Portfolio structure and responsibilities were amended on 16th May 2012. 2011/2012 comparative information has not been re-presented to reflect these changes.

Notes to the Accounts (continued)

Portfolio Income and Expenditure 2012/2013

	Leader	Deputy Leader	Cabinet Secretary	Children's Services	Health Housing and Adult Services	Public Health Wellness and Culture	City Services	Responsive Services and Customer Care	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(787)	(2,239)	(16,268)	(8,601)	(15,208)	(4,969)	(7,041)	(478)	(55,591)
Government grants	(1,402)	(153,612)	(499)	(183,128)	(19,786)	(52)	(3,111)	(1,617)	(363,207)
Other Grants, reimbursements and contributions	(982)	(1,198)	(2,367)	(14,520)	(25,990)	(1,979)	(1,015)	(403)	(48,454)
Total Income	(3,171)	(157,049)	(19,134)	(206,249)	(60,984)	(7,000)	(11,167)	(2,498)	(467,252)
Employee expenses	7,514	41,337	17,233	154,968	34,179	9,300	25,568	3,747	293,846
Other service expenditure	9,959	154,619	51,849	79,697	87,204	9,521	20,232	3,846	416,927
Depreciation, amortisation and impairment	7,030	2,416	7,034	24,346	1,661	5,056	10,486	1,856	59,885
Total Expenditure	24,503	198,372	76,116	259,011	123,044	23,877	56,286	9,449	770,658
Net Expenditure	21,332	41,323	56,982	52,762	62,060	16,877	45,119	6,951	303,406

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/2012 £'000		2012/2013 £'000
190,417	Net expenditure in the portfolio analysis	303,406
53,806	Net expenditure of services and support services not included in the analysis	0
(13,293)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(1,298)
230,930	Cost of Service in the Comprehensive Income and Expenditure Statement	302,108

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2011/2012

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(122,883)	0	0	(122,883)	(340)	(123,223)
Interest and investment income	0	0	0	0	(3,641)	(3,641)
Income from council tax	0	0	0	0	(96,009)	(96,009)
Government grants and contributions	(371,659)	(13,328)	0	(384,987)	(173,802)	(558,789)
Total Income	(494,542)	(13,328)	0	(507,870)	(273,792)	(781,662)
Employee expenses	317,880	35	0	317,915	0	317,915
Other service expenses	367,079	0	0	367,079	752	367,831
Support service recharges	0	0	0	0	0	0
Depreciation, amortisation and impairment	0	0	53,806	53,806	19,776	73,582
Interest Payments	0	0	0	0	16,028	16,028
Precepts and Levies	0	0	0	0	19,100	19,100
Payments to Housing Capital Receipts Pool	0	0	0	0	23	23
Gain or Loss on Disposal of Non-current Assets	0	0	0	0	51,186	51,186
Total Expenditure	684,959	35	53,806	738,800	106,865	845,665
Surplus or deficit on the provision of services	190,417	(13,293)	53,806	230,930	(166,927)	64,003

Notes to the Accounts (continued)

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis 2012/2013

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(104,045)	(1,333)	(105,378)	(653)	(106,031)
Interest and investment income	0	0	0	(5,224)	(5,224)
Income from council tax	0	0	0	(97,142)	(97,142)
Government grants and contributions	(363,310)	0	(363,310)	(164,522)	(527,832)
Total Income	(467,355)	(1,333)	(468,688)	(267,541)	(736,229)
Employee expenses	293,846	35	293,881	0	293,881
Other service expenses	416,927	0	416,927	0	416,927
Depreciation, amortisation and impairment	59,988	0	59,988	(5,372)	54,616
Interest Payments	0	0	0	18,552	18,552
Precepts and Levies	0	0	0	18,101	18,101
Payments to Housing Capital Receipts Pool	0	0	0	10	10
Gain or Loss on Disposal of Non-current Assets	0	0	0	96,442	96,442
Total Expenditure	770,761	35	770,796	127,733	898,529
Surplus or deficit on the provision of services	303,406	(1,298)	302,108	(139,808)	162,300

Notes to the Accounts (continued)

Note 29 – Trading Operations

The Council is required to publish the financial results of services it operates on a trading account basis.

	2011/2012			2012/2013		
	Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000	Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000
City Print Services	1,823	1,071	752	0	0	0
General Highways	2,561	2,824	(263)	4,138	4,676	(538)
Education and Civic						
Buildings Maintenance	8,424	8,461	(37)	9,412	9,483	(71)
Networking Services	234	273	(39)	136	180	(44)
	13,042	12,629	413	13,686	14,339	(653)

Note 30 – Agency Services

As detailed within Related Party Transactions (Note 37), the Council provides support services to various other Authorities or Bodies.

A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of this activity is very low in value and has therefore not been detailed in the accounts.

Note 31 – Pooled Budgets

Section 75 of the NHS Act 2006 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 four such partnership schemes with Sunderland Teaching Primary Care Trust (STPCT). The notes below summarise the financial performance of each scheme and offers a brief explanation of their purpose.

As part of the changes to the NHS brought about by the Health and Social Care Act 2012, Primary Care Trusts (PCTs) ceased to exist on 31st March 2013. Their responsibilities, including all pooled budget arrangements with local authorities, have been taken over by Clinical Commissioning Groups (CCGs).

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.

	2011/2012 £'000	2012/2013 £'000
Sunderland City Council	(1,038)	(1,038)
Sunderland Teaching Primary Care Trust	(1,325)	(1,325)
Total Funding	(2,363)	(2,363)
Gross Expenditure	2,742	2,708
Net (Funding) / Expenditure	379	345

Notes to the Accounts (continued)

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.

	2011/2012 £'000	2012/2013 £'000
Sunderland City Council	(959)	(918)
Sunderland Teaching Primary Care Trust	(1,519)	(1,430)
Total Funding	(2,478)	(2,348)
Gross Expenditure	2,392	2,452
Net (Funding) / Expenditure	(86)	104

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.

	2011/2012 £'000	2012/2013 £'000
Sunderland City Council	(1,238)	(1,234)
Sunderland Teaching Primary Care Trust	(988)	(984)
Total Funding	(2,226)	(2,218)
Gross Expenditure	2,197	2,079
Net (Funding) / Expenditure	(29)	(139)

Mental Capacity Act / Deprivation of Liberties

The overall aim of this pooled budget is to facilitate the provision of Mental Capacity Act coordinators, by effective coordination of resources of the parties through the pooled budget, and enabling the parties to work closely together to provide the necessary resources to ensure so far as practicable, compliance with the Mental Capacity Act 2005 (as amended) insofar as it relates to the provision of Assessments.

	2011/2012 £'000	2012/2013 £'000
Sunderland City Council	(27)	(38)
Sunderland Teaching Primary Care Trust	(36)	(50)
Total Funding	(63)	(88)
Gross Expenditure	38	65
Net (Funding) / Expenditure	(25)	(23)

Note 32 – Members' Allowances

The Council paid the following amounts to members of the council during the year.

	2011/2012 £'000	2012/2013 £'000
Allowances	1,055	1,148
Expenses	22	30
Total	1,077	1,178

Notes to the Accounts (continued)

Note 33 – Officers' Remuneration

The tables below disclose the specific remuneration information in relation to 'Senior' officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2012/2013 and 2011/2012 in the following categories:

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

Notes to the Accounts (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2011/2012								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	202,562	0	0	0	7,852	210,414	30,031	240,445
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	124,932	0	0	0	0	124,932	18,441	143,373
Executive Director of Adult Services	115,068	0	0	0	0	115,068	16,570	131,638
Executive Director of Children's Services	112,705	0	0	0	0	112,705	16,228	128,933
Executive Director of City Services	122,940	0	0	0	0	122,940	17,703	140,643
Executive Director of Corporate and Commercial Services	124,220	0	0	0	0	124,220	17,703	141,923
Strategic Director of Transformation*	48,682	0	0	0	0	48,682	7,133	55,815
Head of Legal Services	85,941	0	0	0	0	85,941	12,347	98,288

* Officer not in post for a full year

Notes to the Accounts (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2012/2013								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	199,627	0	0	0	5,336	204,963	26,694	231,657
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	129,369	0	0	0	0	129,369	18,441	147,810
Executive Director of Adult Services	125,546	0	0	0	0	125,546	17,703	143,249
Executive Director of Children's Services	117,816	0	0	0	0	117,816	16,966	134,782
Executive Director of City Services *	51,908	0	0	0	0	51,908	7,475	59,383
Executive Director of Commercial and Corporate Services	124,246	0	0	0	0	124,246	17,703	141,949
Head of Legal Services	84,773	0	0	0	0	84,773	12,235	97,008

* Officer not in post for a full year

Notes to the Accounts (continued)

The number of other employees, whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown below:

	2011/2012		2012/2013	
	Non-Teaching Staff	Teaching Staff	Non-Teaching Staff	Teaching Staff
£50,000 - £54,999	42	56	29	43
£55,000 - £59,999	19	25	14	24
£60,000 - £64,999	2	30	8	24
£65,000 - £69,999	7	26	4	19
£70,000 - £74,999	4	6	4	8
£75,000 - £79,999	12	5	10	3
£80,000 - £84,999	2	3	1	4
£85,000 - £89,999	8	2	5	1
£90,000 - £94,999	3	1	3	1
£95,000 - £99,999	2	0	3	0
£100,000 - £104,999	0	2	0	0
£105,000 - £109,999	1	1	0	2
£110,000 - £114,999	1	0	0	0
£115,000 - £119,999	1	0	0	0
£120,000 - £124,999	2	0	0	0
£125,000 - £129,999	1	0	0	0
£135,000 - £139,999	1	1	1	0
£140,000 - £144,999	0	0	0	1
£205,000 - £209,999	0	0	0	0
£210,000 - £214,999	1	0	0	0

Please note that the reduction in both teaching and non-teaching staff whose remuneration exceeds £50,000 reflects significant organisational change within the Council during 2012/2013, including a number of schools transferring to Academy status and also the impact of the Council's severance scheme.

Notes to the Accounts (continued)

Over recent years the Council has implemented a range of workforce planning measures in order to address financial pressures. All costs relating to 2012/2013 are reflected within the Cost of Service on the Comprehensive Income and Expenditure Statement. However, it should be noted that the Comprehensive Income and Expenditure Statement also includes technical accounting adjustments required by Accounting Standards with regard to past service pension costs.

The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

2011/2012

Exit package cost band £'000	Number of agreed departures (Non-Teaching)	Cost of Exit Packages in each band (Non Teaching)			Number of agreed departures (Teaching)	Cost of Exit Packages in each band (Teaching)			Total Cost of Exit Packages in each band		
		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000	Payment to Employee £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	91	247	0	247	20	247	0	247	494	0	494
£20 - £40	2	49	0	49	22	534	0	534	583	0	583
£40 - £60	0	0	0	0	1	40	0	40	40	0	40
£60 - £80	0	0	0	0	1	69	0	69	69	0	69
£80 - £100	0	0	0	0	0	0	0	0	0	0	0
Total	93	296	-	296	44	890	-	890	1,186	-	1,186

2012/2013

Exit package cost band £'000	Number of agreed departures (Non-Teaching)	Cost of Exit Packages in each band (Non Teaching)			Number of agreed departures (Teaching)	Cost of Exit Packages in each band (Teaching)			Total Cost of Exit Packages in each band		
		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000		Payment to Employee £'000	Pension Costs £'000	Total Cost £'000	Payment to Employee £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	448	4,038	467	4,505	44	387	7	394	4,425	474	4,899
£20 - £40	227	4,540	1,602	6,142	6	147	0	147	4,687	1,602	6,289
£40 - £60	62	1,286	1,761	3,047	3	144	0	144	1,430	1,761	3,191
£60 - £80	29	643	1,314	1,957	1	73	0	73	716	1,314	2,030
£80 - £100	10	268	637	905	0	0	0	0	268	637	905
£100 - £150	8	235	690	925	0	0	0	0	235	690	925
£150 - £200	4	83	611	694	0	0	0	0	83	611	694
Total	788	11,093	7,082	18,175	54	751	7	758	11,844	7,089	18,933

Please note that:

- 2011/2012 does not reflect Pension Costs relating to exit packages. These costs have been included for 2012/2013.
- The total cost of £18.9m in 2012/2013 is made up of two elements; £11.8m which reflects payments to employees and £7.1m payments to the pension fund to reflect the strain on the fund costs arising from the early release of pensions.

Notes to the Accounts (continued)

Note 34 – External Audit Costs

Sunderland City Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

	2011/2012 £'000	2012/2013 £'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	299	180
Fees payable to external auditors in respect of statutory inspections	0	0
Fees payable to external auditors with regard to additional external audit services carried out by the appointed auditor	0	0
Fees payable to external auditors for the certification of grant claims and returns for the year	38	16
Fees payable in respect of other services provided by external auditors during the year	0	8
Rebate received relating to audit services in previous year	(24)	(19)
Total Costs	337	185

Note 35 – Dedicated Schools' Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/2013 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2012/2013 before Academy recoupment			193,615
Academy figure recouped for 2012/2013			41,039
Total DSG after Academy recoupment for 2012/2013			152,576
Plus			
Brought forward from 2011/2012			0
Less			
Carry forward to 2013/2014 agreed in advance			0
Agreed initial budgeted distribution in 2012/2013	11,308	141,268	152,576
In Year Adjustments	(531)	531	0
Final budgeted distribution in 2012/2013	10,777	141,799	152,576
Less			
Actual central expenditure	10,456		10,456
Less			
Actual ISB deployed to schools		141,799	141,799
Plus			
Local authority contribution for 2012/2013	0	0	0
Carry forward to 2013/2014	321	0	321

Notes to the Accounts (continued)

Note 36 – Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2011/2012 £'000	2012/2013 £'000
Credited to Services		
Revenue Grants:		
Department for Education - Dedicated Schools Grant	175,345	152,576
Department for Education - Standards Fund	869	0
Department for Education - Early Intervention Grant	16,062	16,278
Department for Education - Pupil Premium	3,788	6,317
Department for Education	349	417
Children's Workforce Development Council	496	0
Young People's Learning Agency	7,539	5,209
Skills Funding Agency	3,412	3,552
Department for Work and Pensions - Housing & Council Tax Benefit	149,306	153,797
Department for Work and Pensions	153	0
Department of Health - Learning Disabilities and Health Reform Grant	11,004	14,409
Department of Health	150	0
Communities and Local Government - PFI	3,734	3,734
Communities and Local Government - European Grants	185	519
Communities and Local Government - New Homes Bonus Grant	577	1,152
Communities and Local Government - Weekly Collection Grant	0	1,010
Communities and Local Government	353	311
Home Office	48	411
Youth Justice Board	1,033	1,014
New Deal for Communities	151	0
Sport England	284	49
Northern Arts	140	167
Other Grants	874	1,020
	375,852	361,942
Capital Grants:		
Department for Education	11,197	629
Department of Health	1,194	779
Communities and Local Government	1,777	2,145
Communities and Local Government - Single Housing Investment Pot	530	89
Department of Energy and Climate Change	0	486
Department for Transport	5,181	0
Homes and Communities Agency	1,947	370
One North East	1,000	0
Other Capital Grants	1,081	349
	23,907	4,847
Total	399,759	366,789

Notes to the Accounts (continued)

	2011/2012 £'000	2012/2013 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Grants:		
Revenue Support Grant	37,331	2,818
National Non Domestic Rates	120,771	145,368
Council Tax Freeze Grant	2,377	2,408
Local Services Support Grant	773	172
	161,252	150,766
Capital Grants:		
Department for Education	3,694	7,021
Department for Transport	634	5,517
Department of Health	254	104
Home Office	41	0
Homes and Communities Agency	755	77
One North East / CLG (European)	5,773	882
Heritage Lottery Fund	14	3
Department for Environment, Food and Rural Affairs	24	87
Commission for Architecture and the Built Environment	707	0
Other Capital Grants and Contributions	654	65
	12,550	13,756
Total	173,802	164,522

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the provider. The balances at the year-end are as follows:

	2011/2012 £'000	2012/2013 £'000
Capital Grant Receipts in Advance		
Department for Education	2,842	1,699
Department for Education - Sure Start	66	0
Department of Health	38	308
Communities and Local Government	741	725
Communities and Local Government - Single Housing Investment Pot	361	272
Department for Environment, Food and Rural Affairs	29	148
Homes and Communities Agency	4,063	3,694
One North East	161	0
Other Grants and Contributions	0	36
Total	8,301	6,882

Note 37 – Related Parties

The Council is required to disclose material transactions with related parties – 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

Central Government has significant influence 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

Notes to the Accounts (continued)

the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resource allocation decisions and further detailed in Note 36.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/2013 is shown in Note 32. In respect of the 2012/2013 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 Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £1.210m made by the Council in 2012/2013 (£2.154m in 2011/2012), of which £0.000 (£0.019m for 2011/2012) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £0.745m (£0.306m for 2011/2012) payments to companies and £0.465m (£1.828m for 2011/2012) 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 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. 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.

Officers

In respect of the 2012/2013 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 Council.

Entities Controlled or Significantly Influenced by the Council

Care and Support Sunderland Ltd

Care and Support Sunderland Ltd was established on 7th October 2011, following the administration and bankruptcy of Choices Care Ltd. Choices Care Ltd provided specialist learning disability care services to 95 residents in 17 homes in Sunderland, with two contracts collectively valued at around £6.8m per annum.

Care and Support Sunderland Ltd is a wholly owned subsidiary of Sunderland City Council. In the 12 months to 31st March 2013, the company's income amounted to £6.838m with expenditure of £7.359m generating a trading loss of £0.521m.

The company has no assets.

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 district councils of Tyne and Wear.

Members of the Company have a limited guarantee of £1. The Council acts as an agent for the Company in managing its property interests in Sunderland, as well as providing legal and financial services as Lead Authority, and makes a charge for these services against the Company's income. During 2012/13, the board of directors made the decision to review the role of TWEDCo and its related group of companies on the basis that both the economic development landscape had changed with the creation of the North Eastern Local Enterprise Partnership and that the local authorities were now providing a similar role to that of the company. A detailed due diligence process was carried out culminating in the Board approving the cessation of the company's trading activities from 30th April 2013, with a formal recommendation to voluntary liquidate the group of Companies before 30th June 2013.

The Voluntary Liquidation will terminate the Company and is scheduled for 27th June 2013 and a detailed heads of terms agreement has been agreed between the shareholders that reflects the

Notes to the Accounts (continued)

Company's winding up clauses in its articles of association and that also deals with some other financial issues. The draft management accounts to 30th April 2013, have confirmed the voluntary liquidation position to the Liquidator. Upon winding up of the Company, its property portfolio will transfer by location to each district council with any remaining cash balances, being distributed by population, once all liabilities have been addressed during the term of the liquidation.

The draft management accounts of the Company for the period from 1st April 2011 to 30th April 2013 show a consolidated trading loss of £0.616m (this position however reflects significant one-off costs associated with the Company's winding up and as a consequence there is no equivalent comparative figures) and had net assets worth £14.011m. The draft management accounts must be updated to the date of when the Voluntary Liquidation is approved by the Board, so the accounts provided may change as a result, but any changes at this stage will not be material.

The finances of the Company cease to exist once liquidated and all finances will then be overseen by the appointed Liquidator, in collaboration with Sunderland as Lead Authority. The year end reporting period for the 2011/12 accounting period was extended to 30th September 2012, as a result the accounts for this extended period are not required to be provided to Companies House if the Company is liquidated before 30th June 2013.

Any further information in respect of the liquidation once finalised can be acquired upon application to the Executive Director of Commercial and Corporate Services, at Sunderland City Council.

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council originally held a shareholding of 1,845 shares representing an 18.45% interest in the company. These shares are not held for trading outside of the LA7.

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last full independent valuation was carried out in May 2010 which valued the shareholding at £0.795m based upon the discounted cash flow method. This valuation approach was used as no open market share value was available for the holding.

On 16th November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors. As a result, the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.400m using the open market value of the shares. Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032. No dividends were payable for the year ended 31st December 2012, (nil for the year ended 31st December 2011).

Other than the loan notes there are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £2.361m and a profit after tax of £1.502m for the year ended 31st December 2012. In the previous year, the Group made a loss before tax of £2.884m and a profit after tax of £1.404m.

Notes to the Accounts (continued)

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.

The Council has a facilities management arrangement with the Ambassador Theatre Group for a fixed annual amount, the amount paid by the Council totalled £0.399m in 2012/2013, (£0.383m in 2011/2012).

In 2012/2013, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust made a small surplus of £20 in 2012/2013 (surplus of £25 for 2011/2012) which will increase its reserves to meet future costs. Its reserves as at 31 March 2013 now stand at £7,114 (£7,094 as at 31 March 2012). In 2012/2013 the Council made a contribution of £11,627 (£12,118 for 2011/2012) 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. A copy of the Trust accounts can be obtained from the Director of Commercial and Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

Beamish Museum Joint Committee and related companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, this totalled £15,903 in 2012/2013 (£15,903 in 2011/2012).

The Joint Committee is responsible for the assets of the Museum and makes all decisions on capital schemes and procuring grants for capital development. Beamish Museum Limited (a charitable company limited by guarantee) is responsible for managing and operating the Museum on behalf of the Joint Committee. A subsidiary of Beamish Museum Limited (BML), Beamish Museum Trading Limited (BMTL) manages all of the retailing and catering operations of the Museum.

In 2012/2013 the Joint Committee made an operating loss of £0.326m (2011/2012 £0.028m profit) and had net assets of £22.719m (2011/2012 £22.007m).

In 2012/2013 the BML and BMTL group made an operating loss of £0.460m (2011/2012 £0.162m loss) and had net liabilities of £1.282m (2011/2012 £0.944m net liabilities). The Council receives no income or contributions from the above reported arrangements. Copies of the Joint Committee's and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

North East Local Enterprise Partnership (NELEP)

The North East Local Enterprise Partnership (NELEP) is a strategic partnership committed to promoting and developing economic growth in the North East. NELEP covers the 7 Local Authority areas of Sunderland, Durham, Gateshead, Newcastle, North Tyneside, Northumberland and South Tyneside. The NELEP Board comprises, nine private sector representatives including the Chair, seven local authority representatives, one higher education representative and one representative of further education colleges.

The Council is the Designated Accountable Body for the NELEP and as such is required to account for revenue transactions within the Comprehensive Income and Expenditure Statement under agency arrangements. At 31st March 2013 the Council held £23.888m of funds in relation to NELEP (£25.270m at 31st March 2012). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts and there are no assets or liabilities belonging to NELEP reflected on the Council's Balance Sheet.

Notes to the Accounts (continued)

Other Relevant Information

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, Care and Support Sunderland Limited, Raich Carter Sports Centre, Pooled Budget Arrangements with the local Teaching Primary Care Trust, Tyne and Wear Care Alliance, Academies and Voluntary Aided Schools.

Note 38 – Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2011/2012 £	2012/2013 £
Opening Capital Financing Requirement	243,997	239,073
Derecognition of Embedded Lease Assets	0	(2,349)
Capitalisation Direction transfer from Unequal Backpay Account	0	3,081
<i>Capital Investment</i>		
Property, Plant and Equipment	40,944	26,615
Investment Properties	0	0
Intangible Assets	1,085	231
Revenue Expenditure Funded from Capital under Statute	14,985	26,960
<i>Sources of Finance</i>		
Capital Receipts	(819)	(13)
Government grants and other contributions	(32,181)	(16,950)
Sums set aside from:		
Direct revenue contributions	(17,361)	(6,234)
MRP	(11,577)	(10,941)
Closing Capital Financing Requirement	239,073	259,473
<i>Explanation of movements in year</i>		
(Decrease) in underlying need to borrow (supported by government financial assistance)	(8,032)	(2,448)
Increase in underlying need to borrow (unsupported by government financial assistance)	4,980	26,765
(Decrease) in underlying need to borrow of assets acquired under finance leases	(367)	(2,384)
(Decrease) in underlying need to borrow of assets acquired under PFI contracts	(1,505)	(1,533)
Increase / (decrease) in Capital Financing Requirement	(4,924)	20,400

Notes to the Accounts (continued)

Note 39 – Leases

Council as Lessee

Finance Leases

The Council has acquired a number of administrative buildings and vehicles under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2011/2012 £'000	2012/2013 £'000
Other Land & Buildings	11,198	11,175
Vehicles, Plant, Furniture and Equipment	2,286	0
	13,484	11,175

The reduction in Vehicles, Plant, Furniture and Equipment relates to a prior year adjustment in respect of embedded leases identified from contract vehicle hire arrangements. These arrangements were fully reviewed in 2012/13 and are not considered to be finance leases as they are short term contract vehicle hire arrangements.

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2011/2012 £'000	2012/2013 £'000
Finance Lease Liabilities (net present value of minimum lease payments):		
Current	383	16
Non-current	7,595	6,634
Finance costs payable in future years	2,823	0
Minimum lease payments	10,801	6,650

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	2011/2012 £'000	2012/2013 £'000	2011/2012 £'000	2012/2013 £'000
Not later than one year	1,402	16	537	16
Later than one year and not later than five years	2,811	63	1,985	63
Later than five years	6,588	6,571	6,570	6,571
	10,801	6,650	9,092	6,650

Operating Leases

The council has acquired a number of vehicles by entering into operating leases, with typical lives of seven years.

The future minimum lease payments due under non-cancellable leases in future years are:

Notes to the Accounts (continued)

	2011/2012 £'000	2012/2013 £'000
Not later than one year	74	51
Later than one year but not later than five years	50	20
Later than five years	0	0
	124	71

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £144,273 (2011/2012 £322,273).

The council has use of a small number of properties by entering into operating leases. The annual payment of £588,971 in 2012/2013 (2011/2012 £622,320) relates to the following periods:

	2011/2012 £'000	2012/2013 £'000
Not later than one year	224	276
Later than one year but not later than five years	100	18
Later than five years	298	295
	622	589

Council as Lessor

Finance Leases

The Council has leased out the following properties under finance lease arrangements:

- Bungalows lease to Three Rivers Housing – remaining lease 11 years
- Raich Carter Centre – remaining lease 13 years
- Marine Activity Centre – remaining lease 109 years

The Council has no investment remaining in these leases and receives only a peppercorn rent.

Operating Leases

The Council leases out under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2011/2012 £'000	2012/2013 £'000
Not later than one year	3,140	2,127
Later than one year but not later than five years	1,452	1,383
Later than five years	1,951	3,463
	6,543	6,973

Note 40 – Private Finance Initiatives and Similar Contracts

The Council currently operates two PFI schemes, with a third to become operational by April 2014:

- Sandhill View School and Community and Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library.

Notes to the Accounts (continued)

- The Council also entered into a PFI contract, on 12 August 2003, to provide replacement highway signs and street lighting, this includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028.
- The South Tyne and Wear Waste Management Partnership comprises Gateshead, Sunderland and South Tyneside Councils. A PFI contract has been signed with a consortium led by SITA for the Treatment and Disposal of Residual Municipal Waste for a period of 25 years from a planned service commencement date of April 2014. Gateshead performs the Lead Authority function with an Inter Authority Agreement and Authority Sub-Contacts between the partner authorities.

Property, Plant and Equipment

The assets used to provide services under the two existing PFI schemes are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment in Note 12.

Payments

The council makes agreed payments each year which are increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2013/2014	3,378	1,234	3,324	7,936
Payable within 2 to 5 years	15,828	5,051	12,120	32,999
Payable within 6 to 10 years	21,703	9,716	12,829	44,248
Payable within 11 to 15 years	24,062	14,328	7,758	46,148
Payable within 16 to 20 years	1,527	979	184	2,690
Payable within 21 to 25 years	0	0	0	0
Payable within 26 to 30 years	0	0	0	0
Total	66,498	31,308	36,215	134,021

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2011/2012 £'000	2012/2013 £'000
Balance outstanding at the start of the year	33,708	32,518
Payments during the year	(1,190)	(1,210)
Capital expenditure incurred in year	0	0
Balance outstanding at the year end	32,518	31,308

Note 41 – Impairment Losses

During 2012/2013, the Council recognised impairment losses totalling £4.285m (£7.933m in 2011/2012). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are works to various Council offices and other assets that will generate long term savings (£1.678m) and works to various schools (£0.940m).

Notes to the Accounts (continued)

Note 42 – Termination Benefits

The Council terminated the contracts of a number of employees in 2012/2013, incurring liabilities of £18.933m (£1.186m in 2011/2012). This included a limited number of compulsory redundancies (£0.096m relating to 29 employees). Of the total liability incurred, £0.758m related to teachers (£0.890m in 2011/2012). Please see Note 33 for the number of exit packages and the total cost per band.

Note 43 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers Pension Scheme, administered by the Department of Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/2013, the Council paid £9.665m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/2012 were £11.584m and 14.1%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

Note 44 – Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Notes to the Accounts (continued)

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012 £m	2012/2013 £m	2011/2012 £m	2012/2013 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	26.44	26.84	0.00	0.00
Past service cost	2.88	6.66	0.00	0.00
Settlements and curtailments	0.00	0.00	0.00	0.00
Financing and Investment Income and Expenditure				
Interest cost	63.80	63.27	2.43	2.15
Expected return on scheme assets	(59.92)	(56.66)	0.00	0.00
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	33.20	40.11	2.43	2.15
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement				
Actuarial gains and losses	150.40	45.67	3.55	3.03
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	183.60	85.78	5.98	5.18
Movement in Reserves Statement or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(0.88)	4.39	(0.89)	(1.33)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	34.08	35.72	3.32	3.48
Retirement payments payable to pensioners	38.58	46.38	0.00	0.00

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £425.33m (a loss of £376.63m at 31 March 2012).

Notes to the Accounts (continued)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligations):

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012	2012/2013	2011/2012	2012/2013
	£m	£m	£m	£m
Opening balance at 1 April	1,181.70	1,348.74	45.84	48.50
Current service cost	26.44	26.84	0.00	0.00
Interest cost	63.80	63.27	2.43	2.15
Contributions by scheme participants	8.78	7.80	0.00	0.00
Actuarial gains and (losses)	103.72	85.70	3.55	3.03
Benefits paid	(38.58)	(46.38)	(3.32)	(3.48)
Past service cost	2.88	6.66	0.00	0.00
Entity combinations	0.00	0.00	0.00	0.00
Curtailments	0.00	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing balance at 31 March	1,348.74	1,492.63	48.50	50.20

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2011/2012	2012/2013
	£m	£m
Opening balance at 1 April	790.96	808.48
Expected rate of return	59.92	56.66
Actuarial gains and (losses)	(46.68)	40.03
Employer contributions	34.08	35.72
Participant contributions	8.78	7.80
Benefits paid	(38.58)	(46.38)
Entity combinations	0.00	0.00
Settlements	0.00	0.00
Closing balance at 31 March	808.48	902.31

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected return on equity investments reflect long-term real rates of return experienced in the respective markets.

Notes to the Accounts (continued)

The actual return on scheme assets in the year was £96.69m (£13.24m in 2011/2012)

	2008/2009 £m	2009/2010 £m	2010/2011 £m	2011/2012 £m	2012/2013 £m
Present value of liabilities:					
Local Government Pension Scheme	920.91	1,276.85	1,181.70	1,348.74	1,492.63
Discretionary Benefits	46.40	50.04	45.84	48.50	50.20
Fair value of assets in the Local Government Pension Scheme	(538.38)	(752.77)	(790.96)	(808.48)	(902.31)
	428.93	574.12	436.58	588.76	640.52
Surplus / (Deficit) in the scheme:					
Local Government Pension Scheme	(382.53)	(524.08)	(390.74)	(540.26)	(590.32)
Discretionary Benefits	(46.40)	(50.04)	(45.84)	(48.50)	(50.20)
Total	(428.93)	(574.12)	(436.58)	(588.76)	(640.52)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £1,542.83m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a positive balance sheet worth of £341.312m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 are £30.47m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £3.55m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefit liabilities have been assessed by Aon Hewitt Limited an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

Notes to the Accounts (continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2011/2012	2012/2013	2011/2012	2012/2013
Long-term expected rate of return on assets in the scheme:				
Equity investments	8.1%	7.8%	N/A	N/A
Property	7.6%	7.3%	N/A	N/A
Government Bonds	3.1%	2.8%	N/A	N/A
Corporate Bonds	3.7%	3.8%	N/A	N/A
Cash	1.8%	0.9%	N/A	N/A
Other	8.1%	7.8%	N/A	N/A
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.6 years	21.7 years	21.6 years	21.7 years
Women	23.8 years	23.9 years	23.8 years	23.9 years
Longevity at 65 for future pensioners				
Men	23.4 years	23.5 years	23.4 years	23.5 years
Women	25.7 years	25.8 years	25.7 years	25.8 years
RPI	3.5%	3.6%	3.4%	3.5%
CPI	2.5%	2.7%	2.4%	2.6%
Rate of increase in salaries	5.0%	4.6%	N/A	N/A
Rate of increase in pensions	2.5%	2.7%	2.4%	2.6%
Rate for discounting scheme liabilities	4.7%	4.4%	4.6%	4.1%
Commutation - Pre 1 April 1998	50.0%	50.0%	N/A	N/A
Commutation - Post 31 March 2008	75.0%	75.0%	N/A	N/A

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2011/2012	2012/2013
	%	%
Equities	68.5	68.0
Property	9.2	9.0
Government Bonds	7.1	7.0
Corporate Bonds	11.6	11.0
Cash	1.9	1.6
Other	1.7	3.4
Total	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
	%	%	%	%	%
Difference between the expected and actual return on assets	(22.1)	26.8	3.6	(5.8)	4.4
Experience gains and losses on liabilities	1.3	2.3	1.0	(0.5)	0.1

Notes to the Accounts (continued)

Note 45 – Contingent Liabilities

The City Council, together with the other Tyne and Wear district councils, 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. Also in addition on 1st June 2011 the Council, in agreement with the other Tyne and Wear authorities, agreed to act as guarantors for the pension liabilities of the North East Regional Employers Organisation (NEREO), Disability North, the Percy Hedley Foundation and Tyne and Wear Enterprise Trust (ENTRUST) from 1st April 2011. The Councils involved have agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over a 10 year repayment period. The Council's share of the potential liabilities (based upon the latest Actuarial Valuation) in the unlikely event that all of the bodies should fail would be approximately £1.11 million in total.

The City Council acts as a guarantor for the No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees. The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to 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.

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.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy's claim and has sought advice from Queen's Counsel on this matter. The Council is reasonably confident that Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts. The claim continues to be resisted by the Council.

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The majority of claims have been stayed by the Employment Tribunal to allow settlement discussions to take place. A significant number of the claims have been settled, with efforts ongoing to settle the remainder of the stayed cases.

The Environment Agency has confirmed that the Council is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works cannot yet be accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. The first stage of the remediation process is for the organisations concerned to jointly instruct an independent third party to undertake a detailed investigation of the site, in order to obtain a clearer understanding of the condition of the land. The position is being kept under regular review and it is considered prudent to treat it as a contingent liability.

The Council has been made aware of its share (0.4022%) of the potential pensions fund liabilities in respect of Port of Sunderland staff that belong to the Pilots' National Pension Fund. The liability becomes effective from 1st April 2015 and the amounts involved will be dependent upon the actuary's advice at that time. An indicative liability totalling approximately £0.800 million has recently been provided, with redress to be spread annually over a projected 14 year period, until 2028.

Notes to the Accounts (continued)

Note 46 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with HM Revenue and Customs (HMRC) in relation to overpaid output tax, the value of these claims amounts to £4.750m. However HMRC has been successful in refuting these claims and there is now doubt about the probability of a successful conclusion for recovery of these claims. There is continuing litigation against HMRC and as the position has not yet been fully resolved, the Council has reflected its claims as a contingent asset pending a final decision by the courts.

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.253m.

The Council entered into an agreement with St Modwen Developments Ltd to make phased payment contributions to educational facilities. The monies will be paid to the Council upon phased sale of properties at the development of land at Lisburn Terrace / Pallion New Road, the timing of which is uncertain. The total value of the agreement is £0.345m and as the first phase of the development has been reached in early May 2013 the Council will receive its first stage payment of £0.122m which effectively reduces the estimated amount outstanding to £0.223m.

The Council also has a number of other smaller Section 106 Agreements in place that may generate contributions from the various developers involved, once certain trigger points in the phased developments occur. These developments are actively monitored by the Council during each financial year in order to safeguard the amounts due.

Note 47 - 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 principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies that are on the Council's Approved Lending List. The counterparty criteria and associated investment limits are set out in the table below, taking account of the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's):

Notes to the Accounts (continued)

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

In addition to the criteria identified above limits are also placed on the country in which the institution is resident, the sector of the institution and if companies are members of a group of companies then a limit is placed on the group. Full details of these limits can be found in the Council's Treasury Management Policy and Strategy

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

	Amount at 31 March 2013 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2013 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2013 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2012 £'000
Deposits with Banks and other financial institutions	188,119	0	0	0	0
Bonds and other securities	0	0	0	0	0
Customers	14,473	3.60	0	515	481
Financial Assets	202,592		0	515	481

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

The Council does not generally allow credit for customers, such that £14.473m of the £45.459m is beyond its due date for payment. The past due amount can be analysed by age as follows:

Notes to the Accounts (continued)

	31 March 2012 £'000	31 March 2013 £'000
Less than 3 months	11,958	13,453
Three to six months	309	435
Six months to one year	359	347
More than one year	283	238
	12,909	14,473

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 of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities is as follows:

Loans Outstanding	2012 £'000	31 March 2013 £'000
Less than 1 year	36,707	35,849
Maturing in 1-2 years	5,047	10,095
Maturing in 2-5 years	10,194	5,515
Maturing in 5-10 years	23,249	24,250
Maturing in 10-20 years	10,202	5,154
Maturing in 20-30 years	25	22
Maturing in 30-40 years	15,000	26,000
Maturing in 40-50 years	84,500	73,500
Maturing in more than 50 years	35,215	35,208
Total	220,139	215,593

All trade and other payables are due to be paid in less than one year.

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 Council is summarised below:

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

Notes to the Accounts (continued)

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 Council'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.

According to this assessment strategy, at 31st March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2012 £'000	31 March 2013 £'000
Increase in interest payable on variable rate borrowings	(498)	(390)
Increase in interest received on variable rate borrowings	2,134	2,415
Net Impact on Income and Expenditure Account	1,636	2,025
Decrease in fair value of 'available for sale' investment assets	0	0
Impact on MiRS	0	0
Decrease in fair value of fixed rate investment assets (No impact on Comprehensive I&E Statement or MiRS)	(705)	(586)
Decrease in fair value of fixed rate borrowing liabilities (No impact on Comprehensive I&E Statement or MiRS)	28,031	30,284

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16,400,181 (2011/2012 £795,123) in Newcastle Airport which is not listed on the stock exchange. The Council is consequently exposed to any variation arising from the movement in the price of these shares which were re-valued in 2012/2013 as a result of a change in strategic partner for the Airport during the re-financing process, which provided a 'market' price on which to base the valuation of the shares held by the council.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2011/2012 £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 MiRS. The market value of these holdings as at 31st March 2013 was £134,976 in total (the value at 31st March 2012 was £110,986).

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Notes to the Accounts (continued)

Note 48 – Heritage Assets: Five-Year Summary of Transactions

	2008/2009 £'000	2009/2010 £'000	2010/2011 £'000	2011/2012 £'000	2012/2013 £'000
Cost of Acquisitions of Heritage Assets					
Collections held by Tyne & Wear Museums	0	0	7	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Cost of Purchases	0	0	7	0	0
Value of Assets Acquired by Donation					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Donations	0	0	0	0	0
Proceeds from Disposal					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art	0	0	0	0	0
Other Historic Assets	0	0	0	0	0
Total Proceeds	0	0	0	0	0
Carrying Value	0	0	10	0	0
Proceeds	0	0	0	0	0

Note 49 – Heritage Assets: Further Information on the Council's holdings and Accounting Policy

Collections held by Tyne & Wear Museums

Sunderland City Councils share of the artefacts held by Tyne & Wear Museums with a value in excess of £10,000.

Statues, Monuments and Public Art

The values of statues, monuments and public art where the value can be separately identified have been classified as heritage assets. In the future all capital expenditure in excess of £10,000 on such items will be classified as heritage assets.

Other Historic Assets

Other objects held by the Council with a value in excess of £10,000 that can be classified as historic assets. Items include, the book of remembrance, copy of the Lindisfarne gospels, miners' banners, etc.

Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 introduced a change to the treatment in accounting for heritage assets held by the Authority. Heritage assets are now required to be carried in the balance sheet at valuation.

From 2011/2012 the Council was required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classifications in the Balance Sheet or were not recognised in the Balance Sheet and it was not possible to obtain cost information on the assets. Community Assets (that are now classed as Heritage Assets) that were donated to the Council are held at valuation as a proxy for historical cost. The Council has not recognised any assets previously held as community assets as heritage assets, this is because the cost of revaluing elements of community assets outweighs the benefit of the disclosure. Capital schemes on community assets are now analysed and any of the expenditure in excess of £10,000 relating to Historic Assets is capitalised as Historic Assets and held at historic cost. Revaluations, impairments or disposals are actioned against this balance sheet valuation. This is departure from the Code of recommended practice on Local Authority Accounting in England and Wales 2012/2013.

Notes to the Accounts (continued)

The Council has recognised collections held by Tyne and Wear museums for artefacts with a value in excess of £10,000 and assets valuations held on the Council's insurance schedule for assets classified as historic assets with a value in excess of £10,000.

In applying the new policy the Council identified an additional £11.357m for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is also recognised in the Revaluation Reserve.

Comprehensive Income and Expenditure

There is no impact on the Comprehensive Income and Expenditure Statement.

Note 50 – 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 2013 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.

	Balance at 01/04/2012 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	Balance at 31/03/2013 £'000
Childrens Services Trust Funds	72	0	1	(15)	58
Adult Services Trust Funds	71	0	0	0	71
	143	0	1	(15)	129

Supplementary Statement

Collection Fund Account for Year Ended 31 March 2013

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	Note	2011/2012		2012/2013	
		£'000	£'000	£'000	£'000
Income					
Council Tax	51		109,286		110,409
Government Grants	54		1		0
Income from Business Rates	52		81,288		83,325
			<u>190,575</u>		<u>193,734</u>
Expenditure					
Precepts and Demands:					
City of Sunderland			95,128		96,356
Tyne and Wear Fire and Rescue Authority			5,896		5,972
Northumbria Police			6,744	107,768	6,830
					109,158
Business Rates - Payment to pool	52		77,454		80,616
Business Rates - Cost of collection and other allowances.	52 & 53b		3,834	81,288	2,709
					83,325
Amounts Written Off:					
Council Tax	53a			381	428
Provision for uncollectable amounts:					
Council Tax				207	0
				<u>189,644</u>	<u>192,911</u>
Net Income (Deficit) for the Year			931		823
Add balance b/fwd from previous year			1,894		2,325
Less Amounts transferred to General Fund					
Council Tax Surplus			(500)		(500)
Fund Balance Carried Forward at 31 March	55		2,325		2,648

Notes to the Collection Fund Account

51 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into one of 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, £1,342.80 for 2012/2013, (£1,342.80 for 2011/2012), 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	2011/2012	2012/2013
	£ p	£ p
A	43,630.75	44,060.39
B	11,320.33	11,614.51
C	12,476.93	12,650.80
D	7,290.22	7,342.65
E	3,223.52	3,284.43
F	1,303.37	1,322.34
G	899.15	901.36
H	22.55	25.28
	80,166.82	81,201.76

The income of £110,408,844 for 2012/2013, (£109,286,032 for 2011/2012), is receivable from the following sources:

	2011/2012	2012/2013
	£'000	£'000
Billed to Council Tax Payers	82,596	84,058
Council Tax Benefits	26,690	26,351
Total	109,286	110,409

Notes to the Collection Fund Account (continued)

52 – 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 2012/2013 can be analysed as follows:

	2011/2012		2012/2013	
	£'000	£'000	£'000	£'000
Gross Rates Collectable		81,288		83,325
Less:				
Costs of Collection Allowance	(329)		(334)	
Other Allowances and Adjustments Reclaimable	(2,489)		(1,621)	
Business Rates amounts Written Off	(1,016)	(3,834)	(754)	(2,709)
Amount Payable to Pool		77,454		80,616

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 2012/2013 the Council received a contribution from the pool of £145,367,560 which is payable directly to the General Fund, (in 2011/2012 this figure was £120,771,129).

The Total Business Rateable value as at 31 March 2013 was £216,079,910 (the value as at 31st March 2012 was £217,160,151). The Business Rates Multiplier (poundage) for 2012/2013 was 45.8 pence compared to the previous year's figure of 43.3 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 45.0 pence in 2012/2013, (compared to 42.6 pence in 2011/2012).

53 – 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 2012/2013 £427,819 (£381,067 for 2011/2012) 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 has already been accounted for in a previous period. To put this figure into context, the amount written off compared to the collectable Council Tax for 2012/2013 represents 0.39% (2011/2012 was 0.35%) of the total sum.

b) Business Rates

In 2012/2013 £754,346 was written off, (2011/2012 £1,016,422), 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. This affects the payments to the National NNDR Pool and not the Council's resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2012/2013 represents 0.91% (2011/2012 was 1.24%) of the total sum.

54 – Government Grants

	2011/2012	2012/2013
	£'000	£'000
Transitional Relief Grant	1	0

Notes to the Collection Fund Account (continued)

55 – Fund Balance

The fund balance can be analysed as follows:

	2011/2012 £'000	2012/2013 £'000
Sunderland City Council	2,053	2,339
Northumbria Police Authority	145	165
Tyne & Wear Fire and Rescue Authority	127	144
Total Collection Fund Balance	2,325	2,648

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 £164,959 and £144,219 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £2,339,181 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.