

**Statement
of
Accounts**

2007/2008

(Subject to Audit)

Contents

Cabinet 2007/2008	3
Introduction	4
Certification of the Statement of Accounts	5
Foreword by the City Treasurer	6
Statement of Responsibilities for the Statement of Accounts	19
Certificate of the City Treasurer	20
Draft Audit Certificate	21
Statement of Accounting Policies	24
Annual Governance Statement	37
Core Financial Statements:	
Income and Expenditure Account	46
Statement of Movement on the General Fund Balance	47
Statement of Total Recognised Gains and Losses	48
Balance Sheet	49
Cash Flow Statement	50
Notes to the Core Financial Statements	51
Supplementary Statement:	
Collection Fund Account	97
Notes to the Collection Fund Account	98
Glossary of Terms	100

Cabinet 2007/2008

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

Member	Portfolio
Councillors	
R. Symonds (up to 13/5/08) P. Watson (from 14/5/08)	Leader of the Council
P. Watson (up to 13/5/08) Mrs F. Anderson (from 14/5/08)	Deputy Leader of the Council
D. Allan	Resources
Mrs P. Smith	Children's Services
E. Timmins	Adult Services
J. Lawson (up to 5/5/08) J. Blackburn (from 14/5/08)	Planning and Transportation
H. Trueman	Housing and Public Health
Ms K. Rolph	Neighbourhood and Street Services
B. Charlton	Regeneration and Community Cohesion
M. Speding	Culture and Leisure

Statement of Accounts

Introduction

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

With regard to corporate governance, we are pleased to be able to report that the Council considers an annual review of its Code of Corporate Governance, and Cabinet received the review of 2007/2008 in June 2008. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council has the majority of documentary evidence, processes and measures in place and identified a small number of areas for improvement and development, which will be acted upon during 2008/2009.

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

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

Dave Smith
Acting Chief Executive

Keith Beardmore
City Treasurer

Councillor Paul Watson
Leader of the Council

Dated: 30th June 2008

Certification of the Statement of Accounts

As Chairman of the Audit and Governance Committee held on 30th June, 2008, I hereby acknowledge receipt of the Statement of Accounts (Subject to Audit) for 2007/2008 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 30th June, 2008 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Mr. G.N. Cook
Chairman of the Audit and Governance Committee
Dated: 30th June, 2008

Foreword by the City Treasurer

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2007/2008. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2007'. The Code of Practice constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2003 and Amendments to those Regulations in 2006, and the Local Government and Housing Act 1989.

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

- 1. A Statement of Accounting Policies**
This discloses the accounting policies that are significant to the understanding of the Statement of Accounts and the Authority's financial position.
- 2. Annual Governance Statement**
This statement sets out the principal arrangements that are in place to ensure a sound system of internal control is maintained.
- 3. Statement of Responsibilities for the Statement of Accounts**
This discloses the respective responsibilities of the Authority and the Chief Finance Officer.
- 4. The Core Financial Statements**

Income and Expenditure Account

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

Statement of the Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses (STRGL)

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

Balance Sheet

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

Cash Flow Statement

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

Foreword by the City Treasurer (continued)

5. Notes to the Core Financial Statements (including pensions disclosures)

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

6. Supplementary Statements

Housing Revenue Account

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

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

Collection Fund Account

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

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2007/2008 to be met from Government Grants and local taxpayers was approved at £229.575m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts and including both the Police and Fire and Rescue Authority precepts, was set at £1,246.52 for 2007/2008. This represented a Council Tax increase of 3.46% over the 2006/2007 Band D Council Tax of £1,204.78. The Council actually set the lowest Council Tax level in the whole of the North East region for 2007/2008 and continued to raise the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

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

Foreword by the City Treasurer (continued)

	2007/08 Original Estimate £000	2007/08 Revised Estimate £000	2007/08 Actual £000	2006/07 Actual £000
Expenditure on Services	214,783	214,896	200,536	214,176
Levies and Precept	17,687	17,687	17,682	17,170
(Surplus)/Deficit from Trading Operations and Dividends	0	0	(54)	126
Transfers to/(from) Capital Reserves	0	0	15,864	16,576
Transfers to/(from) Revenue Reserves:				
Landfill Allowance Trading Scheme Reserve	0	0	(350)	322
Standards Fund Reserve	0	0	(5,704)	(635)
PFI Smoothing Reserves	0	0	1,053	1,023
Pension Reserve	3,640	178	(7,940)	(2,070)
Insurance Reserve	0	0	350	(2,313)
Inward Investment Reserve	0	0	(199)	(254)
School Meals Consortium Reserve	0	0	(58)	86
Service Pressures and Priorities Reserve	0	0	(975)	851
Repairs and Renewals Reserve	0	0	1,288	0
Economic Development Reserve	0	0	1,225	0
Waste Disposal Reserve	0	0	345	0
Energy Costs Reserve	0	0	1,000	0
Port Reserve	0	0	380	0
Connexions Related Reserves	0	0	897	0
Commuted Sums Reserve	0	0	1,898	0
School Community Reserve	0	0	2,323	0
Amenity Areas Reserve	0	0	764	0
Play Areas Reserve	0	0	1,703	0
All Other Revenue Reserves	0	0	1,410	(27)
Other – Exceptional Items				
Provision (net) for Equal Pay Future Payments	0	0	(305)	(1,644)
Provision for Insurances	0	0	(1,285)	(1,546)
Newcastle Airport Refinancing Receipt	0	0	0	(15,314)
Total Net Expenditure	236,110	232,761	231,849	226,527
Financed by:				
Revenue Support Grant and General Grants	20,303	20,303	20,610	27,168
National Non Domestic Rates	120,983	120,983	120,983	116,587
Council Tax Collection Fund Receipts	87,789	87,789	87,789	85,002
Community Charge Surplus	0	0	0	6
Council Tax Surplus	0	500	500	441
Total Net budget Requirement	229,575	229,575	229,882	229,204
Addition / (Use):				
General Reserve (See Note 2)	(6,535)	(3,186)	(3,396)	3,774
Schools LMS Reserve (See Note 3)	0	0	1,429	(1,097)
General Fund Balances brought forward				
– General Reserve (See Note 1)	15,193	15,193	15,404	11,419
– School LMS Reserves	4,172	4,172	4,172	5,269
General Fund Balances carried forward				
– General Reserve (See Note 2)	8,658	12,008	12,008	15,193
– School LMS Reserves	4,172	4,172	5,601	4,172

The variations are explained overleaf:

Foreword by the City Treasurer (continued)

Note 1 – General Reserve

The difference of £0.211m to the General Reserve figure of £15.404m compared to the previous years figure of £15.193m relates to a prior period adjustment required in respect a to change its accounting treatment of financial instruments. [Note 1 on page 51](#) to the Statement of Accounts shows more details of these changes.

Note 2 – General Reserve

The above table shows a decrease in the general reserve balance of £3.185 million (after taking into account a SORP prior year technical adjustment of £0.211 million), as forecast at the revised estimate stage and after taking into account items reported to Cabinet as part of the outturn report.

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

- £1.289 million in respect of the repayment of temporary financing made available to assist in the implementation of the modernisation programme in respect of Adult Services;
- £1.000 million transfer to balances from the Council's Insurance Provisions and Reserves following the annual actuarial review;
- £2.466 million as a result of interest and debt charge savings primarily as a result of favourable interest rates experienced during the latter part of the year;
- £0.877 million in respect of unutilised contingencies after approved earmarking of unutilised contingencies where expenditure will or is very likely to be incurred in 2008/2009;
- £0.969 million relating to other underspendings on non delegated budgets.

and the following use of balances;

- approved earmarking of balances of £1.042 million to meet priorities and service pressures;
- approved transfer to the Strategic Investment Reserve of £5.560 million to provide for capital programme pressures, and potential equal pay / single status issues.

Note 3 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the SORP, forms part of the Statement of Movement in General Fund Balances. The movement in LMS balances during 2007/2008 amounted to a net return to balances of £1.429 million (£1.097 million reduction in 2006/2007), which means that this effectively reduced spending by schools which is reflected in the Statement of Accounts within the Income and Expenditure Account on the Education cost of service line.

As a result, the balance of this reserve as at 31st March 2008 increased to £5.601 million compared to £4.172 million as at 31st March 2007. Further details are set out in [Note 47 on Page 84](#).

Foreword by the City Treasurer (continued)

Capital Expenditure and Income

Capital Expenditure for the year totalled £73.442 million, this is made up of Council expenditure of £69.692 million and capital expenditure of £3.750 million relating to externally funded schemes where the Council acts as the Accountable body and must include this in its Statement of Accounts. Supported Capital Expenditure Revenue, SCE(R), enabled the Council to borrow £7.972 million to finance capital expenditure, the balance being financed by Unsupported Borrowing of £1.376 million, Capital Receipts of £13.055 million, Government Grants of £38.132 million, Other Grants and Contributions of £8.103 million, Revenue Contributions of £4.066 million and Use of Reserves of £0.738 million. A summary of the Council's capital expenditure and income is shown in [Note 23 on Pages 72 to 74](#) to the Balance Sheet.

Euro

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

Private Finance Initiative (PFI) Schemes – Sandhill Centre and Highway Street Lighting and Signs

The Council's first Private Finance Initiative (PFI) project opened in September 2002. It provides 21st century school provision with extensive internal and external sports facilities plus a range of additional services for the residents of the City. The Council has entered into a contract with a private sector contractor to provide the services and facilities over a 25 year term that expires in September 2027. During the term of this contract the Council pays a 'unitary' charge for the use of the facility and services provided. The contract was the subject of detailed negotiations to secure best value for the Authority under these arrangements.

The Council also entered into a PFI contract, on 12th August 2003, with Balfour Beatty Power Networks Ltd to provide replacement highway street lighting and signs, which includes ongoing maintenance, over a period of 25 years. The contract began on 1st September 2003 and will run until 31st August 2028.

Strategic Change Programme - Customer Service Centres

Investment in the development of the Customer Service Network (CSN) has continued in 2007/2008. One of the early centres completed, the Bunny Hill Centre, has been nationally acclaimed for its approach to customer contact. It is a good example where a range of service partners have come together to provide both local and city-wide services from one access point. The centre was also short-listed for the national LGC awards in the Transformational Government category.

To date, 8 Customer Service Centres and 1 mobile unit are fully operational across the city, these include:

Foreword by the City Treasurer (continued)

- Grangetown
- Civic Centre
- Hetton
- Bunnyhill
- Houghton
- Shiney Row
- Sandhill
- Highfield

Non-assisted Customer Service Access points are also available at the following locations:

- Silksworth Extended School
- Dubmire Primary School
- Wessington Extended School

There are 8 street based kiosks throughout the city at the following locations:

- High Street West (City Centre)
- Town Square (City Centre)
- Park Lane Interchange (City Centre)
- Villette Road (Hendon)
- Newbottle Street (Houghton)
- Transport Interchange (Hetton)
- Fulwell Library (Fulwell)
- Washington Leisure Centre (Washington)

In addition, the following Customer Service Centre's are in the process of being developed:

- Ryhope
- Washington
- Doxford Park
- Southwick
- Silksworth

A virtual contact centre is also currently being developed, which will create a robust telephony platform for both the contact centre and the wider customer service network. Importantly, it will allow staff across the network to answer calls at peak times, with the aim of increasing customer satisfaction in accessing council services.

The ethos of delivering excellent customer service is embedded throughout the Council and is seen as a key driver for service improvement. The network continues to receive high levels of customer satisfaction, however, to ensure the Customer Service Network adapts to changing customer trends and demands it is constantly under review to ensure it is best positioned, and structured to meet existing and future customer needs.

Comprehensive Performance Assessment (CPA)

The result of the Council's Comprehensive Performance Assessment (CPA), "the harder test", was released in February 2008 and it is pleasing to report that, for the sixth year in succession, the Council again scored '4' (the highest score possible) and is only one of twelve Councils to achieve the top rating since CPA was first introduced.

Foreword by the City Treasurer (continued)

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

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

Building Schools for the Future

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

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

The project consists of two procurements:

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

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

Contracts were signed for Red House Academy on 18th April 2008 and it is anticipated that contracts for the two major refurbishments at Biddick and St Robert of Newminster schools will be signed later in 2008/2009. The three new academies and Washington School are due to open in September 2009 and the two schools which will be subject to major refurbishment in Spring / Summer 2010.

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

Foreword by the City Treasurer (continued)

The final phase of the BSF programme in Sunderland covering the remaining nine secondary schools is provisionally included in Wave 7 (commences 2011/2012) of the national programme with a planned completion date of 2013.

Connexions

In response to the Government's 'Youth Matters' Green Paper the Tyne and Wear authorities decided to re-organise the Connexions Tyne and Wear service. Instead of the full Connexions service being provided through the partnership across the sub-region, each local authority will offer its own Connexions service from 1st April 2008 e.g. Connexions Sunderland or Connexions North Tyneside. This enables each local authority to fit their Connexions service into their Children's Trust arrangements and then join it up with other services that work with children and young people in each area. This will help facilitate the development of a new Integrated Youth Support Service at each local authority level.

Each local authority agreed that, in accordance with TUPE, staff in the local Connexions delivery teams would transfer to their respective Tyne and Wear authority from Sunderland City Council, which had acted as Host Authority for the Connexions Tyne and Wear service under a partnership agreement. The TUPE transfer was successfully completed on 1st April 2008.

The Tyne and Wear authorities also agreed that some common services required by all of the local delivery teams would be better provided at a Tyne and Wear level. These services are referred to as the Connexions Hub Service. Sunderland City Council has again agreed to act as the Host Authority for this new joint arrangement. A Shared Services Agreement was duly signed by each of the Tyne and Wear authorities in April 2008.

Some funding was made available by the DCSF through a Transition Support Fund to support the costs of transition from a Connexions Tyne and Wear service to the new local authority based Connexions service arrangements, and all of these changes are reflected correctly in the Statement of Accounts in accordance with the Statement of Recommended Practice.

Accounting for Pensions

The accounts continue to be fully compliant with Financial Reporting Standard 17 (FRS17). Although FRS17 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. FRS17 is a better reflection of the economic reality of the relationship between an employer and the pension fund than the previous standard it replaced, SSAP 24. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the Pension Fund.

The Council continues to fully comply with this Standard and the Accounting Policy on **Pages 29 and 30** and the Notes to Core Financial Statements provide details of the

Foreword by the City Treasurer (continued)

necessary disclosures required.

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

The financial health of the Council is consequently being affected by the accounting requirements in respect of FRS17 but this needs to be taken into context as the Pension Fund Reserve Deficit reflected in the Balance Sheet (page 49), as assessed by the Actuary, as at 31st March 2008 is being addressed by the Council in line with government regulations (whereby a period of up to 25 years to correct the deficit position has been agreed), which the Council can meet with planned and agreed future years contributions based on independent actuarial advice.

Cost of Pensions

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

Efficiency

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

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

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

The Council has embraced and responded very positively to the requirements presented through the government's national efficiency review, which required local authorities to achieve a minimum 7.5% cumulative saving over the three financial years 2005/2006 to 2007/2008, using 2004/2005 as the base position.

Efficiencies identified for 2004/2005, which are ongoing through to 2007/2008 count against the cumulative targets. To the end of 2007/2008 cumulative ongoing efficiencies of £29.720million, (of which £20.844million (8.3%) were cashable savings), were forecast to be identified equating to 11.9%. The in year target for 2007/2008 of 3.0% was set above the government target of 2.5%. The in year 3.0% target has been exceeded.

It is worth noting that the Council exceeded the government's three year target of 7.5% by the end of 2006/2007 and has achieved significantly higher efficiencies than the

Foreword by the City Treasurer (continued)

governments overall target.

The Council is currently considering how it can meet, and if possible exceed the efficiency challenges set by the government, in its Comprehensive Spending Review 2007 (CSR07), whereby an overall target has been set for local government of 3% cashable efficiencies for each of the next three years.

Changes to the Statement of Recommended Practice (SORP) 2007

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2007 (SORP) introduced some major changes to the Statement of Accounts for 2007/2008. The substantive changes are set out below for information, with most changes affecting Sunderland Council's Statement of Accounts for 2007/2008.

- Adoption of Financial Reporting Standards, FRS 25, FRS26 and FRS29, which replace the previous accounting standards FRS4 and FRS5, and which deal with significant changes in the accounting treatment of financial instruments covering the areas of soft loans, borrowings, financial guarantees and investments;
- The replacement of the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA) by a Revaluation Reserve and Capital Adjustment Account. This change was trailed in the SORP 2006 and requires a prior year adjustment with the creation of a Revaluation Reserve with an opening balance set to Zero. This means that the FARA and CFA balances are also transferred to the newly created Capital Adjustment Account as a prior year adjustment;
- New guidance has been included for accounting for Local Area Agreement Grant;
- Additional disclosures are required in respect of charitable trusts consolidated into Group accounts;
- The SORP has also clarified which bodies are governed by it;
- The Application of Accounting Standards has been updated for changes in Accounting Standards, Financial Reporting Standards (FRS's) and Urgent Issue Task Force (UITF) Abstracts made up to 30th September 2006;
- Firefighter Pension Scheme accounting and funding arrangements adopted in England from 1st April 2006 will apply to all Fire and Rescue Service Authorities in Wales from 2007/2008;
- The Business Improvement Districts Schemes (BIDs) guidance has been amended to include schemes operating in Scotland and Wales;
- The Landfill Allowance Trading Schemes (LATS) has been amended to include the accounting requirements for schemes operating in Northern Ireland.

The Statement of Accounts (Subject to Audit) for 2007/2008 complies with the Statement of Recommended Practice 2007 except where departures from the SORP are noted, including reasons for departure.

Foreword by the City Treasurer (continued)

Major Acquisitions, Capital Works and Disposals during 2007/2008

The Council has not made any major acquisitions of either land or property during 2007/2008.

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

The main schemes are listed below for information, and show the amounts of expenditure incurred during 2007/2008, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

Scheme / Project	Expenditure during 2007/2008 £000	Total Currently Estimated Gross Costs £000	Completed / In Progress as at 31st March 2008
Sunderland Aquatic Centre	12,520	23,808	Completed
Southern Radial Route	6,299	37,856	Completed
The Place, Sunnyside	2,517	4,366	In Progress
Hetton Lyons Replacement Primary School	2,372	5,263	In Progress
Ryhope Customer Services Centre	1,763	2,277	In Progress
Southwick / Carley Hill Replacement Primary School	1,294	7,581	In Progress

There were four major asset disposals (over £500,000) made during the year, one related to the disposal of land for housing at a former school site, whilst the other sales related to disposal of land to aid regeneration. These are set out below for information:

Asset Disposals	Total Receipt £000
Former Wellbank School site	700
Land at Amberley Street and Harrogate Street, Hendon	691
Land on West side of Parkway, Washington	500
Land at High Street West, Sunderland	500

Authority's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Strategy submitted to Council on 7th March 2007 detailed the 2007/2008 borrowing limits for the Council.

The specific borrowing limits set related to two of the Prudential Indicators, which were required under the Prudential Code, which was introduced on 1st April 2004. The Authority was required to set borrowing limits for the following three financial years. The limits for 2007/2008 were as follows:

- Authorised Limit for External Debt for 2007/2008 of £300.526m
- Operational Boundary for External Debt for 2007/2008 of £219.597m.

Foreword by the City Treasurer (continued)

As part of the Authority's Treasury Management operation, these two Prudential Indicators have been monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2007/2008.

The highest level of external debt incurred by the Council in respect of the above limits, during 2007/2008, was £202.248m from 15th February 2008 to 25th February 2008.

Single Status

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

Equal Pay claims

The Council has received, both prior to and during 2007/2008, a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Following the receipt of legal advice from leading Counsel, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. Whilst a large number of claims have been settled, a number of other claims remain outstanding where the legal advice is that offers of settlement should not be made. These claims will be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

Insurance Provision

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements which aim to embed risk management throughout the organisation. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself and this is one of the main reasons why it is possible to return provisions for insurance costs to Council balances in 2007/2008.

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

Annual Report and Summary Annual Report

Last year the Council improved its Annual Report by providing clearer links between the accounting information and the performance of the Council in its use of resources by incorporating its Value for Money and efficiency frameworks into the document. It also produced a predominantly web-based detailed Annual Report in response to feedback received from consultations carried out with stakeholders, including representatives from

Foreword by the City Treasurer (continued)

the public, business and partner organisations. The document also included the Council's Summary Statement of Accounts to inform stakeholders of the financial position of the Authority.

The Council, in addition, produced a Summary Annual Report which, included a very high level summary of financial information, based on the Statement of Accounts, and then set out the key achievements made by the Council in the year. This development was designed to encourage more people to take an interest in the Council's performance and financial position and to be able to quickly inform the public about the Council and what it had achieved in an easy to read format.

It is pleasing to report that our external auditors viewed these developments as best or notable practice in their CPA assessment and awarded the Council the top score (4 out of 4) in respect of this Key Line of Enquiry requirement of the Financial Reporting element within the Use of Resources area – 'The Council promotes external accountability'.

Keith Beardmore CPFA
City Treasurer
30th June 2008

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The City Treasurer's Responsibilities

The City Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March, 2008.

Certificate of the City Treasurer

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

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

I have also:

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

The accounts set out in the following pages fairly present the financial position of the City of Sunderland Council at 31st March 2008 and its income and expenditure for the year then ended.

Keith Beardmore CPFA
City Treasurer

30th June 2008

Auditor's report to the Members of Sunderland City Council

Opinion on the financial statements

I have audited the financial statements of Sunderland City Council for the year ended 31 March 2008 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, the Income and Expenditure Account, the Statement of the movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'the statement on internal control in local government: meeting the requirements of the accounts and audit regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

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

preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31st March 2008 and its income and expenditure for the year then ended.

Signature:

Date:

**Name: Mrs L. Snowball
District Auditor – Audit Commission**

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

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

Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

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

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- *certifying that I have done so;*
- *stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and*
- *where relevant, making any recommendations under section 7 of the Local Government Act 1999.*

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March 2008.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on xx xxxxxxxxxxxx 2008. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:

Date:

**Name: Mrs L. Snowball
District Auditor – Audit Commission**

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

Statement of Accounting Policies

1. General Principles

The accounts have been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) 2007 issued by the Chartered Institute of Public Finance and Accountancy except where disclosed below. The analysis of service expenditure included in the Income and Expenditure Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level. The accounting convention adopted is mainly historical cost, modified by the revaluation of certain categories of tangible fixed assets and stores.

2. Tangible Fixed Assets

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

Recognition

All expenditure on the acquisition, creation or enhancement of fixed assets is accounted for on an accruals basis and capitalised in the Balance Sheet, provided that it yields benefits to the council and the services that it provides for more than one financial year.

Measurement

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

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

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

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

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

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

Capital projects that are still in progress are classed as 'fixed assets under construction' and are shown in the balance sheet as non-operational assets on an historic cost basis. These historic values are transferred to operational assets once the capital scheme has been completed. For

Statement of Accounting Policies (Continued)

material capital schemes an assessment is undertaken by the Head of Land and Property to determine any change the capital scheme has made to an asset's value.

Revaluation Gains and Impairments

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

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account

Asset values may decrease following a review of asset categories for reductions in value, following revaluation or following a reassessment of an asset's value once the historic cost of capital projects has been added to the asset's value. In such circumstances this impairment is accounted for by either, charging the loss to the relevant service revenue account where the impairment is attributable to a clear consumption of economic benefits, or writing the loss off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

All assets not subject to depreciation are assessed, in accordance with FRS 11, by the Council's Valuer each year for any material impairment. No material impairment was assessed in 2007/2008, however any such impairment would be charged to revenue in the year that it occurred.

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

Disposals

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

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are reflected in

Statement of Accounting Policies (Continued)

both the Capital Adjustment Account shown on the Balance Sheet and also in the Statement of Movement on the General Fund Balance.

Depreciation

Depreciation is provided on all assets with a determinable finite life (except for non-depreciated land and non-operational investment properties). This approach complies with the SORP requirements.

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

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

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

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

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

Grants and Contributions

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

3. Deferred Charges and Intangible Assets

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

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

Statement of Accounting Policies (Continued)

4. Capital Charges to Revenue

General Fund service revenue accounts, central support services and trading accounts, are charged with a capital charge for all fixed assets used in the provision of the service. From 2007/2008 such charges include:

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

In order to disclose the Authority's corporate net operating expenditure, depreciation charges, government grants deferred credits, impairment losses and amortisation charges need to be reversed out and replaced by the minimum revenue provision in the Statement of the Movement on the General Fund Balance. External interest payable is also shown in the Income and Expenditure Account. These new accounting entries reflect SORP 2007 and are included on [Page 47 and are also included on Page 70 \(Note 19\)](#) to the Core Financial Statements.

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

5. Debtors and Creditors

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

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

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

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

b) Debtors

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

c) Creditors

The Council uses a procurement module, within its Financial Management System, to account for the bulk of its creditors each year. This means that all orders for goods and services must be processed through the system with the effect that the system records and identifies all creditors as being both commitments (where the goods have been received by 31st March 2007 but not

Statement of Accounting Policies (Continued)

yet invoiced) and creditor payments (where the goods have been received and invoiced but not paid until the following financial year), automatically. This means that there is a significant reduction in the need for manual intervention. The method of accounting for creditors is an important aspect of the Statement of Accounts and the policy adopted by the Council complies fully with the SORP.

6. Stocks, Stores and Work in Progress

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

7. Cost of Support Services

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

8. Provisions and Reserves

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

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

The Notes on the provisions made by the Council are reflected in [Notes 41 and 42, Page 81](#). The provisions are based on the full known estimated costs and in the case of the level of the Insurance Provision as at 31st March 2008, this has been verified as appropriate by independent risk valuers.

A reserve is created by an appropriation "below the line" and features in the Statement of Movement on the General Fund Balance after the Surplus or Deficit of the Income and Expenditure Account has been calculated. When expenditure is incurred for which the reserve was created, the expenditure is charged to the cost of service in the Income and Expenditure Account and the reserve is credited in appropriations in the statement of Movement in the General Fund Balance, ("below the line"), to finance the expenditure. Reserves include earmarked reserves set aside for specific policy purposes and balances, which represent resources, set aside for purposes such as general contingencies and cash flow management.

The Notes on the level of reserves held by the Council as at 31st March 2008 and their purpose are reflected in [Note 51, Pages 89 to 91](#).

Statement of Accounting Policies (Continued)

9. Internal Interest

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

10. Delegated Budgets

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

11. Pension Costs

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

a) Local Government Pension Scheme

All green book employees of the Council have the right to join the Local Government Pension Scheme (LGPS) which South Tyneside Council administers on behalf of all of the Tyne and Wear local authorities and other admitted bodies. The scheme is classified as a Defined Benefit Scheme based on final pensionable pay and as such must comply with a new reporting standard called FRS17. This requires the Council to disclose certain information concerning assets, liabilities, income and expenditure related to the LGPS for its employees.

The employer's actual contributions in year are determined on the basis of contribution rates to meet 100% of the liabilities of the Pension Fund on the basis of a phased return to full funding in accordance with relevant Government Regulations. The last full valuation of the Pension Fund was carried out as at 31st March 2007 and has been updated by independent actuaries to take into account the requirements of FRS17 in order to assess liabilities as at 31st March 2008. The Council complies fully with

FRS17 'Accounting for Retirement Benefits' which means that all pension liabilities are now included in the balance sheet which is based on information supplied by the Pension Fund Actuary. Now that FRS17 has been fully introduced, from 2003/2004, all retirement benefits are fully recognised within the statement of accounts. Further disclosure information is contained within [the Notes to the Core Financial Statements - Notes 8b and 8c, Page 65](#) to the Income and Expenditure Account, and in Note [40a, Page 80](#) to the Balance Sheet to aid understanding of the accounting arrangements.

The FRS17 accounting policy better reflects the Council's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. The change has had the following effects on the results of the current period:

Statement of Accounting Policies (Continued)

The overall amount to be met from Government Grants and local taxation has remained unchanged, but the pension costs disclosed for individual services (included in the net cost of services) in respect of FRS17 adjustments are 38.7% higher, (2006/2007 was 40.5%) after:

- replacing employer's actual contributions with the Actuary's current service costs, which means that Net Operating Expenditure is 2.64% higher, (2006/2007 was 0.96%) than it otherwise would have been.
- the requirement to recognise the net pensions liability in the Balance Sheet also means that the reported net worth of the authority has fallen by 25.5%, (2006/2007 was 41.2%).

The net overall impact of FRS17 accounting entries is however neutral in the accounts and in reality as the Council is making the necessary pension deficiency payments to address the assessed shortfall in the pension fund by the Actuary over time, then the Balance Sheet net worth is in effect reporting future years deficits, which are being addressed. This consequently has the effect of distorting the real current financial health of the Council's finances.

b) Teachers Pension Scheme

The pension costs relating to Teachers is classified as a Defined Contribution Scheme which is an 'un-funded' scheme administered nationally by the Teachers Pension Agency (TPA). The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each local education authority. As such it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means in effect the scheme is not subject to the requirements of Financial Reporting Standard 17 (FRS17) and that the Council only accounts for actual pension costs made in the financial year in accordance with the prescribed rate notified by the TPA within its revenue accounts and no earmarked balances are required to be shown on the balance sheet. The cost of the Teachers Pension Scheme for 2007/2008 is shown in [Note 8a, Page 65](#) to Income and Expenditure section of the Notes to the Core Financial Statements. The Council, however, is also responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued in the pensions liability described in [Note 40b, Page 81](#) to the Balance Sheet section of the Notes to the Core Financial Statements in accordance with FRS17.

c) Discretionary Benefits

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

12. Government Grants

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

General Government grants not aligned to any particular service are now included as a separate line on the Income and Expenditure Account. This includes Revenue Support Grant (RSG), any RSG Amending Reports, Local Authority Business Growth Incentive Grant and

Statement of Accounting Policies (Continued)

Local Public Service Agreement Grant. National Non Domestic Rates Redistribution more commonly known as Business Rates is disclosed separately in the Income and Expenditure Account in accordance with the SORP requirements.

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

13. Local Area Agreement Grant (LAA)

Under a LAA many central government grants received by the Council are pooled in order to give greater flexibility in the use of this funding. This grant however must be accounted for in a way that reflects the substance of the terms of the LAA and as such must comply with FRS5 'Reporting the Substance of Transactions'.

The SORP specifies that any LAA grant the Council receives as the accountable body should be recognised as income in the Income and Expenditure Account but only where it is clear that the Authority exercises full control over the awarding of this grant. LAA grant income should then be apportioned between services that are funded by the Grant and any expenditure should be included where payments are awarded by the Council to other bodies. Where the accountable body does not control the award of LAA grant only the grant that is ultimately awarded by the accountable body can be recognised as grant receivable by the Council in the Income and Expenditure Account.

14. External Interest

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

15. Redemption of Debt

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

For 2007/2008 the Minimum Revenue Provision (MRP) comprises a statutory element under regulation 28 of the Capital Financing Regulations of the Local Government Act 2003. Under this regulation, borrowing is repaid at 4% of the debt outstanding within the Council's Consolidated Advances and Borrowing Pool. The MRP is increased by contributions the Council voluntarily makes to this provision. The Statement of Accounts for 2007/2008 has been prepared to fully comply with statutory and Prudential Code requirements which [Note 11](#) to the Core Financial Statements refers to on [Page 66](#).

The Council has thus based its MRP in line with the Local Government Act 2003, however these regulations have been replaced with a more flexible MRP system based on statutory guidance. The council will review this change in 2008/2009 to determine whether the new guidance issued in 2007/2008 will have any impact on this provision. Any changes will be implemented in 2008/2009.

Statement of Accounting Policies (Continued)

16. Accounting for Leases

Rental payments under operating leases are fully charged to service revenue accounts in the year that they are incurred based on a fixed amount rental basis. The Council currently has no finance leases. See [Note 24, Pages 74 and 75](#) to the Balance Sheet.

17. Related Companies and Group Accounts

The Council has financial relationships with a number of related companies, joint ventures and joint arrangements. Details of the Council's interest in these organisations and the nature of the relationships are disclosed in [Note 52, Pages 92 and 93](#) to the Balance Sheet.

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

18. Other Investments

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

19. Long Term Contracts

The amounts of any outstanding undischarged obligations arising from long term contracts such as the Private Finance Initiative (PFI) are required to be included as a separate note to the Core Financial Statements. The relevant note and information relating to the Council's PFI schemes is detailed in [Note 14, Pages 67 and 68](#) to the Income and Expenditure Account.

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

20. Estimation

Pensions Liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll forward method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Pension Fund liabilities have been assessed by Hewitt Associates, an independent firm of actuaries, who also estimate the Pension Fund position as at 31st March 2008 based on their latest full valuation of the scheme carried out as at 31st March 2007 and also their assessments of future movements in the return on pension assets and future pension liabilities as at 31st March 2008. See [Note 8c, Page 65, and Notes 40a / 40b on Pages 80 and 81](#).

Statement of Accounting Policies (Continued)

21. Landfill Allowances Trading Scheme (LATS)

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

The value of these allowances, when first introduced in April 2006, was £20.20, a value determined by Department for Environment, Food and Rural Affairs (DEFRA), until a proper trading market emerged, as few authorities had traded these allowances in the first year of the scheme. As trading commenced in 2006/2007 a market value of £17.98 was established, however as councils have introduced measures to address their waste targets, market demand for these allowances has fallen significantly during 2007/2008 and this, coupled with the fact that all allowances held at 31st March 2009 can not be carried forward, in accordance with the regulations, means that the value for 2007/2008 has fallen quite considerably. The Council has thus used a prudent value of £5.00 per allowance to reflect this downward position in line with other authorities and also sees little prospect of the value of these allowances improving for 2008/2009 as a result. In 2007/2008 this means that once again the accounts reflect a falling valuation in these allowances. The accounts remain fully compliant with the accounting treatment and disclosure notes for LATS set out in the SORP 2007 in [Note 35, Pages 78](#).

22. Value Added Tax (VAT)

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

23. Financial Instruments

With effect from 1 April 2007, local authorities are required to adopt a major change in the way they account for financial instruments and must reflect these changes in their accounting policies in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy. This has been based on major changes in international accounting standards which have resulted in this country introducing new U.K. accounting standards for financial instruments - FRS25, 26 and 29.

This has resulted in major changes in the way local authorities have to account for financial instruments (all loan and investment transactions), soft loans (loans made to third parties below market value) and financial guarantees, which have been designed to present a higher quality of information on financial instruments, in line with the private sector. In addition, in order to help identify, quantify and inform I relation to exposure to and the management of risk, new "fair value" disclosure requirements have been introduced. This need has arisen in recent years through the high profile failure of a number of financial institutions e.g. Barings, Enron, World Com etc.

Statement of Accounting Policies (Continued)

Amortised Cost

This change in accounting standards means that most financial instruments (whether borrowing or investment) have, in 2007/2008, been valued on an amortised cost basis using the effective interest rate (EIR) method.

However, it should be noted that figures for 31st March 2007 which appear in these disclosure notes are shown unaltered from those which were published in the accounts for 2006/07 i.e. they have not been restated to reflect the amortised cost etc. Consequently, the figures for 31st March 2007 and 31st March 2008 are not comparable as they have been produced on two different bases. This is a problem only for 2007/2008 which will not occur for future years when the two years' figures will be properly comparable.

Fair Value

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

Guidance from CIPFA states that as fair value valuations were not calculated as at 31st March 2007, the column for fair value as at 31st March 2007 in these disclosure notes cannot be filled in and so no figures are included.

For the very same reasons, no figures appear under 'Gains and losses on financial instruments' for 2006/2007.

Compliance

This authority has:

1. adopted the CIPFA's Treasury Management in the Public Services: Code of Practice;
2. set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

24. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

Statement of Accounting Policies (Continued)

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

25. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

The soft loans accounting requirements are not however applicable to the Council as it did not have any for the previous or current year.

Available-for-sale Assets

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

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

Instruments entered into before 1st April 2006

The Council entered into a number of financial guarantees instruments that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that a Contingent Liability note has been included in **Note 53 pages 93 and 94** to the Balance Sheet.

26. Discontinued Services

Tyne and Wear Connexions service in its present form has been classified as a discontinuing service in the Statement of Accounts for 2007/2008 in accordance with the closure of this arrangement from 1st April 2008 in line with government guidelines.

27. Events after the Balance Sheet Date

Where an event, after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date occurs, (an adjusting event), the amounts recognised in the Statement of Accounts have to be adjusted to take into account any new information about that adjusting event. Tyne and Wear Connexions closure, from 1st April 2008 in accordance with government regulations, is regarded as such an adjusting post balance sheet event and means that the accounts must reflect the necessary accounting entries and all information available up to the date the accounts are authorised for issue.

Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

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

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

The Council has had a Code of Corporate Governance in place since 2002. The Code now requires revision so that it is consistent with the principles of the SOLACE/CIPFA Framework, "Delivering Good Governance in Local Government". The new Code has been drafted alongside the annual governance review required for the production of this Statement and was submitted to Cabinet in June 2008 for approval and adoption. The new Code will be made available on the Council's website (www.sunderland.gov.uk) or can be obtained from either the City Treasurer or the City Solicitor.

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

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31st March 2008 and up to the date of approval of the Annual Report and Statement of Accounts.

Annual Governance Statement (continued)

3. THE GOVERNANCE FRAMEWORK

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

- The City of Sunderland Local Strategic Partnership (the Sunderland Partnership) has produced a Community Strategy which draws together a shared vision, principles for action and priorities (strategic objectives). For each strategic objective, key targets have been identified.
- The Council's Corporate Improvement Plan (CIP) for 2007/08 is the Council's own overarching Service Plan containing the plans of all of the Council's Portfolios (including the estimated Revenue Budgets for the financial year and the Capital Programme for 2007/08 to 2010/11). The Corporate Improvement Plan sets out explicitly the planned key actions and performance targets for the future, and these are clearly linked with Directorate / service plans and resources. The Plan outlines the Council's roles and responsibilities, the context in which it operates, what the Strategic Priorities and Corporate Improvement Objectives are, how the Council will realise its vision, what its performance improvement and monitoring arrangements are, corporate health performance indicators, CPA framework and contains a financial overview. The financial overview section provides background commentary to the issues the Council considered in setting the Budget and in preparing the Medium Term Financial Strategy.
- Communication of objectives to staff and stakeholders takes place through the following means:
 - Wide distribution of the Corporate Improvement Plan, as well as a summary version, including on the Council's website and intranet;
 - Issuing of an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been;
 - Through the Council's corporate Investors in People (IIP) processes;
 - Sunrise magazine, issued to all residents.

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

During 2007/08, the Sunderland Strategy and its priorities were reviewed to provide a refined, longer-term focus for the Sunderland Partnership and the city.

- Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates.
- There are comprehensive annual reviews of the local Sunderland Code of Corporate Governance to ensure that it is up to date and effective.

Annual Governance Statement (continued)

- 3.3 Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources:
- There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, which address financial responsibilities.
 - There is regular reporting of performance against key targets and priorities to the Council's Executive Management Team, Cabinet and Review Committees.
 - Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.
- 3.4 The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:
- A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme.
 - The Constitution indicates responsibilities for functions and sets out how decisions are made.
 - A system of scrutiny is in place which allows Review Committees to:
 - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees.
 - Directorates have established delegation schemes, although these may require updating in some areas to reflect recent organisational changes.
- 3.5 Codes of Conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation, as follows:
- Members' Codes of Conduct;
 - Employees' Code of Conduct;
 - Registers of Interests, Gifts and Hospitality.
- 3.6 Standing orders, standing financial procedure rules, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

Annual Governance Statement (continued)

- The City Treasurer is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Council's financial affairs.
- The City Solicitor is the Council's Monitoring Officer who has maintained an up-to-date version of the Constitution and has endeavoured to ensure lawfulness and fairness of decision making.
- The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.
- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:
 - a Whistle Blowing Policy;
 - a Anti Fraud and Corruption Policy;
 - Codes of Conduct;
 - a Corporate Health and Safety Policy;
 - a Corporate Complaints Policy;
 - a Corporate Procurement Strategy;
 - Procurement Codes of Practice;
 - Partnerships Code of Practice;
 - a Treasury Management Strategy based upon CIPFA's Treasury Management Codes;
 - Directorate / Department budget management schemes.
- There are robust and well embedded risk management processes in place, including;
 - a Risk Management Strategy and Policy Statement;
 - a Corporate Risk Profile;
 - Directorate Risk Management Action Plans;
 - a Risk Management Manual;
 - a Nominated Head of Risk Management;
 - Corporate and Directorate Risk Management Staff and Groups;
 - a Risk Management Training Programme;
 - Discrete Risk Profiles produced for certain major initiatives/projects and significant partnerships;
 - a Risk Management Fund;
 - Nominated Directorate risk management champions;
 - a Risk Management Annual Report;
 - a Member Risk Champion;
 - Risk Management Advisors for each Directorate;
 - Risk Watch Magazine.
- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

Annual Governance Statement (continued)

- Business Continuity Plans are in place, which are subject to ongoing review and development. The arrangements in place in relation to ICT hardware disaster recovery need further enhancement and significant investment is taking place in this regard.
- There are clearly defined capital expenditure guidelines in place.
- Appropriate project management disciplines are utilised.
- The Council participates in the National Fraud Initiative and subsequent investigations.
- The Council has adopted and implemented the requirements of the Department for Work and Pensions Security Manual for the administration of Council Tax and Housing Benefit.
- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

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

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

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anticorruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, properly reflect the risk environment and any actions required to improve it;
- to receive and consider (but not direct) internal audit's strategy and plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

Annual Governance Statement (continued)

- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and
 - make recommendations or comments to Cabinet or Council as appropriate.
- 3.8 Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members:
- The City Solicitor is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.
 - The Council maintains an Internal Audit Service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards. Internal audit work is planned on the basis of risk.
- 3.9 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:
- The Council is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Council, a Councillor, or any member of the public, has serious concerns regarding the conduct of any aspect of the Council's business, they can do so through a variety of avenues, promptly and in a straight forward way.
 - The framework in place to ensure the aims of this Policy are met are set out in two 'Whistle Blowing Policy Arrangements' documents, one for Council workers and one for members of the public.
 - Monitoring records held by the City Solicitor reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.
- 3.10 Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:
- The Council has a Members' Training and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of training and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Council strategic objectives. In addition Members have access to a Personal Development Plan, which sets out the skills, knowledge, expertise and competence required to carry out their role as an Elected Member and confirms their personal responsibility for continuous professional development.
 - The Elected Member Training and Development Strategy aims:
 - To provide a comprehensive Member Development programme;
 - To ensure that all newly Elected Members are properly inducted into the Council;
 - To encourage all Members to undertake a personal development plan to

Annual Governance Statement (continued)

identify their individual needs and learning styles;

- To ensure that all emerging needs for both individuals and across the board are identified and addressed;
- To ensure that resources available for Member Development are effectively used.

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

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

- The Council has a Community Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Council and with partner agencies, impacts on service delivery, and is delivered to a high standard.
- The strategy is complemented by the “Hard to Reach Framework” which outlines the council's approach to consulting with minority and vulnerable sectors of society.

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

- The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a Partnership's Toolkit. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.
- A Register of Partnerships is maintained. Significance of partnerships is measured using the Partnerships Significance Assessment Scorecard recommended by CIPFA.
- An annual report of those partnerships classified as significant is presented to Cabinet.

4. REVIEW OF EFFECTIVENESS

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

Annual Governance Statement (continued)

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

- The role of the Council:
 - Councillors have participated in the annual review of the Council's Corporate Governance arrangements;
 - The Leader of the Council, the Chief Executive and the City Treasurer have overseen the review and signed the Annual Governance Statement.
- The role of the executive:
 - The findings of the Annual Governance Review have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.
- The role of the Audit and Governance Committee:
 - The findings of the Annual Governance Review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- There is a system of scrutiny which provides for Review Committees to:
 - review decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and recommendations to the full Council, the executive, or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented.
- The role of the Council's Standards Committee includes the following:
 - promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent governor representatives;
 - monitoring the operation of the Members' Code of Conduct;
 - monitoring the operation of the Council's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Council;
 - considering reports and complaints relating to the conduct of Members of the Council;
 - supporting the Monitoring Officer in his role.
- All Heads of Service have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility.
- All Chief Officers have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments from all Heads of Service.
- Internal audit planning processes include consultation with all Chief Officers, reviews of the Corporate Improvement Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and

Annual Governance Statement (continued)

non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

- The Council has secured the highest rating (currently 4 Star) for each year of the Comprehensive Performance Assessment. The most recent corporate assessment states that:
 - the Council is performing well;
 - the Council has created an aspirational vision for Sunderland that has been shared and understood by partners, staff and the public;
 - the Council provides very good community leadership;
 - strong partnership working is enabling the Council and its partners to pursue their ambitions;
 - the Council delivers good value for money as a result of very sound financial management;
 - The Council has good performance management arrangements.
- The Council has secured the highest rating (4 out of 4) for the Use of Resources assessment, an element of the Comprehensive Performance Assessment.
- The Joint Area Review (JAR) of services for children and young people in January 2007 found that the impact of local services in improving outcomes for children and young people is good overall.
- An annual assessment of service for adults was undertaken in the summer of 2007 by the Commission for Social Care Inspection. This continued to judge Adult Services as a three star social care function with excellent outcomes for customers' and excellent capacity for improvement.
- Findings of external inspectorates are collated / monitored by the Performance Improvement Team.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an action plan has been agreed for the continuous improvement of the Council's Corporate Governance and Internal Control Arrangements.

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

Paul Watson
Leader of the Council
Dated: 30th June 2008

Dave Smith
Acting Chief Executive

Keith Beardmore
City Treasurer