Item No. 8 (b)

Statement of Accounts

2009/2010

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Cabinet 2009/2010

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

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

Introduction

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

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

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

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

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

Dated: 30th September 2010

Certification of the Statement of Accounts

As Chairman of the Audit and Governance Committee held on 30th September 2010, I hereby acknowledge receipt of the audited Statement of Accounts for 2009/2010 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 30th September 2010 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

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

Dated: 30th September 2010

Foreword by the Director of Financial Resources

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

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

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

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

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

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

4. The Core Financial Statements

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

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

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

6. Supplementary Statements

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

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

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

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2009/2010 to be met from Government Grants and local taxpayers was approved at £249.051m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,325.72 for 2009/2010. This represented a Council Tax increase of 2.87% over the 2008/2009 Band D Council Tax of £1,288.75. The Council again set the lowest Council Tax level in the whole of the North East region for 2009/2010 for the second consecutive year and continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

Foreword by the Director of Financial Resources (Continued)

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

The movement in the general reserve balance takes account of the following additions to balances totalling £4.288 million:

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

and the following £4.288 million use of balances;

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

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

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

Capital Expenditure and Income

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

The project consists of two procurements:

- A design and build contract for three new academies – Academy 360 (at Pennywell), Red House Academy and Castle View Enterprise Academy - a new build project at Washington school and major refurbishments at St Robert of Newminster and Biddick schools; Oxclose school also benefited from a 'Quick Win' project under the BSF programme which involved a £11m refurbishment that was completed in May 2007 and,

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

Balfour Beatty Construction Limited (BBCL) was selected as the preferred bidder for the design and build project. Contracts were signed with BBCL on 13th March 2008 for the provision of Academy 360, Castle View Enterprise Academy and Washington School. Contracts were signed for Red House Academy on 18th April 2008 and for the two major refurbishments at Biddick and St Robert of Newminster schools, these contracts were signed on 15th August 2008 and 20th February 2009 respectively. Five of the schools have now been completed. Academy 360, Castle View Enterprise Academy, Red House Academy and Washington School all opened in September 2009 and Biddick School in April 2010. St Robert's of Newminster RC School is planned to be handed over by the contractors in June 2010 with an opening date of September 2010

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

Following the submission of an Expression of Interest in November 2008, the Council was invited by Partnerships for Schools to make a Readiness to Deliver submission by 8th May 2009 for the remaining 9 secondary and 5 secondary special schools in the city. This was the subject of a report to Cabinet on 8th April 2009. The submission consisted of 2 follow on phases to complete the programme for the secondary school estate. The submission was successful and the Council was invited to an assessment panel in June 2009, following which it was confirmed that both of the planned follow on phases were approved to move forward to the next stage. Council officers were duly invited to attend a Remit Meeting in October 2009, which resulted in formal entry into the national programme. The Strategy for Change was approved by Cabinet in March 2010 and submitted to Partnerships for Schools. Confirmation of the status of the project is not now expected until after the Coalition Government's autumn Comprehensive Spending Review.

Euro

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

Accounting for Pensions

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

Foreword by the Director of Financial Resources (Continued)

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

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

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

Cost of Pensions

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

The Council's Improvement Agenda

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

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

Efficiency

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

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

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

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

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

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

Changes to the Statement of Recommended Practice (SORP) 2009

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

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

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

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

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

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

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

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

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

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

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

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

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

Major Acquisitions, Capital Works and Disposals during 2009/2010

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

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

Authority’s Current Borrowing and Capital Borrowing Position

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

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

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

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

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

Economic downturn

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

Treasury Management

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

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

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

Single Status

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

Equal Pay claims

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

Insurance Provision

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

Foreword by the Director of Financial Resources (Continued)

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

Airport Revaluation

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

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

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

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

Area Based Grant

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

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

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

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

Foreword by the Director of Financial Resources (Continued)

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

South Tyne and Wear Waste Management Partnership

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

Coalition Government Funding Position

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

Further Information

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

George Blyth CPFA
Director of Financial Resources
30th September 2010

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

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

The Director of Financial Resources Responsibilities

The Director of Financial Resources is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2010.

Authorised for Issue Date

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

Certificate
of the
Director of Financial Resources

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

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

I have also:

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

The accounts set out in the following pages present a true and fair view of the financial position of the City of Sunderland Council as at 31st March 2010 and its income and expenditure for the year then ended.

George Blyth CPFA
Director of Financial Resources

21st September 2010

audit commission

Sunderland City Council

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sunderland City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Director of Financial Resources and auditor

The Director of Financial Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 the financial position of the Authority and its income and expenditure for the year.

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

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

Basis of audit opinion

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

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

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

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

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

Auditor's Responsibilities

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Sunderland City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Audit Certificate

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

Signature:

Date:

Name: Mr S. Nicklin

District Auditor – Audit Commission

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

Statement of Accounting Policies

1. General Principles

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

2. Tangible Fixed Assets

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

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

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

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

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

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

All assets not subject to depreciation are assessed, in accordance with FRS 11, by the Council's Valuer each year for any material impairment. No material impairment was assessed in 2009/2010, however any such impairment would be charged to revenue in the year that it occurred.

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

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

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

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

3. Intangible Assets

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

4. Revenue Expenditure Funded from Capital under Statute

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

5. Charges to Revenue for Fixed Assets

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

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

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

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

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

6. Debtors and Creditors

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

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

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

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

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

Statement of Accounting Policies (Continued)

7. Stocks, Stores and Work in Progress

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

8. Cost of Support Services

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

9. Provisions and Reserves

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

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

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

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

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

10. Internal Interest

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

11. Delegated Budgets

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

12. Pension Costs

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

Statement of Accounting Policies (Continued)

a) Local Government Pension Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Statement of Accounting Policies (Continued)

b) Teachers Pension Scheme

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

c) Discretionary Benefits

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

13. Government Grants

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

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

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

14. Area Based Grant

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

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

15. External Interest

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

16. Redemption of Debt

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

Statement of Accounting Policies (Continued)

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

17. Accounting for Leases

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

18. Related Companies and Group Accounts

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

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

19. Other Investments

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

20. Long Term Contracts – Private Finance Initiatives

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

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

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

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

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

Statement of Accounting Policies (Continued)

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

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

21. Estimation

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

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

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

22. Landfill Allowances Trading Scheme (LATS)

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

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

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

Statement of Accounting Policies (Continued)

23. Value Added Tax (VAT)

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

24. Financial Instruments

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

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

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

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

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

25. Financial Liabilities

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

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

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

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

26. Financial Assets

Financial assets are classified into two types:

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

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

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

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

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

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

- Instruments with quoted market process – the market price;

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

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

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

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

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

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

Instruments entered into before 1st April 2006
The Council entered into a number of financial guarantee instruments that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that a Contingent Liability note has been included in Note 50 pages 121 and 122 to the Balance Sheet.

Statement of Accounting Policies (Continued)

27. Treasury Management

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

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

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

a) Treasury Management activities are defined as:

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

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

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

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

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

28. Events after the Balance Sheet Date

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

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

29. Council Tax Accounting

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

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

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

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

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

The Council fully complies with the above requirements.

30. National Non Domestic Rates (NNDR) Accounting

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

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

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

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

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

The Council fully complies with the above requirements.

Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

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

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
The governance framework has been in place at the Council for the year ended 31st March 2010 and up to the date of approval of the Annual Report and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

Annual Governance Statement (Continued)

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

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

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

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

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

- Wide distribution of the Corporate Improvement Plan, including on the Council's website and intranet;
- Through the Council's corporate Investors in People (IIP) processes;
- Sunrise magazine, issued to all residents.

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

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

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

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

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

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

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

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

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

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

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

Annual Governance Statement (Continued)

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

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

The following are in place:

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

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

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

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

The Council has in place up to date Procurement Procedure Rules and Financial Procedure Rules, which are subject to regular review.

Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Codes of Conduct;
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Procurement Codes of Practice;
- Code of Practice for Partnerships;
- Treasury Management Strategy;
- Directorate / department budget management schemes.

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

- Member Risk Champion;

Annual Governance Statement (Continued)

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

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

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

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- The Council participates in the National Fraud Initiative.

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

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

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

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

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

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

- Alignment of medium term business and financial planning processes;

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

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

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

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

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

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

Annual Governance Statement (Continued)

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

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

The Chief Solicitor is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities.

The Council maintains an internal audit service. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards.

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

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

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

Monitoring records held by the Chief Solicitor reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles:

The Council has a Members Training and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of training and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Council strategic objectives. In addition Members have access to a Personal Development Plan, which sets out the skills, knowledge, expertise and competence required to carry out the role as an Elected Member and confirms their personal responsibility for continuous professional development.

Annual Governance Statement (Continued)

The Elected Member Training and Development Strategy aims to:

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

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

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

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

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

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

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

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

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

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

REVIEW OF EFFECTIVENESS

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

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

The role of the Council:

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

The role of the executive:

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

Annual Governance Statement (Continued)

The role of the Audit and Governance Committee:

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

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

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

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

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

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

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

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

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

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

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

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

Annual Governance Statement (Continued)

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

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

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

Dated 30th September 2010