

**Statement  
of  
Accounts  
  
2018/2019**

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## 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 continue 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, the Council considers an annual review of its Local Code of Corporate Governance. The 2018/2019 review has been completed and was considered by the Audit and Governance Committee in April 2019. 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's arrangements continue to be regarded as fit for purpose in accordance with the governance framework, with the exception of Children's Safeguarding linked to previous Ofsted inspections. A small number of areas for improvement and development have been identified which will be acted upon during 2019/2020.

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 approving the Statement of Accounts, as well as reviewing arrangements for areas such as treasury management, risk management, the wider internal control environment and consideration of internal and external audit plans, progress reports and annual reports.

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 where necessary to maintain and develop the system of internal control in the future.

Councillor Graeme Miller  
Leader of the Council

Jon Ritchie  
Executive Director of Corporate Services

Dated: 26 July 2019

# Narrative Statement

## Introduction to Narrative Statement

The Narrative Statement provides information about Sunderland, the City Council's performance and its Accounts. The narrative provides:

- a summary of both the non-financial and financial performance of the Council during 2018/2019 and focuses on the key matters that are of relevance to the readers of the Accounts; and
- a forward look at issues that will affect the Council's operation in 2019/2020 and beyond.

## Financial Statements presented within the Statement of Accounts 2018/2019

The financial highlights noted in the Narrative Statement are reflected in the Statement of Accounts and Notes to the Accounts for 2018/2019.

The Accounts set out the Council's income and expenditure for the year, and its financial position at 31 March 2019. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019, which in turn is underpinned by International Financial Reporting Standards. Whilst the format of the accounts does not reflect the way we monitor and present information during the year, the accounts are fully reconciled to our in-year results.

The financial statements required to be prepared under the Code are:

1. **Statement of Responsibilities** - This discloses the respective responsibilities of the Council and the Executive Director of Corporate Services.
2. **Movement in Reserves Statement (MiRS)** - This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.
3. **Comprehensive Income and Expenditure Statement** - This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
4. **Balance Sheet** - The Balance Sheet shows the value of the assets and liabilities recognised by the Council at the year end. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council.
5. **Cash Flow Statement** - The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.
6. **Notes (including a summary of significant accounting policies and other explanatory information)** - The Notes to the financial statements have three significant roles, they:
  - present information about the basis of preparation of the financial statements and the specific accounting policies used;
  - disclose information that is required by the Code that is not presented elsewhere in the financial statements; and
  - disclose information that is not presented elsewhere in the financial statements, but is relevant to their understanding.
7. **Collection Fund Statement** - The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund for Council Tax and Non-Domestic Rates. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government.
8. **Group Accounts** - The Group Accounts present the financial statements and associated notes for Sunderland City Council together with its subsidiaries and joint ventures.

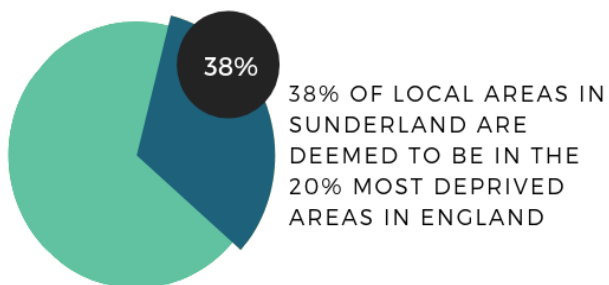
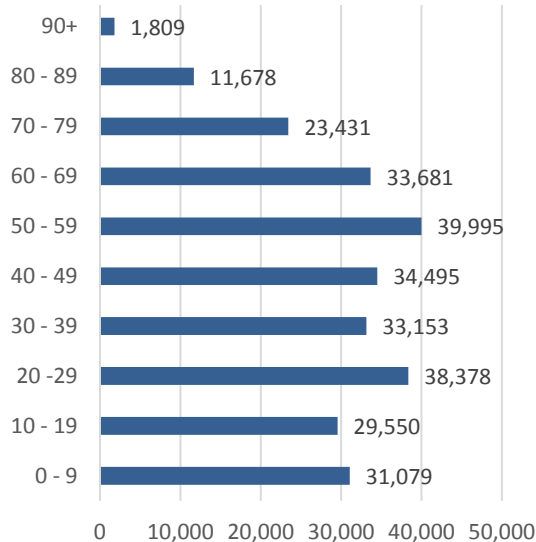
# ABOUT SUNDERLAND

5 UNIQUE SUB AREAS,  
25 WARDS



- 53 SQUARE MILES
- RIVER PORT & COASTLINE
- CITY CENTRE WITHIN AN URBAN CORE OF 180 HECTARES
- 2 MAJOR RETAIL SUB-CENTRES IN WASHINGTON & HOUGHTON, COALFIELD
- MORE THAN 50% GREENFIELD LAND

## POPULATION BY AGE



## POPULATION

277,249



## UNIVERSITY STUDENTS

Over 9,000

## DIVERSITY

4.1% minority ethnic groups



## Narrative Statement

Sunderland is a forward-looking city undergoing continued transformation and economic regeneration. New senior political and officer leadership from 2018 is focussing on progress in respect of its ambitions for the city and the organisation itself. These are set out in the City Plan 2019-2030, focusing on a **dynamic**, **healthy** and **vibrant** city. Key achievements for 2018/2019 and areas of focus for 2019/2020 onwards are set out below.

## DYNAMIC CITY



**97** investment enquiries & **918** jobs created through businesses receiving support from the Council's Business Investment Team (2018/2019).



**664** new homes built (2018/2019).



**40.2%** of all council spend on suppliers and services spent in Sunderland (2018/2019).



**92.2%** of new businesses started in Sunderland in 2016 were still in operation after 1 year (91.6% in the North East).

Key infrastructure developments in place including the **Northern Spire Bridge**



**68%** of children achieved at least the expected level in reading, writing and maths at Key Stage 2, above the England, North East and statistical neighbour average (academic year 2017/2018).



Early years 'Good Level of Development' increased to **71.2%** in 2017/2018 continuing the **5 year upward trend**.



Digital contact with our customers has improved - self-serve contacts are up to **42.4%** and social media contact continues to increase (2018/2019).



**20** major planning applications received for non-housing and **27** for housing (2018/2019).

## Narrative Statement

# HEALTHY CITY



**76%** of adult users of services satisfied with their care and support in 2017/2018 – better than 2016/2017 comparator figures.



**88.8%** of adults with learning disabilities living in their own home or with family - exceeding the North East and England figures (March 2019).



**94.5%** of new birth visits and **96.3%** of 2.5-year-old reviews within timescale – better than the England average (2018/2019).



**38** businesses signed up to achieve a Better Health at Work Award (2018/2019).

Our carbon footprint (from local authority operations) reduced by **13,248 tonnes** in the last 3 years.



# VIBRANT CITY

**600,000** visitors attracted to the 30<sup>th</sup> free Air Show and in the region of **1.2 million** visitors to the Tall Ships Races

**150,000** visits to Sunderland Illuminations & Festival of Light

**418,526** visits to the Museum & Winter Gardens

**170,583** visits to the Arts Centre

**304,314** visits to the Empire Theatre



At **8.76 million**, visitor numbers up 6% in 2017 with increased associated spend.



**96%** of residents feel safe in their local area (2018/2019).



**13,659** hours of volunteering opportunities created through the events programme in 2018/2019.

### CHALLENGES

Despite the successes over the last year, we continue to face a number of challenges. These need to be tackled if our City Plan ambitions are to be delivered.

**Migration out of the city continues** at a net 748 reduction in 2017. There needs to be greater choice in the housing market providing more of the larger, higher status homes desired. Less than a quarter (23.9%) of Sunderland homes are in a council tax band of C or above (2018).

**Sunderland city centre not functioning as an economic motor.** Over a fifth of commercial properties in the City Centre had been vacant for 6 months or more as at October 2018.

**Sunderland is good at attracting inward investment but less successful at growing Sunderland business.** At 37.6 business start-ups per 10,000 population, the rate for Sunderland is lower than the North-East rate of 46.9 and the Great Britain rate of 72.

**The qualifications and skills which Sunderland's residents have do not match the needs of industry in the city** and as a result, residents are less able to access better paid jobs that are created in the city. The weekly median wage for residents is £14.20 lower than the median wage for city workers (2018).

**Health outcomes in Sunderland are still poor and health behaviours haven't yet changed sufficiently.** Smoking prevalence (at 22.7% for 2017), the rate of hospital admissions for alcohol related conditions (at 3,012 for 2017/2018) and adults who are overweight or obese (at 69.2% for 2017/2018) are above statistical comparators.

**High levels of children in need and in care.** Between March 2018 and March 2019 reductions have been achieved in the rate of Children in Need per 10,000 of population (from 514.7 to 470.6), and the rate of children subject to a child protection plan per 10,000 of population (from 95.5 to 86.3) while the rate of children looked after has been stabilised at 109.8 per 10,000 of population. Children in Need and Looked After Children remain above the statistical neighbour comparator, North East and England rates however as demand remains high.



FUTURE FOCUS



## A DYNAMIC CITY

**by 2030 we will have:**

- more and better jobs
- more and better housing
- more local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy
- a stronger city centre with more businesses, housing and cultural opportunities
- a lower carbon city with greater digital connectivity for all



## A HEALTHY CITY

**by 2030 we will have:**

- access to the same opportunities and life chances
- more people living healthier longer lives
- more people living independently
- cleaner and more attractive city and neighbourhoods
- a city with great transport and travel links



# A VIBRANT CITY

**by 2030 we will have:**

- more creative and cultural businesses
- more residents participating in their communities
- more visitors visiting Sunderland and more residents participating in cultural events
- more people feel safe in their neighbourhoods and homes
- more resilient people

# Narrative Statement

## Financial Performance of the Council 2018/2019

The original estimated net revenue expenditure for 2018/2019 to be met from Government Grants and local taxpayers was approved at £218.420m. The Council's Band D council tax was set at £1,359.43 for 2018/2019, inclusive of the social care levy. This represented a 2.99% council tax increase from the 2017/2018 Band D council tax level and a 2% social care levy increase. However, the Council again set the lowest council tax level in the North East region for 2018/2019, continuing the trend since council tax was introduced in 1993/1994.

Comprehensive budget monitoring is carried out during the year and is scrutinised at the Chief Executive's monthly performance clinics. The process 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 and Prudential Indicators. Reporting during the financial year reflects robust financial management, continuing the Council's strong track record in this regard.

In overall terms, the Council achieved a surplus of £0.682m for the financial year. This net underspend was achieved after the planned use of reserves to cover potential phasing delays in achieving future years savings targets, and known pressures. This surplus has been transferred to the Strategic Investment Reserve. The table below summarises the financial position for the year 2018/2019.

	<b>Final Budget</b>	<b>Outturn</b>	<b>Variance Under / (Over) Spend</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Leader	3,995	3,661	334
Deputy Leader	4,800	5,307	(507)
Cabinet Secretary	14,848	13,447	1,401
Children, Learning and Skills	68,512	73,114	(4,602)
Community and Culture	13,652	13,905	(253)
Environment and Transport	40,148	39,391	757
Health and Social Care	64,393	64,579	(186)
Housing and Regeneration	6,561	7,302	(741)
<b>Total Service (Delegated) Expenditure</b>	<b>216,909</b>	<b>220,706</b>	<b>(3,797)</b>
Provision for Contingencies and other Corporate Budgets	4,156	0	4,156
Capital Financing Costs	18,626	11,317	7,309
Transfer to/(from) Reserves	(4,129)	(4,129)	0
Technical Adjustments	(26,437)	(26,437)	0
Levies	15,509	15,509	0
Hetton Town Council	65	65	0
Less Grants	(6,299)	(9,938)	3,639
<b>Total Net Expenditure</b>	<b>218,400</b>	<b>207,093</b>	<b>11,307</b>
Revenue Support Grant	(36,157)	(36,157)	0
National Non-Domestic Rates/Retained Business Rates	(43,004)	(43,004)	0
Top Up Grant	(42,192)	(42,192)	0
Collection Fund Surplus	(1,845)	(1,845)	0
Council Tax Requirement	(95,202)	(95,202)	0
<b>Outturn</b>	<b>0</b>	<b>(11,307)</b>	<b>11,307</b>
Establishment of / Transfer to Reserves	0	10,625	(10,625)
<b>Final Outturn Position</b>	<b>0</b>	<b>(682)</b>	<b>682</b>

## Narrative Statement

The Council maintained a strong usable reserves position, the overall level of reserves being £154.022m (£159.080m in 2017/2018).

Included within the usable reserves is £7.758m of school balances (£6.574m as at 31 March 2018). 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 Code, forms part of the movement in General Fund Balances in the Movement in Reserves Statement.

The General Fund balance was maintained at £12.0m as planned.

Further details can be found in the Council's Revenue Outturn report to Cabinet on the 18 June 2019.

## Balance Sheet Position

Despite the challenges facing the Council, a healthy balance sheet has been maintained. With the exception of the general fund balance, all usable reserves are earmarked for specific purposes.

	Balance as at 31 March 2018 £m	Balance as at 31 March 2019 £m
Non-current assets	1,018	1,055
Net current assets	101	114
Long term liabilities and provisions	(904)	(970)
<b>Net Assets</b>	<b>215</b>	<b>199</b>
Represented by:		
Usable reserves	159	154
Unusable reserves	56	45
<b>Total reserves</b>	<b>215</b>	<b>199</b>

## Financial Indicators

Financial indicators can be calculated to assess the efficiency of the Council and show whether it is delivering value for money. A number of key financial indicators relating to 2017/2018 and 2018/2019 are presented below:

	2017/2018	2018/2019
Working capital ratio	1.8	2.0
Long term borrowing to long term assets	0.3	0.3
Usable non-school reserves to gross spend (cost of services excluding exceptional items relating to IAS19)	26%	25%
School balances to Dedicated Schools Grant	7%	8%
Council tax collection rate (In Year)	95.94%	95.86%
Business rate collection rate (In Year)	97.93%	97.88%
Net cost per head of population (excluding exceptional items relating to IAS19)	£841	£808

### Working capital ratio

The working capital ratio indicates whether the Council has enough resources to cover its immediate liabilities (i.e. those liabilities to be met within the next year). A ratio of less than one indicates potential liquidity problems. The Council's ratio is currently 2.0 demonstrating a strong position.

### Ratio of long term borrowing to long term assets

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets. The Council's ratio is 0.3, meaning that the Council has enough long-term assets to cover its long term liabilities.

## Narrative Statement

### Usable non-school reserves to gross expenditure (cost of services)

This ratio shows the Council's reserves, which are available for use, as a proportion of gross revenue expenditure (excluding exceptional items relating to pensions (IAS19)), including those earmarked for specific purposes. A higher ratio indicates that the Council has a greater ability to fund unexpected pressures from available resources. The Council has non-school reserves equivalent to 25% of gross expenditure, however, these are largely committed for specific purposes.

### School balances to Dedicated Schools Grant

This shows the share of school balances held in relation to the total DSG allocation received for the year. The ratio of the Council's school balances to DSG in 2018/2019 was 8%, in line with the metropolitan council average of 7% (2017/2018).

### Council tax collection rate

This shows the proportion of council tax collected and is an indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2018/2019 was 95.86%. Whilst this is slightly down compared to previous years (0.08%), this continues to compare favourably with our comparable councils.

### Business rate collection rate

This shows the proportion of business rates collected and is another indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2018/2019 was 97.88%, which is marginally lower than the previous years (0.05%). This still represents a strong collection position.

### Net cost per head of population

Net expenditure per head of population is primarily a value for money indicator but can also be used to assess financial resilience as a relatively low cost per head indicates that costs have been controlled in earlier years. Based on 2018/2019 Net Cost of Services (excluding exceptional items relating to pensions (IAS19)), the Council's net cost per head of population was £808.

## Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals during 2018/2019

The Council's capital expenditure for the year totalled £80.876m. Expenditure on non-current assets was £62.061m, whilst expenditure on intangible assets was £0.839m. The remainder of £17.976m represents loans, grants, and advances to other organisations for capital purposes, equity purchases, de-minimis expenditure transferred to revenue, and expenditure on property not owned by the Council.

Capital expenditure was financed as follows:

Project	Capital Financing £'000
Borrowing	45,731
Capital Receipts	2,738
Government Grants and other Contributions	20,739
Revenue Contributions from Reserves	11,668
<b>Total</b>	<b>80,876</b>

## Narrative Statement

The Council is involved in a number of major projects. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2018/2019, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

Project	Expenditure during 2018/2019 £'000	Total Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2019
Northern Spire (SSTC Phase 2 - New Wear Crossing)	9,481	109,800	Complete
Acquisition by the Council of Carillion (Maple Oak) Ltd's member interest in Siglion LLP	7,535	7,535	Complete
Vaux Phase 1	7,755	25,812	Ongoing
SSTC Phase 3 – Road	7,213	70,800	Ongoing
LED Street Lighting Phase 2	3,263	7,900	Ongoing
Northern Gateway	3,114	6,000	Ongoing
Port Crane Purchase	2,875	2,875	Complete
A19 Ultra Low Carbon Enterprise Zone	2,520	24,378	Complete

There were no sales of surplus assets over £0.500m. However, the Council received a final stage payment of £1.163m for the sale of former High Usworth school site (total receipt £2.700m). During 2019/2020 the Council will also receive £1.700m in respect of land sold by Siglion for housing development at Chapelgarth in 2018/2019, this is included in the Balance Sheet at 31 March 2019 as a deferred capital receipt.

In addition, two schools became academies. In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

## Council's Borrowing and Treasury Management Position

As part of the budget for 2018/2019, agreed at Council on 7 March 2018, borrowing limits were set for the year, with Prudential Indicators set as is required under the Prudential Code. The limits for 2018/2019 were as follows:

- Authorised Limit for External Debt of £584.123m.
- Operational Boundary for External Debt of £559.123m.

The limits were not exceeded during 2018/2019.

The performance of the Council's treasury management function continues to contribute financial savings that are essential to provide funding for future years' capital programmes and to help support the Council's revenue budget. The average rate of the Council's borrowing in 2018/2019 at 3.04% is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients. The same applies to the 0.93% rate of return achieved on investments in 2018/2019 (benchmark rate is 0.51%). This represents a good achievement, especially when short-term investment rates in the market continue to remain low.

## Group Accounts

The Council delivers some of its activities through a number of wholly owned subsidiaries and joint ventures. Group financial statements are therefore produced to reflect the full extent of the Council's economic activity and financial position. The group accounts consolidate the results and balances of the Council with those organisations considered to be part of the group.

The only change to the Group structure during 2018/2019 is that Siglion LLP is now a subsidiary rather than a joint venture.

## Narrative Statement

The Group balance sheet position is:

	Balance as at 31 March 2018 £m	Balance as at 31 March 2019 £m
Non-current assets	1,043	1,103
Net current assets	109	121
Long term liabilities and provisions	(949)	(1,022)
<b>Net Assets</b>	<b>203</b>	<b>202</b>
Represented by:		
Usable reserves	159	154
Unusable reserves	79	87
Profit/(Loss) in subsidiaries and joint ventures*	(35)	(39)
<b>Total Reserves</b>	<b>203</b>	<b>202</b>

\* The subsidiaries' accounts contain liabilities relating to future retirement benefits. The liabilities relating to Sunderland Care and Support Ltd and Together for Children Sunderland Ltd have had a substantial impact on the net worth of both subsidiaries as presented on their balance sheets. However, as with the Council's pension liability, these liabilities are being addressed on an ongoing basis. Arrangements for funding the deficit mean that the financial position of both companies remains sustainable as they have an agreed period in which to address the pension fund projected deficit (24.2 years for Sunderland Care and Support and 25.1 years for Together for Children).

## Funding Context and Financial Planning

The Council has had to deal with significant reductions in its spending power since 2010, when the Government introduced its austerity measures. Reductions in government funding has led to the Council's overall spending power reducing by over one third, despite increases in council tax levels. Since 2010, £290m of savings and income increases have been necessary to balance the Council's finances. Difficult decisions have had to be taken, involving changes to the level and standard of services we deliver, transforming the way we deliver the remaining services, looking to raise income through commercial activity and ensuring our resources are focused on statutory and priority services. When setting the 2018/2019 budget, council tax increases (including the social care level) of 4.99% were necessary.

The budget setting process for 2019/2020 had to deal with a further reduction in Government funding which, together with inflationary pressures and growing demand, required a further £25m of savings to be identified. This includes £17m of service savings, £1m planned use of reserves, business rates growth of £3m and an increase in council tax of £4m. Full detail of the savings plan for 2019/2020 is set out in the Budget Report to Council of 6 March 2019.

Looking to the medium term, the Government has yet to publish indicative funding figures beyond 2019/2020. For 2020/2021, the Government is proposing to move to 75% retained business rates aligned to a fair funding review of Local Government funding – currently 50% of business rates are retained locally. Coupled with the outcome of the departmental spending review expected to take effect from 2020/2021, this uncertainty poses a significant risk to the Council's financial position. The Council continues to plan for these further significant reductions and risks through an approved Efficiency Strategy covering 2019/2020 to 2021/2022, and this will be reviewed and refined as budget planning progresses, and Government funding becomes clearer.

## Four Year Capital Programme

The Council's Capital programme supports a range of priorities in the new City Plan, but continues to have a focus on economic regeneration. The four-year programme from 2019/2020 to 2022/2023 totals £376m, including £158m of new start schemes. This will help support Sunderland to contribute towards the key priorities as set out in the City Plan.

## Narrative Statement

Examples of major new starts include, the development of a replacement Civic Centre (City Hall) on the Vaux site, the relocation of Willow Fields Primary School and funding for strategic developments to support economic development and regeneration of the city.

The funding of the Council's four-year Capital Programme can be summarised in the table below:

<b>Capital Expenditure and Funding</b>	<b>2019/2020 £m</b>	<b>2020/2021 £m</b>	<b>2021/2022 £m</b>	<b>2022/2023 £m</b>	<b>Total £m</b>
<b>Total Expenditure</b>	<b>169</b>	<b>91</b>	<b>75</b>	<b>41</b>	<b>376</b>
Grants and Contributions	67	28	21	15	<b>131</b>
Capital Receipts	1	2	1	0	<b>4</b>
Reserves and Revenue	3	4	2	0	<b>9</b>
Borrowing	98	57	51	26	<b>232</b>
<b>Total Funding</b>	<b>169</b>	<b>91</b>	<b>75</b>	<b>41</b>	<b>376</b>

Full detail of the approved Capital Programme is set out in the Budget Report to Council of 6 March 2019.

## Financial Risk Assessment

As part of the annual budget setting process, the Council undertakes an analysis of financial risks. Those risks deemed either likely or possible are:

- future available resources being less than notified. Whilst the Medium Term Financial Strategy is based on current information, this does not reflect any potential impact of Brexit or impact of the Government's Fair Funding review and the move to 75% retained business rates. This is likely to be a key impact on the level of funding available in future;
- changes to Government policy;
- pay awards and price inflation higher than assumed;
- future spending plans underestimated;
- anticipated savings not achieved;
- income targets for business rates and council tax not achieved;
- other miscellaneous income targets not achieved; and
- exit strategies for external funding ceasing/tapering not met.

The Council carefully manages these risks to ensure any potential impact will be mitigated appropriately. Further details, can be found in the revenue budget report agreed by Council on 6 March 2019.

## Conclusion

Whilst the Council faces ongoing financial challenges, these accounts demonstrate the scale of services that the Council delivers and confirm that Council resources are managed on a prudent basis. Working with our partners, aligned with the new City Plan, this provides a strong base for the future, to ensure we can deliver the services that our residents, businesses and visitors need.

Jon Ritchie  
Executive Director of Corporate Services

26 July 2019



# **Responsibilities for the Statement of Accounts**

## **The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director of Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## **The Executive Director of Corporate Services' Responsibilities**

The Executive Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Executive Director of Corporate Services has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Executive Director of Corporate Services has also:

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

## **Authorised for Issue Date**

The unaudited accounts were certified on 31 May 2019 and the audited accounts are now authorised for issue on 26 July 2019.

## **Certification of the Statement of Accounts**

### **Certification of Statement of Accounts (subject to audit) by the Executive Director of Corporate Services**

As the Council's Section 151 officer, I hereby certify that, in accordance with The Accounts and Audit Regulations 2015, the Statement of Accounts for 2018/2019 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.



Jon Ritchie  
Executive Director of Corporate Services

31 May 2019

### **Certification of Audited Statement of Accounts 2018/2019 on behalf of those charged with governance**

As Chairman of the Audit and Governance Committee, I hereby acknowledge receipt of the audited Statement of Accounts for 2018/2019 by this Committee, in accordance with The Accounts and Audit Regulations 2015, and confirm that the Statement of Accounts was approved at the Audit and Governance Committee on 26 July 2019 in accordance with The Accounts and Audit Regulations 2015.

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

26 July 2019

### **Certification of audited Statement of Accounts by the Executive Director of Corporate Services**

As the Council's Section 151 officer, I hereby re-certify the audited Statement of Accounts for 2018/2019 in accordance with The Accounts and Audit Regulations 2015.

Jon Ritchie  
Executive Director of Corporate Services

26 July 2019

## **Independent Auditor's Report to the Members of Sunderland City Council**

The Auditor's Report will be included in the accounts once the audit has been completed.

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# Annual Governance Statement

## Scope of Responsibility

The 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. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is in line with the 2016 Framework issued by CIPFA and has been recently updated. This Statement explains how the Council has complied with its Code in 2018/2019.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and priorities and to consider whether they have led to the achievement of appropriate, cost-effective outcomes.

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 and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

## The Governance Framework

The Corporate Plan sets out our priorities which has shaped the activity of our various services and how we focused our resources. The development of a new City Plan will set out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic, Healthy and Vibrant City. The City Plan will set out explicitly the Council's planned key actions and performance targets for the future.

The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the Council's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements are in place to measure the quality of services, to ensure they are delivered in line with our objectives and priorities and for ensuring that they provide value for money. There are performance management arrangements in place including a monthly corporate performance clinic with the Chief Officer Group. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions.

The roles and responsibilities of Council members and employees are clearly documented. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.

During the year a system of scrutiny was in place allowing the scrutiny function to:

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

## Annual Governance Statement

- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference; and
- consider regular reports on the Council's performance against the Corporate Plan.

A range of financial and HR policies and procedures are in place. Appropriate project management standards and Business Continuity Plans are in place, which are subject to ongoing review. 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. There are clearly defined capital expenditure guidelines in place and 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 14 of the Education Act 2002.

The Council'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 Executive Director of Corporate Services fulfils this role through the following:

- attendance at meetings of the Chief Officer Group, 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;
- leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
- ensuring that the finance function is resourced to be fit for purpose.

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

- consider the effectiveness of the Council's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the Council'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 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;
- review the adequacy of and compliance with, the Council's Treasury Management Policy; and
- make recommendations to Cabinet or Council as appropriate.

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Assistant Director of Law and Governance 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. All Cabinet Reports are considered for legal issues before submission to members.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Assistant Director of Law and Governance show 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.

We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Council recognises that managing the performance of all employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and ongoing

# Annual Governance Statement

evaluation of the extent to which employees understand and support the values of the Council.

Channels of communication have been established with the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people.

The Council's Code of Practice for Partnerships and supporting arrangements have been in place throughout the year.

Contractual arrangements with Together for Children Sunderland Ltd. clearly set out challenging targets around use of resources and improved outcomes for children and young people.

## 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 carried out over the course of the year through the Integrated Risk and Assurance Framework. The review is informed by the Risk and Assurance Map which summarises assurances gathered from all available sources in relation to the Council and its wholly owned companies, and in particular:

- assurances from Assistant Directors who have carried out self-assessments relating to their areas of responsibility;
- assurances from Chief Officers through completion of controls assurance statements;
- assurances from senior officers responsible for relevant specialist areas;
- internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report;
- the external auditors (Mazars) Annual Audit Letter for 2017/2018 concludes that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018, 'except for' the areas that were assessed as inadequate in Ofsted's re-inspection report on children's safeguarding services in July 2018.

The Assistant Director of Business and Property as the Council's head of internal audit has directed, co-ordinated and overseen the review and its findings and proposed improvements have been reported to the Chief Officer Group for their consideration and approval of the Annual Governance Statement.

The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee has satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it before formal approval of the Statement of Accounts.

The outcome of the review of effectiveness provided the necessary assurance and that no significant issues across the Council or its wholly owned companies were identified, with the exception of the need to continue to improve Children's Safeguarding services.

We have been advised of the outcome of the review of the effectiveness of the governance framework, and that the overall arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A small number of improvement actions have been set out in an agreed improvement plan, below.

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 we will monitor their implementation and operation as part of the next annual review.

# Annual Governance Statement

## Annual Governance Review - Improvement Plan for 2019/2020

Ref	Action	COG Lead	Timescale
1.	Ensure appropriate performance management arrangements are in place to monitor achievement of the priorities in the City Plan.	Executive Director of Corporate Services	July 2019
2.	Review partnership arrangements to ensure that they are strong to support the delivery of the City Plan.	Director of People, Communications and Partnerships	July 2019
3.	Ensure that Directorate Delegation Schemes are reviewed and updated following the senior management reorganisation.	All Chief Officers	May 2019
4.	Ensure that appropriate assurance is provided to demonstrate compliance with the General Data Protection Regulations.	Director of People, Communications and Partnerships	July 2019
5.	Implementation of the agreed action plan arising from the LGA Corporate Peer Challenge	Director of People, Communications and Partnerships	March 2020
6.	Continue to work collaboratively with Together for Children Sunderland Ltd (TfC) to maintain the improvement of services to vulnerable children.	Executive Director of Corporate Services / Chief Executive TfC	March 2020

Councillor Graeme Miller  
Leader of the Council

Patrick Melia  
Chief Executive

Jon Ritchie  
Executive Director of Corporate Services

Dated 26 July 2019

# Financial Statements

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

The Statement shows how the movement in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practice, and the statutory adjustments required to return to the amounts chargeable to council tax for the year.

The Increase / Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. The table below shows the details for both 2017/2018 and 2018/2019.

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2017</b>		<b>18,224</b>	<b>125,462</b>	<b>4,754</b>	<b>8,771</b>	<b>157,211</b>	<b>133,397</b>	<b>290,608</b>
Movement in reserves during 2017/2018:								
Total Comprehensive Income and Expenditure	7	(66,241)	0	0	0	<b>(66,241)</b>	(8,892)	<b>(75,133)</b>
Adjustments between accounting basis & funding basis under regulations		69,674	0	2,209	(3,774)	<b>68,109</b>	(68,109)	<b>0</b>
Transfers to / (from) Earmarked Reserves		(3,083)	3,083	0	0	<b>0</b>	0	<b>0</b>
Increase / (Decrease) in 2017/2018		350	3,083	2,209	(3,774)	<b>1,868</b>	(77,001)	<b>(75,133)</b>
<b>Balance at 31 March 2018</b>		<b>18,574</b>	<b>128,545</b>	<b>6,963</b>	<b>4,997</b>	<b>159,079</b>	<b>56,396</b>	<b>215,475</b>
Movement in reserves during 2018/2019:								
Total Comprehensive Income and Expenditure	7	(68,336)	0	0	0	<b>(68,336)</b>	52,169	<b>(16,167)</b>
Adjustments between accounting basis & funding basis under regulations		63,238	0	(436)	477	<b>63,279</b>	(63,279)	<b>0</b>
Transfers to / (from) Earmarked Reserves		6,282	(6,282)	0	0	<b>0</b>	0	<b>0</b>
Increase / (Decrease) in 2018/2019		1,184	(6,282)	(436)	477	<b>(5,057)</b>	(11,110)	<b>(16,167)</b>
<b>Balance at 31 March 2019</b>		<b>19,758</b>	<b>122,263</b>	<b>6,527</b>	<b>5,474</b>	<b>154,022</b>	<b>45,286</b>	<b>199,308</b>

# Financial Statements

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

The statement is presented in line with the Council's Portfolio structure which has been in place since 16 May 2018 and 2017/2018's position has been restated accordingly (further information can be found in Note 44). The roles and responsibilities of each Portfolio are detailed in the Council's constitution.

2017/2018				Notes	2018/2019		
Gross Expenditure (restated) £'000	Gross Income (restated) £'000	Net Expenditure (restated) £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
4,941	(238)	4,703	Leader		5,368	(1,267)	4,101
12,190	(8,073)	4,117	Deputy Leader		6,834	(1,967)	4,867
161,719	(136,339)	25,380	Cabinet Secretary		156,911	(130,111)	26,800
200,894	(124,908)	75,986	Children, Learning and Skills		192,634	(120,993)	71,641
15,186	(2,572)	12,614	Community and Culture		17,745	(2,907)	14,838
65,948	(23,845)	42,103	Environment and Transport		65,916	(22,282)	43,634
129,333	(73,906)	55,427	Health and Social Care		132,924	(79,106)	53,818
29,492	(16,155)	13,337	Housing and Regeneration		10,539	(6,312)	4,227
(24,380)	0	(24,380)	IAS19 settlement adjustment	3 / 40	0	0	0
0	0	0	IAS19 GMP equalisation	3 / 40	10,700	0	10,700
0	0	0	IAS19 pension scheme transition arrangements (McCloud Judgement)	3 / 40	17,210	0	17,210
0	0	0	Equal pay settlement / provision	20	457	0	457
595,323	(386,036)	209,287	<b>Cost of Services</b>	8	617,238	(364,945)	252,293
74,238	0	74,238	Other operating expenditure	10	30,643	0	30,643
34,290	(6,409)	27,881	Financing and investment income and expenditure	11	35,352	(5,268)	30,084
0	(245,165)	(245,165)	Taxation and non-specific grant income and expenditure	12	0	(244,684)	(244,684)
703,851	(637,610)	66,241	<b>(Surplus) or Deficit on Provision of Services</b>		683,233	(614,897)	68,336
		(12,418)	(Surplus) or deficit on revaluation of non-current assets	21a			(23,716)
		0	(Surplus) or deficit from investments in equity instruments designated at fair value through comprehensive income	21c			(153)
		21,310	Re-measurements of the net defined benefit liability / (asset)	21f			(28,300)
		8,892	<b>Other Comprehensive Income and Expenditure</b>				(52,169)
		75,133	<b>Total Comprehensive Income and Expenditure</b>				16,167



# Financial Statements

## Balance Sheet

The Balance Sheet shows the value at 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves, unusable reserves, is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2018 £'000		Notes	31 March 2019 £'000
870,732	Property, Plant and Equipment	13	905,992
12,192	Heritage Assets		12,192
54,110	Investment Property	14	46,723
2,349	Intangible Assets		2,819
21,915	Long Term Investments	15	29,571
56,481	Long Term Debtors	15	57,899
1,017,779	<b>Long Term Assets</b>		1,055,196
60,142	Short Term Investments	15	90,625
1,110	Inventories		1,585
70,401	Short Term Debtors	16	54,518
486	Assets Held for Sale	18	439
81,106	Cash and Cash Equivalents	17 / 44	83,987
213,245	<b>Current Assets</b>		231,154
(35,897)	Short Term Borrowing	15	(37,237)
(59,202)	Short Term Creditors	19	(61,557)
(15,307)	Provisions	20	(16,085)
(1,552)	Grant Receipts in Advance - Capital	32	(2,041)
(111,958)	<b>Current Liabilities</b>		(116,920)
(283,941)	Long Term Borrowing	15	(341,298)
(613,452)	Other Long Term Liabilities	15	(622,125)
(6,197)	Provisions	20	(6,699)
(903,590)	<b>Long Term Liabilities</b>		(970,122)
215,476	<b>Net Assets</b>		199,308
159,080	Usable Reserves	9	154,022
56,396	Unusable Reserves	21	45,286
215,476	<b>Total Reserves</b>		199,308

# Financial Statements

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2017/2018 £'000		Notes	2018/2019 £'000
66,241	Net (surplus) or deficit on the provision of services		<b>68,336</b>
(83,446)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements		<b>(116,773)</b>
37,856	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		<b>25,213</b>
20,651	Net cash flows from operating activities	22	<b>(23,224)</b>
(22,021)	Investing activities	23	<b>75,001</b>
(45,349)	Financing activities	24	<b>(54,658)</b>
(46,719)	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(2,881)</b>
34,387	Cash and cash equivalents at the beginning of the reporting period		<b>81,106</b>
81,106	<b>Cash and cash equivalents at the end of the reporting period</b>	17	<b>83,987</b>

## Notes to the Financial Statements

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# Notes to the Financial Statements

## Note 1 – Significant Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/2019 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the Local Government Act 2003, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 supported by International Financial Reporting Standards (IFRS).

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

### 1.2 Accrual of Income and Expenditure

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

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- supplies are recorded as expenditure when they are consumed – where there is a difference between the date supplies are received and the date of their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected;
- 12 month's costs are included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year and may include an element of estimation;
- a de-minimis level of £5,000 is applied to accruals.

### 1.3 Cash and Cash Equivalents

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

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

### 1.4 Exceptional Items

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

# Notes to the Financial Statements

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

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

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

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

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

IFRS 9 Financial Instruments has been adopted with effect from 1 April 2018. The standard impacts on the classification, remeasurement and impairment of financial instruments, and the consequent accounting treatment. The Council has made use of the transitional provisions in IFRS 9 not to restate prior year's financial statements, however, the impact of the remeasurement of instruments as at 1 April 2018 has been reflected in the accounts.

IFRS 15 Recognition from Contracts with Customers has been adopted. This has not led to any changes in the timing of income recognition within the 2018/2019 accounts.

## 1.6 Charges to Revenue for Non-Current Assets

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

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

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

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

## 1.7 Employee Benefits

### Benefits Payable during Employment

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

## Notes to the Financial Statements

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

### Post-Employment Benefits

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

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

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

However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes and, as a result, no liability for future payments of benefits is recognised in the Council's Balance Sheet. The Children, Learning and Skills and Health and Social Care lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to Teachers' Pensions and NHS Pensions respectively.

### The Local Government Pension Scheme

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

- the liabilities of the Tyne and Wear Pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees;
- liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds;
- the assets of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price;
  - unquoted securities based on professional estimate;
  - unitised securities at current bid price; and
  - property at market value.
- the change in the net pension liability is analysed into the following components:

## Notes to the Financial Statements

### a) Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and
- net interest on the net defined benefit liability / (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability / (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability / (asset) during the period as a result of contribution and benefit payments.

### b) Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

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

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

## Discretionary Benefits

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

### 1.8 Events after the Balance Sheet Date

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

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



# Notes to the Financial Statements

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 1.9 Financial Instruments

### Financial Liabilities

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

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

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

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised costs, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to partnership arrangements and community organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the

## Notes to the Financial Statements

present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from these organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on a 12 month expected losses basis.

Expected credit losses are reviewed annually.

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on:

- Instruments with quoted market prices – the market price; and
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly; and
- Level 3 inputs – unobservable inputs for the asset.

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

The Council also holds a small number of various gilts and unit trusts with a value at cost of £0.168m which are classified as 'financial assets at fair value through profit and loss', meaning that all movements in price are recognised within the Surplus or Deficit on the Provision of Services.

# Notes to the Financial Statements

## Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council does not generally invest in equity shares but does have shareholdings in Newcastle Airport Ltd. Whilst this investment is not anticipated to be sold, the Council is consequently exposed to losses arising from movements in the prices of the shares.

These shares have therefore been elected as 'fair value through other comprehensive income', meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve.

## Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has long term investments in two companies which form part of the group accounts – Siglion LLP and Sunderland Lifestyle Partnership Ltd. In the Council's own single-entity accounts, the interests in these companies is recorded as financial assets at cost.

### 1.10 Government Grants and Contributions

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

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

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

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

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

### 1.11 Intangible Assets

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

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

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

## Notes to the Financial Statements

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

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

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

### 1.12 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and joint ventures and require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### 1.13 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

### 1.14 Inventories

Inventories are included in the Balance Sheet at cost price, with the exception of inventories held by Highways Services and salt stock which are valued at latest price. A de-minimis level of £5,000 is applied to inventories.

### 1.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. The only investment properties held by the Council are areas of land which are held for capital appreciation and therefore earn no rental income.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income

## Notes to the Financial Statements

and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### 1.16 Leases

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

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

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

#### (a) The Council as Lessee

##### Finance Leases

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

Lease payments are apportioned between:

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

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

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

##### Operating Leases

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

# Notes to the Financial Statements

## (b) The Council as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

### Operating Leases

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

## 1.17 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. The charging method varies according to the service provision.

## 1.18 Internal Interest

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

# Notes to the Financial Statements

## 1.19 Delegated Budgets

As set out in the Local Management of Schools Scheme, schools may carry forward any under-spending on their budgets to the following financial year as provisions for specific future spending plans or as earmarked general balances.

## 1.20 Property, Plant and Equipment

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

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Capital expenditure that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense in the year when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Capital projects that are still in progress are classed as 'non-current assets under construction' and are shown in the balance sheet under the relevant asset category. For material capital schemes that have been completed an assessment is undertaken by the Valuation Manager to determine any change the capital scheme has made to an asset's value.

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

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

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

- infrastructure, community assets and assets under construction – depreciated historic cost;
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

## Notes to the Financial Statements

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

Where non-property assets have short useful lives or low values (or both), DRC is used as a proxy for current value.

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

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

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

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

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

### De-Minimis Levels

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

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

### Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications of impairment exist, the overall estimated level of impairment is considered and, if material, the recoverable amounts of each of the affected assets are estimated. Where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

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



## Notes to the Financial Statements

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

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

### Depreciation

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

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the opening net asset value divided by the future life expectancy.

Depreciation is charged in the first full year following acquisition, revaluation and enhancement of buildings. This is a change to the estimate for depreciation used in 2017/2018 where depreciation on acquisition and revaluation of buildings was charged in the year the acquisition or revaluation occurred. This estimation change will result in administrative savings to the Council whilst still reflecting the pattern of consumption of economic benefits of an asset and it does not result in material differences to asset values.

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

Asset Category	Years
Land and buildings	5 - 68
Vehicles, plant and equipment	3 - 40
Infrastructure	10 - 60

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

- building structure; and
- mechanical and electrical.

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

### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised

## Notes to the Financial Statements

had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

### 1.21 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- **lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

# Notes to the Financial Statements

## 1.22 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and, where material to the financial statements, some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

## 1.23 Provisions

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

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

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

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

## 1.24 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future

## Notes to the Financial Statements

events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

### 1.25 Contingent Assets

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

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

### 1.26 Reserves

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

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

### 1.27 Revenue Expenditure Funded from Capital under Statute

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

### 1.28 VAT

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

### 1.29 Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

### 1.30 Council Tax and Business Rates

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major

## Notes to the Financial Statements

preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

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

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard which has been issued but has not yet been adopted by the Code.

The new/amended standards to be adopted for the 2019/2020 Statement of Accounts include:

- Amendments to IAS 40 Investment Property: Transfer of Investment Property
- Annual Improvements to IFRS standards
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Consideration

These are not expected to have a significant impact on the Statement of Accounts. Restatement of 2018/2019's accounts will not be required.

### Note 3 – Critical Judgements in applying accounting policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision;
- Pension Fund Guarantor – Gentoo  
The Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees who were originally employed by the Council but transferred to Gentoo in March 2001. Under this guarantee, only the basic level of pension would be funded (no added years). Although facing similar pressures to the Council, Gentoo's financial position is healthy and the likelihood of Gentoo ceasing to operate is highly unlikely. It is very difficult to estimate the potential cost to the Council if that were to happen as the Council only has partial liability and that liability will have significantly diminished since 2001 as a result of staff turnover and some of the affected staff retiring. The Council's share of any potential deficit would need to be considered as part of the overall financial position of Gentoo at the point that it ceased operating and any liability relating to the Council would be repaid over an agreed repayment period. This guarantee has been judged to be a guarantee against financial risk under IFRS 9, Financial

## Notes to the Financial Statements

Instruments, but as any value would not be material to the accounts, acquiring a Fair Value has not been considered necessary;

- **Pension Fund Guarantor – other organisations**  
The Council also acts as a joint guarantor (along with other councils) to the Tyne and Wear Pension Fund in respect of pensions for employees of several bodies such as the Association of North East Councils (ANEC) and the North East Regional Employers Organisation (NEREO). The councils involved have agreed with the Pension Fund administrators that, in the unlikely event of any of these bodies failing, any pension deficit would be repaid over an agreed repayment period. Independently, the Council has similar arrangements in place for possible pension deficits with several other organisations. These guarantees have been judged to be guarantees against financial risk under IFRS 9, Financial Instruments, but as any value would not be material to the accounts, acquiring a Fair Value has not been considered necessary;
- **Guaranteed Minimum Pension (GMP) Indexation and Equalisation**  
GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. All of the public service schemes, including the LGPS were contracted out.

Reforms to the State Pension system on 6 April 2016 removed the facility by which central government paid top-up payments to members with GMP who reached State Pension Age after that date. In March 2016 the Government introduced an 'interim solution' which made the LGPS responsible for paying the full increases on GMPs for individuals reaching State Pension Age (SPA) from 5 April 2016 through to 6 December 2018. In January 2018 the Government extended the interim solution to individuals reaching SPA before 5 April 2021 and Government policy is to fully index and equalise GMP pensions for men and women reaching SPA after 5 April 2021 but has not yet enacted this in legislation.

Separately, on 26 October 2018, the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs".

HM Treasury have confirmed that public sector schemes already have a method to equalise guaranteed minimum pension benefits (through the interim solutions and commitment to pay full increases on GMPs) and they do not plan to change their method as a result of that judgement.

In light of this, the accounts include an allowance for full increases on GMP pensions for individuals reaching state pension age from 5 April 2016. This assumes that HM Treasury will legislate to change the Scheme in the future to compensate members who were contracted out of the second state pension prior to 6 April 1997 for the removal of the additional pension element of the state pension from 6 April 2016.

The additional liability amounts to £10.7m and is shown as a past service cost.

Until HM Treasury announce scheme changes there is some uncertainty over the final liability that may emerge.

- **McCloud Judgement**  
Following a review of public service pension schemes in 2011, all schemes were reformed with the objective of reducing the overall cost to the taxpayer and putting schemes on a more sustainable footing.

The reforms included transitional protections for those members who were closest to retirement. Protections applied to active members who were within 10 years of their Normal Pension Age on 1 April 2012. All LGPS members transferred to the new 2014 Scheme on 1 April 2014 but members within 10 years of normal retirement were given an underpin promise that benefits earned after 1 April 2014 would be at least as valuable, in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

## Notes to the Financial Statements

In 2018 the Government lost a Court of Appeal case (the 'McCloud/Sargeant' judgement) which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory.

This is likely to have implications for all public sector schemes due to the similarities in the way members closest to retirement were protected and could lead to members of the LGPS, who were discriminated against, being compensated.

In light of this, the accounts include an allowance for estimated liabilities relating to potential remedies for age discrimination within the LGPS arrangements. This assumes that the Government will legislate to change the scheme in the future to compensate members who have been discriminated against.

The additional liability amounts to £17.21m and is shown as a past service cost.

Until the Government announce scheme changes there is some uncertainty over the final liability that may emerge.

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

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

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Assets are valued, in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards, involving the use of a number of estimation techniques including various property indices which can be volatile at times and may result in valuation changes from year to year. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	The gross book value (GBV) of the Councils land and buildings portfolio is £470.906m as at 31 March 2019. A 1% change in asset valuation would equate to a £4.709m change in the GBV. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £1.857m for every year that useful lives had to be reduced. See note 13 for more details on PPE.
Provisions	The Council holds provisions of £22.784m. The value of provisions reflects estimated costs based on experience and historic trends but there is a significant degree of uncertainty relating to these.	Business Rates: Any increase or decrease in appeals lodged would impact on the overall position of the Collection Fund and future income receivable via business rates.

## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		<p>Insurance: An increase or decrease of 10% in the estimated average settlement would impact on the level of provision needed by £0.341m.</p> <p>Legal Negotiations: Settlement of legal negotiations at a level different to the Council's current estimate would either release existing provision or require additional funding to be identified.</p>
Arrears	At 31 March 2019, the Council had a balance of debtors of £66.998m. A review of significant balances suggested that an impairment of doubtful debts of 20.92% (£14.014m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £14.014m to be set aside as an allowance.
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>Further information regarding Pension Liabilities can be found in Note 40.</p>	<p>For funded LGPS benefits, the effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £31.42m.</p> <p>However, the assumptions interact in complex ways. During 2018/2019, the Council's actuaries advised that the net pension liability (for funded LGPS benefits) had increased by £90.39m as a result of estimates being corrected as a result of experience and changes in financial assumptions but had decreased by £68.16m attributable to updating of demographic assumptions.</p>
Fair Value measurements – equity investments and investment properties	When the fair values of financial assets cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for <i>similar</i> assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair	<p>The Council uses the market approach that compares the asset to be valued with the prices obtained for other similar assets and the income approach that capitalises the potential income of the asset to measure the fair value of some of its surplus assets, investment properties and assets held for sale.</p> <p>For investment properties, the significant unobservable inputs used in the fair value measurement include management assumptions regarding sales values, market rental, yields and vacancy levels.</p>



## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's chief valuation officer and external valuer).</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 14 and 15.</p>	<p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the Council's investment properties.</p> <p>For the Council's equity investments, significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value. As the equity investments relating to the Airport and Siglion have been elected as 'fair value through other comprehensive income', all movements in fair value will impact on gains and losses recognised in the Council's unusable reserves.</p>

### Note 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £18.427m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged to Other Operating Expenditure within the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the council tax payer.

The following assets have been transferred at a loss during 2018/2019:

	Loss on Disposal £m	Date of Transfer
<b>Schools transferring to Academy Status:</b>		
Valley Road Community Primary School	6.269	1 June 2018
Highfield Community Primary School	8.399	1 June 2018
<b>Other:</b>		
Other Net (Gains) and Losses	3.759	
<b>Total</b>	<b>18.427</b>	

### Note 6 – Events after the Balance Sheet date

#### Adjusting Events after the Balance Sheet date

Where events take place after 31 March which provide information about conditions existing at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

#### Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Council's financial position, the financial

## Notes to the Financial Statements

statements and notes are not adjusted but the relevant information is disclosed. No such events have taken place.

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

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

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

#### **General Fund Balance**

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

#### **Capital Receipts Reserve**

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

#### **Capital Grants Unapplied**

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

## Notes to the Financial Statements

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

2017/2018				2018/2019		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
			<b>Adjustments to Revenue Resources</b>			
			Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
(14,180)	0	0	Pensions costs - transferred to (or from) the Pensions Reserve	38,540	0	0
1,197	0	0	Financial instruments - transferred to the Financial Instruments Adjustment Account	456	0	0
1,911	0	0	Council Tax and Business Rates - transfers to or from the Collection Fund Adjustment Account	290	0	0
(491)	0	0	Holiday pay - transferred to the Accumulated Absences Reserve	(222)	0	0
109,504	0	0	Reversal of items included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	61,165	0	0
(8,378)	0	0	Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(9,693)	0	0
(7,011)	0	0	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(11,668)	0	0
46	0	0	Deferred Capital Receipts Reserve - sale proceeds credited to the Comprehensive Income and Expenditure Statement as part of the gain/(loss) on disposal	(1,652)	0	0
82,598	0	0	Total adjustments to Revenue Resources	77,216	0	0

## Notes to the Financial Statements

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

2017/2018				2018/2019		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
(3,808)	3,808	0	<b>Adjustments between Revenue and Capital Resources</b>			
			Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,212)	2,212	0
83	(83)	0	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	10	(10)	0
2	(2)	0	Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	2	(2)	0
(9,201)	0	9,201	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(11,778)	0	11,778
(12,924)	3,723	9,201	Total adjustments between Revenue and Capital Resources	(13,978)	2,200	11,778
			<b>Adjustments to Capital Resources</b>			
0	(2,184)	0	Use of the Capital Receipts Reserve to finance capital expenditure	0	(2,738)	0
0	0	(12,975)	Application of capital grants to finance capital expenditure	0	0	(11,301)
0	100	0	Writing down of long term debtor to Capital Adjustment Account	0	100	0
0	570	0	Cash payments in relation to deferred capital receipts	0	2	0
0	(1,514)	(12,975)	Total adjustments to Capital Resources	0	(2,636)	(11,301)
69,674	2,209	(3,774)	<b>Total Adjustments</b>	63,238	(436)	477

# Notes to the Financial Statements

## Note 8 - Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision making purposes between the Council's Portfolios. Income and expenditure accounted for under generally accepted accounting practice is presented more fully in the Comprehensive Income and Expenditure Statement.

The 2017/2018 position has been restated to reflect the Council's current Portfolio structure which has been in place since 16 May 2018 (further information can be found in Note 44).

2017/2018 (restated)				2018/2019		
Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
4,455	(248)	4,703	Leader	3,789	(312)	4,101
91	(4,026)	4,117	Deputy Leader	1,266	(3,601)	4,867
34,592	9,212	25,380	Cabinet Secretary	33,967	7,167	26,800
60,481	(15,505)	75,986	Children, Learning and Skills	62,690	(8,951)	71,641
8,713	(3,901)	12,614	Community and Culture	11,019	(3,819)	14,838
23,975	(18,128)	42,103	Environment and Transport	22,296	(21,338)	43,634
53,774	(1,653)	55,427	Health and Social Care	48,010	(5,808)	53,818
1,837	(11,500)	13,337	Housing and Regeneration	(2,014)	(6,241)	4,227
0	24,380	(24,380)	IAS19 settlement adjustment	0	0	0
0	0	0	IAS19 GMP equalisation	0	(10,700)	10,700
0	0	0	IAS19 pension scheme transition arrangements (McCloud Judgement)	0	(17,210)	17,210
0	0	0	Equal pay settlement/provision	457	0	457
187,918	(21,369)	209,287	<b>Net Cost of Services</b>	181,480	(70,813)	252,293
(191,351)	(48,305)	(143,046)	Other Income and Expenditure	(176,382)	7,575	(183,957)
(3,433)	(69,674)	66,241	<b>(Surplus) or Deficit</b>	5,098	(63,238)	68,336
143,686			Opening General Fund Balance / Earmarked Reserves	147,119		
3,433			Surplus (deficit) in year	(5,098)		
<b>147,119</b>			Closing General Fund Balance / Earmarked Reserves	<b>142,021</b>		

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

The adjustments between the funding and accounting basis can be further analysed between:

- adjustments for Capital Purposes;
- the net change relating to Pension Adjustments; and
- other differences

2018/2019	Adjustments for Capital Purposes £'000	Net Change for the Pensions Adjustment £'000	Other Statutory Differences £'000	Total Statutory Adjustments £'000	Other (non- statutory) Adjustments £'000	Total Adjustments £'000
Leader	70	242	0	312	0	312
Deputy Leader	2,619	488	0	3,107	494	3,601
Cabinet Secretary	2,697	(10,054)	1	(7,356)	189	(7,167)
Children, Learning and Skills	8,443	1,287	(229)	9,501	(550)	8,951
Community and Culture	3,389	432	(4)	3,817	2	3,819
Environment and Transport	17,671	2,497	2	20,170	1,168	21,338
Health and Social Care	4,425	1,367	2	5,794	14	5,808
Housing and Regeneration	4,890	420	6	5,316	925	6,241
IAS19 GMP equalisation	0	10,700	0	10,700	0	10,700
IAS19 pension scheme transition arrangements (McCloud Judgement)	0	17,210	0	17,210	0	17,210
<b>Net Cost of Services</b>	<b>44,204</b>	<b>24,589</b>	<b>(222)</b>	<b>68,571</b>	<b>2,242</b>	<b>70,813</b>
Other income and expenditure	(20,030)	13,951	746	(5,333)	(2,242)	(7,575)
<b>Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services</b>	<b>24,174</b>	<b>38,540</b>	<b>524</b>	<b>63,238</b>	<b>0</b>	<b>63,238</b>

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

The adjustments between the funding and accounting basis can be further analysed between:

- adjustments for Capital Purposes;
- the net change relating to Pension Adjustments; and
- other differences

2017/2018 (restated)	Adjustments for Capital Purposes £'000	Net Change for the Pensions Adjustment £'000	Other Statutory Differences £'000	Total Statutory Adjustments £'000	Other (non- statutory) Adjustments £'000	Total Adjustments £'000
Leader	70	177	1	248	0	248
Deputy Leader	3,715	310	2	4,027	(1)	4,026
Cabinet Secretary	2,243	(10,044)	(12)	(7,813)	(1,399)	(9,212)
Children, Learning and Skills	11,501	2,224	(473)	13,252	2,253	15,505
Community and Culture	3,458	449	(5)	3,902	(1)	3,901
Environment and Transport	17,730	2,175	(15)	19,890	(1,762)	18,128
Health and Social Care	245	1,419	2	1,666	(13)	1,653
Housing and Regeneration	12,399	368	9	12,776	(1,276)	11,500
Exceptional item - IAS19 settlement adjustment	0	(24,380)	0	(24,380)	0	(24,380)
<b>Net Cost of Services</b>	<b>51,361</b>	<b>(27,302)</b>	<b>(491)</b>	<b>23,568</b>	<b>(2,199)</b>	<b>21,369</b>
Other income and expenditure	29,876	13,122	3,108	46,106	2,199	48,305
<b>Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services</b>	<b>81,237</b>	<b>(14,180)</b>	<b>2,617</b>	<b>69,674</b>	<b>0</b>	<b>69,674</b>

# Notes to the Financial Statements

## Note 8 - Expenditure and Funding Analysis

### Adjustments for Capital Purposes

This column adds depreciation, impairment and revaluation gains and losses to the Portfolio activity, and for:

- **Other Operating Expenditure**  
adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- **Financing and investment income and expenditure**  
the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practice; and
- **Taxation and non-specific grant income and expenditure**  
capital grants are adjusted for income not chargeable under generally accepted accounting practice. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19, Employee Benefits, pension related expenditure and income:

- **For Portfolios**  
This represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs; and
- **For Financing and investment income and expenditure**  
The net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

### Other Statutory Adjustments

Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and investment income and expenditure**  
The other statutory adjustments column recognises adjustments to the General Fund for the timing differences for premiums and discounts; and
- **For Taxation and non-specific grant income and expenditure**  
The charge represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practice in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

### Other Non-statutory Adjustments

Other non-statutory adjustments represent amounts debited/credited to service segments which need to be adjusted against 'Other Income and Expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement.

The other non-statutory adjustments column recognises adjustments to service segments for interest and investment income and expenditure, trading operation activity and disposal of subsidiaries.



## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

The nature of the Cost of Services presented in the Expenditure and Funding Analysis is shown below:

2018/2019	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children, Learning and Skills £'000	Community and Culture £'000	Environment and Transport £'000	Health and Social Care £'000	Housing and Regeneration £'000	Total £'000
Fees, charges and other service income	(892)	(1,823)	(6,627)	(4,832)	(1,198)	(11,402)	(19,572)	(5,881)	(52,227)
Government grants	(105)	(400)	(115,252)	(111,499)	(195)	(6,753)	(44,649)	(332)	(279,185)
Other Grants, reimbursements and contributions	(270)	(238)	(8,447)	(4,672)	(1,515)	(5,295)	(14,899)	(1,024)	(36,360)
Total Income	(1,267)	(2,461)	(130,326)	(121,003)	(2,908)	(23,450)	(79,120)	(7,237)	(367,772)
Employee expenses	2,104	834	38,151	73,554	3,608	18,821	14,642	3,143	154,857
Other service expenditure	2,952	2,893	126,599	110,139	10,319	26,925	112,488	2,080	394,395
Total Expenditure	5,056	3,727	164,750	183,693	13,927	45,746	127,130	5,223	549,252
Deficit on Cost of Services	3,789	1,266	34,424	62,690	11,019	22,296	48,010	(2,014)	181,480

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

The nature of the Cost of Services presented in the Expenditure and Funding Analysis is shown below:

<b>2017/2018 (restated)</b>	<b>Leader £'000</b>	<b>Deputy Leader £'000</b>	<b>Cabinet Secretary £'000</b>	<b>Children, Learning and Skills £'000</b>	<b>Community and Culture £'000</b>	<b>Environment and Transport £'000</b>	<b>Health and Social Care £'000</b>	<b>Housing and Regeneration £'000</b>	<b>Total £'000</b>
Fees, charges and other service income	(65)	(7,010)	(7,743)	(5,900)	(1,599)	(10,390)	(17,138)	(5,248)	(55,093)
Government grants	0	(469)	(120,806)	(114,941)	(128)	(6,287)	(37,160)	(345)	(280,136)
Other Grants, reimbursements and contributions	(173)	(352)	(6,522)	(3,217)	(843)	(5,231)	(16,160)	(348)	(32,846)
Total Income	(238)	(7,831)	(135,071)	(124,058)	(2,570)	(21,908)	(70,458)	(5,941)	(368,075)
Employee expenses	1,779	3,455	36,543	80,386	3,822	18,486	14,167	3,101	161,739
Other service expenditure	2,914	4,467	133,120	104,153	7,461	27,397	110,065	4,677	394,254
Total Expenditure	4,693	7,922	169,663	184,539	11,283	45,883	124,232	7,778	555,993
Deficit of Provision of Services	4,455	91	34,592	60,481	8,713	23,975	53,774	1,837	187,918

## Notes to the Financial Statements

### Note 9 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/2019.

	Balance at 31 March 2017 £'000	Transfers Out 2017/2018 £'000	Transfers In 2017/2018 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/2019 £'000	Transfers In 2018/2019 £'000	Balance at 31 March 2019 £'000
<b>General Fund:</b>							
General Fund Balance	10,000	0	2,000	12,000	0	0	<b>12,000</b>
Balances held by schools under a scheme of delegation	8,224	(1,768)	118	6,574	(970)	2,154	<b>7,758</b>
	18,224	(1,768)	2,118	18,574	(970)	2,154	<b>19,758</b>
<b>Earmarked General Fund Reserves - Capital:</b>							
Riverside Transfer	9,922	(483)	0	9,439	(251)	0	<b>9,188</b>
Capital Priorities Reserve	8,872	(313)	0	8,559	(1,380)	0	<b>7,179</b>
Section 106 Reserves	3,743	(717)	2,181	5,207	(304)	1,351	<b>6,254</b>
Strategic Investment Reserve (Capital)	0	0	0	0	0	5,422	<b>5,422</b>
Strategic Investment Plan Reserve	3,617	(1,683)	0	1,934	(278)	0	<b>1,656</b>
Commercial and Economic Development Activity	1,452	0	0	1,452	0	0	<b>1,452</b>
Economic Strategy Reserve	4,100	0	3,000	7,100	(7,100)	0	<b>0</b>
Other Earmarked Capital Reserves	1,555	(302)	0	1,253	(37)	1,753	<b>2,969</b>
	33,261	(3,498)	5,181	34,944	(9,350)	8,526	<b>34,120</b>
<b>Earmarked General Fund Reserves - Revenue:</b>							
Strategic Investment Reserve	28,961	(1,778)	2,392	29,575	(10,935)	4,925	<b>23,565</b>
Service Reduction Reserve	0	0	2,555	2,555	0	7,098	<b>9,653</b>

# Notes to the Financial Statements

## Note 9 – Transfers to/from Earmarked Reserves

	Balance at 31 March 2017 £'000	Transfers Out 2017/2018 £'000	Transfers In 2017/2018 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/2019 £'000	Transfers In 2018/2019 £'000	Balance at 31 March 2019 £'000
Medium Term Planning Smoothing Reserve	8,941	(5,436)	4,671	8,176	(3,500)	926	5,602
Insurance Reserve	5,224	(740)	144	4,628	(64)	157	4,721
Street Lighting PFI Smoothing Reserve	5,085	(319)	0	4,766	(290)	0	4,476
HCA Stadium Transfer	3,078	0	7	3,085	0	16	3,101
Strategic Initiatives Budget Reserve	3,739	0	1	3,740	(857)	0	2,883
Service Pressures Reserve	0	0	3,161	3,161	(669)	0	2,492
Sandhill Centre PFI Smoothing Reserve	2,519	(25)	0	2,494	(166)	0	2,328
Housing Benefit Smoothing Reserve	2,004	(61)	0	1,943	(35)	0	1,908
Education Redundancies Reserve	2,607	(1,060)	2	1,549	(21)	150	1,678
Riverside Transfer	1,602	(104)	3	1,501	(89)	7	1,419
House Sale Income	1,174	(99)	0	1,075	0	332	1,407
Collection Fund Surplus Reserve	0	0	0	0	0	1,345	1,345
Levy Transitional Reserve	0	0	0	0	0	1,296	1,296
Dedicated Schools Grant Surplus	559	(559)	261	261	(1,281)	2,182	1,162
Improvement Priorities	0	0	3,000	3,000	(3,000)	0	0
Other Earmarked Revenue Reserves	26,708	(11,220)	6,604	22,092	(5,983)	2,998	19,107
	92,201	(21,401)	22,801	93,601	(26,890)	21,432	88,143
<b>Total General Fund Reserves</b>	<b>143,686</b>	<b>(26,667)</b>	<b>30,100</b>	<b>147,119</b>	<b>(37,210)</b>	<b>32,112</b>	<b>142,021</b>
<b>Capital Receipts Reserve</b>	<b>4,754</b>	<b>(2,186)</b>	<b>4,395</b>	<b>6,963</b>	<b>(2,750)</b>	<b>2,314</b>	<b>6,527</b>
<b>Capital Grants Unapplied</b>	<b>8,771</b>	<b>(12,974)</b>	<b>9,201</b>	<b>4,998</b>	<b>(11,301)</b>	<b>11,777</b>	<b>5,474</b>
<b>Total Usable Reserves</b>	<b>157,211</b>	<b>(41,827)</b>	<b>43,696</b>	<b>159,080</b>	<b>(51,261)</b>	<b>46,203</b>	<b>154,022</b>

# Notes to the Financial Statements

## Purpose of Earmarked Reserves

<b>Capital Reserves:</b>	<b>Purpose of the Reserve</b>
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.
Section 106 Reserves	These reserves relate to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. The contributions are used to provide play equipment, pupil places and affordable housing on the housing developments.
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan approved by Council in April 2008.
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.
Other Earmarked Capital Reserve	A reserve set aside to fund future capital projects previously approved.

<b>Revenue Reserves:</b>	<b>Purpose of the Reserve</b>
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.
Medium Term Planning Smoothing Reserve	This reserve was established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government austerity measures.
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
Street Lighting PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
HCA Stadium Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.
Service Pressures Reserve	A reserve established to meet known service pressures ongoing into future financial years.
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.

## Notes to the Financial Statements

Revenue Reserves:	Purpose of the Reserve
House Sale Income	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.
Levy Transitional Reserve	A reserve established from the redistribution of Business Rates Levy surpluses by Government. Earmarked for one off transitional costs.
DSG Surplus	This reserve is the underspend from the Dedicated Schools Grant that will be utilised to support schools funding in future years.
Other Earmarked Revenue Reserves	Numerous small revenue reserves set up for specific purposes.

### Note 10 – Other operating expenditure

2017/2018 £'000		2018/2019 £'000
63	Parish Council Precept	65
15,855	Levies	15,509
2	Payments to the Government Housing Capital Receipts Pool	2
58,318	(Gain) / losses on the disposal of non current assets	15,067
74,238	<b>Total</b>	<b>30,643</b>

### Note 11 – Financing and investment income and expenditure

2017/2018 £'000		2018/2019 £'000
12,936	Interest payable and similar charges	13,805
12,750	Net interest on the net defined benefit liability	13,600
(3,251)	Interest receivable and similar income	(3,740)
(1,842)	Other Investment Income	(200)
(1,316)	Surplus on Trading Undertakings	(1,199)
6,348	Net income and expenditure in relation to investment properties and changes in their fair value	7,387
0	Net income and expenditure in relation to financial instruments and changes in their fair value	(129)
2,256	Disposals and impairments	560
27,881	<b>Total</b>	<b>30,084</b>

### Note 12 – Taxation and non-specific grant income and expenditure

2017/2018 £'000		2018/2019 £'000
(89,996)	Council tax income	(95,551)
(42,456)	Business rates income and expenditure	(44,549)
(93,265)	Non-ringfenced government grants *	(87,946)
(19,448)	Capital grants and contributions *	(16,638)
(245,165)	<b>Total</b>	<b>(244,684)</b>

\* Further analysis of grants is shown within Note 32.

## Notes to the Financial Statements

### Note 13 – Property, Plant and Equipment

Movement on Balances 2018/2019	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1 April 2018	490,638	74,496	376,232	141,294	6,135	<b>1,088,795</b>	98,239
Additions	4,787	6,191	23,771	27,312	0	<b>62,061</b>	0
Recognition of PFI assets and Embedded Leases	0	3,792	307	0	0	<b>4,099</b>	307
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,151	0	0	0	62	<b>3,213</b>	(2,039)
Revaluation increases / (decreases) recognised in the Provision of Services	(2,846)	0	0	0	0	<b>(2,846)</b>	0
Impairment recognised in the Provision of Services	(1,412)	0	(1,891)	0	0	<b>(3,303)</b>	0
Derecognition of assets held as embedded lease	0	(806)	0	0	0	<b>(806)</b>	0
Disposals	(23,487)	0	0	0	(355)	<b>(23,842)</b>	0
Other movements in Cost or Valuation	75	3,115	111,005	(114,572)	377	<b>0</b>	0
<b>At 31 March 2019</b>	<b>470,906</b>	<b>86,788</b>	<b>509,424</b>	<b>54,034</b>	<b>6,219</b>	<b>1,127,371</b>	<b>96,507</b>
<b>Accumulated Depreciation</b>							
At 1 April 2018	39,645	50,444	127,830	0	144	<b>218,063</b>	17,982
Depreciation Charge	16,923	4,947	10,272	0	79	<b>32,221</b>	4,413
Depreciation written out to the Revaluation Reserve	(20,503)	0	0	0	0	<b>(20,503)</b>	(5,889)
Depreciation written out to the Provision of Services	(2,675)	0	0	0	0	<b>(2,675)</b>	0
Derecognition of assets held as embedded lease	0	(806)	0	0	0	<b>(806)</b>	0
Disposals	(4,861)	0	0	0	(60)	<b>(4,921)</b>	0
<b>At 31 March 2019</b>	<b>28,529</b>	<b>54,585</b>	<b>138,102</b>	<b>0</b>	<b>163</b>	<b>221,379</b>	<b>16,506</b>
Net Book Value							
At 31 March 2018	450,993	24,052	248,402	141,294	5,991	<b>870,732</b>	80,257
<b>At 31 March 2019</b>	<b>442,377</b>	<b>32,203</b>	<b>371,322</b>	<b>54,034</b>	<b>6,056</b>	<b>905,992</b>	<b>80,001</b>

# Notes to the Financial Statements

## Note 13 – Property, Plant and Equipment

Movement on Balances 2017/2018	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1 April 2017	560,638	78,466	366,988	99,944	7,139	1,113,175	101,833
Additions	6,439	2,750	8,750	48,615	0	66,554	0
Recognition of PFI assets and Embedded Leases	0	5	236	0	0	241	236
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(4,648)	0	0	0	0	(4,648)	(3,830)
Revaluation increases / (decreases) recognised in the Provision of Services	(566)	0	0	0	(195)	(761)	0
Impairment recognised in the Provision of Services	(2,182)	0	(5,925)	0	0	(8,107)	0
Derecognition recognised in the Provision of Services	0	(6,132)	0	0	0	(6,132)	0
Derecognition of assets held as embedded lease	0	(36)	0	0	0	(36)	0
Disposals	(69,782)	(821)	0	0	(888)	(71,491)	0
Other movements in Cost or Valuation	739	264	6,183	(7,265)	79	0	0
<b>At 31 March 2018</b>	<b>490,638</b>	<b>74,496</b>	<b>376,232</b>	<b>141,294</b>	<b>6,135</b>	<b>1,088,795</b>	<b>98,239</b>
<b>Accumulated Depreciation</b>							
At 1 April 2017	47,574	52,751	118,013	0	114	218,452	13,661
Depreciation Charge	19,118	4,652	9,817	0	82	33,669	4,321
Depreciation written out to the Revaluation Reserve	(17,391)	0	0	0	0	(17,391)	0
Depreciation written out to the Provision of Services	(739)	0	0	0	(45)	(784)	0
Derecognition written out to the Provision of Services	0	(6,132)	0	0	0	(6,132)	0
Derecognition of assets held as embedded lease	0	(19)	0	0	0	(19)	0
Disposals	(8,917)	(808)	0	0	(7)	(9,732)	0
<b>At 31 March 2018</b>	<b>39,645</b>	<b>50,444</b>	<b>127,830</b>	<b>0</b>	<b>144</b>	<b>218,063</b>	<b>17,982</b>
<b>Net Book Value</b>							
At 31 March 2017	513,064	25,715	248,975	99,944	7,025	894,723	88,172
<b>At 31 March 2018</b>	<b>450,993</b>	<b>24,052</b>	<b>248,402</b>	<b>141,294</b>	<b>5,991</b>	<b>870,732</b>	<b>80,257</b>



# Notes to the Financial Statements

## Depreciation

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

- Land and buildings - 5 to 68 years;
- Vehicles, plant and equipment - 3 to 40 years; and
- Infrastructure - 10 to 60 years

## Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/2020 and future years budgeted to cost £6.884m (similar commitments at 31 March 2018 were £27.456m). The commitments are:

- LED Street Lighting Phase 2 - £3.743m
- Sunderland Strategic Transport Corridor Phase 3 - £1.228m
- Various other schemes - £1.913m

## Effects of Changes in Estimates

It has been determined that using the opening net book value of an asset will be a more effective measure of the use of the Council's assets than charging depreciation using a revalued in-year asset value. The change in methodology has resulted in a depreciation charge £0.816m lower than would have been calculated under the previous methodology. The impact of this change will carry forward into 2019/2020 and future years.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment is revalued with sufficient regularity to ensure the carrying amount does not differ materially from the value at the end of the reporting period. All valuations are carried out by the Council's valuation experts. Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historical cost as a proxy for non-property assets that have short useful lives.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the Council to deliver services but the property is considered to be of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value;
- the condition and state of repair of the assets is acceptable for the purpose for which they are used. Given that the Council has a regular maintenance programme for its assets, there will be no significant deterioration within the estimated life expectancy of each asset;
- the Council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- the assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation;
- the current use will continue for the foreseeable future and the use will remain viable;
- the existing use has planning permission;
- the assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation;
- the assets are free from contamination and deleterious or hazardous substances;
- no allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses;

## Notes to the Financial Statements

- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and
- an assumption that the transaction takes place in the principle market, or in the absence of the principle market, the most advantageous market for the asset is used for assets valued at fair value.

Valuation Techniques - there has been no change in the valuation techniques used during the year for valuing Surplus Assets. The fair value of the Council's surplus assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. All valuations are carried out by the Council's valuation experts, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Section 151 Officer on a regular basis regarding all valuation matters.

	Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infra-structure Assets	Assets Under Construction	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historic cost		86,788	509,424	54,034		650,246
Valued at:						
31 March 2019	165,172				1,121	166,293
31 March 2018	71,841				384	72,225
31 March 2017	107,100				689	107,789
31 March 2016	62,083				4,025	66,108
31 March 2015	64,710				0	64,710
<b>Total Cost or Valuation</b>	<b>470,906</b>	<b>86,788</b>	<b>509,424</b>	<b>54,034</b>	<b>6,219</b>	<b>1,127,371</b>

### Non-operational Property, Plant and Equipment (Surplus Assets)

Market conditions are such that similar properties are actively purchased and sold and therefore there is a significant level of observable inputs allowing the Council to categorise these properties as Level 2 in the fair value hierarchy. The fair value for the surplus assets (at market rents) has been based on the market approach using current market conditions, recent sales prices and other relevant information for similar assets in the local authority area. The income approach has also been used, where appropriate, which capitalises the potential income of the asset.

There were no transfers between levels during the year.

Highest and Best Use of Surplus Assets - In estimating the fair value of the Council's surplus assets, the highest and best use of the properties is for residential or commercial use. The assets have become surplus to requirement and will become part of the Council's disposals programme or used to further regeneration projects within the city.

## Notes to the Financial Statements

### Note 14 – Investment Properties / Land

The Council holds no properties classified as Investment Properties. Where property generates rental income these are recognised as Property, Plant and Equipment as they fulfil the economic development aims of the Council. The only investment properties held by the Council are areas of land which are held for capital appreciation and therefore earn no rental income. Movement in the fair value of investment property has been accounted for within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

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

The following table summarises the movement in the fair value of investment assets over the year as reported on the balance sheet and information about the fair value hierarchy:

31 March 2018 £'000	<b>Land held for capital appreciation valued at level 2 (other significant observable inputs) in fair value hierarchy</b>	31 March 2019 £'000
60,458	Balance at the start of the year	54,110
(4,446)	Disposals	(3,632)
(1,902)	Net gain / (losses) from fair value adjustments	(3,755)
54,110	Balance at the end of the year	46,723

Major losses from fair value adjustments in both 2018/2019 and 2017/2018 mainly reflect changes to planning status and market conditions.

Investment Assets are valued at Level 2 (other significant observable inputs) in the fair value hierarchy. The fair value for the investment land held for capital appreciation (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. The income approach has also been used which capitalises the potential income of the asset. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

There were no transfers between levels during the year.

Highest and Best Use of Investment Properties - in estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use prior to development taking place on site.

Valuation Techniques and Process - There has been no change in the valuation techniques used during the year for valuing Investment Assets. The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out by the Council's valuation experts, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Section 151 Officer on a regular basis regarding all valuation matters.

## Notes to the Financial Statements

### Note 15 – Financial Instruments

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

Financial Assets	Non Current				Current				Total	
	Investments / Cash and Cash Equivalents		Debtors		Investments / Cash and Cash Equivalents		Debtors			
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Fair Value through profit or loss *	0	168	0	0	0	0	0	0	0	168
Amortised Cost	0	0	56,481	57,899	141,248	174,612	30,619	30,912	228,348	263,423
Fair Value through other comprehensive income - designated equity instruments *	0	16,553	0	0	0	0	0	0	0	16,553
Available for Sale Financial Assets *	16,415	0	0	0	0	0	0	0	16,415	0
Unquoted Equity Instruments in subsidiaries and joint ventures at cost	5,500	12,850	0	0	0	0	0	0	5,500	12,850
<b>Total Financial Assets</b>	<b>21,915</b>	<b>29,571</b>	<b>56,481</b>	<b>57,899</b>	<b>141,248</b>	<b>174,612</b>	<b>30,619</b>	<b>30,912</b>	<b>250,263</b>	<b>292,994</b>
<b>Non Financial Assets</b>	0	0	0	0	0	0	39,783	23,606	39,783	23,606
<b>Total</b>	<b>21,915</b>	<b>29,571</b>	<b>56,481</b>	<b>57,899</b>	<b>141,248</b>	<b>174,612</b>	<b>70,402</b>	<b>54,518</b>	<b>290,046</b>	<b>316,600</b>

\* The Available for Sale Financial Assets balance has been transferred to Fair Value through Other Comprehensive Income and Fair Value through Profit and Loss in accordance with IFRS 9. Further disclosures are presented elsewhere within this note.

## Notes to the Financial Statements

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

Financial Liabilities	Non Current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Fair Value through profit or loss	0	0	0	0	0	0	0	0	0	0
Amortised Cost	(283,941)	(341,298)	0	0	(35,897)	(37,237)	(38,454)	(41,091)	(358,292)	(419,626)
Amortised Cost - PFI and finance lease liabilities	(79,732)	(78,165)	0	0	(4,404)	(4,524)	0	0	(84,136)	(82,689)
<b>Total Financial Liabilities</b>	<b>(363,673)</b>	<b>(419,463)</b>	<b>0</b>	<b>0</b>	<b>(40,301)</b>	<b>(41,761)</b>	<b>(38,454)</b>	<b>(41,091)</b>	<b>(442,428)</b>	<b>(502,315)</b>
<b>Non Financial Liabilities</b>	(533,720)	(543,960)	0	0	0	0	(16,344)	(15,942)	(550,064)	(559,902)
<b>Total</b>	<b>(897,393)</b>	<b>(963,423)</b>	<b>0</b>	<b>0</b>	<b>(40,301)</b>	<b>(41,761)</b>	<b>(54,798)</b>	<b>(57,033)</b>	<b>(992,492)</b>	<b>(1,062,217)</b>

# Notes to the Financial Statements

## Transition to IFRS 9 Financial Instruments

IFRS 9, Financial Instruments has been adopted with effect from 1 April 2018. The standard impacts on the classification, remeasurement and impairment of financial instruments and their accounting treatment. Further details can be found in Note 1, Accounting Policies.

## Investments in Equity Instruments designated as Fair Value through Other Comprehensive Income

### Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each and the Council holds an 18.87% interest in NALAHCL. Shares in NALAHCL are not held for trading outside of the LA7.

The fair value of the Council's investment in Newcastle Airport has been assessed at £16.553m at 31 March 2019 based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations. This represents a change from previous years where the value was a level 2 input level in the fair value hierarchy, based on the last active trading of shares to AMP Capital Investors Limited in 2012, with the shares being valued at £16.400m.

The Council has chosen to designate its Newcastle Airport equity instrument, previously held as available for sale assets under IAS39, as fair value through other comprehensive income under IFRS9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released. In the Balance Sheet the £16.033m previously held in the available for sale reserve, in respect of Newcastle Airport, has been released and taken to the Financial Instruments Revaluation Reserve.

Additional details on the relationship between the Council and Newcastle Airport can be found in Note 33, Related Parties.

## Investments in Equity Instruments held at Cost

### Siglion LLP

The Council has a 100% equity share in its Local Asset Backed Vehicle, Siglion LLP. The company was formed in November 2014 with the primary purpose being to assist in the delivery of economic and regeneration benefits to Sunderland, and primarily holds non-current assets in relation to land development and where possible, these assets are disclosed in subsidiary accounts at fair value.

The cost of the Council's initial share of 50% of the equity was disclosed in the 2017/2018 accounts at £5.000m and has not previously been valued as the company's shares are not traded in an active market. During 2018/2019 the Council purchased the remaining 50% of the LLP shares. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Siglion LLP is wound up.

The Council has exercised its right to hold equity shares in subsidiaries at cost. Investment in Siglion LLP is presented on the Balance Sheet as Long Term Investment valued at cost of £12.350m.

The draft accounts for Siglion LLP for the period 1 April 2018 to 31 March 2019, show a net profit before taxation of 1.920m (£1.650m for 2017/2018). The overall current net worth of the group is £17.437m (£15.517m at 31 March 2018).

Additional details on the relationship between the Council and Siglion LLP can be found in Note 33, Related Parties.

## Notes to the Financial Statements

### Sunderland Lifestyle Partnership Ltd

The Council has a 50% equity share in its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports and Leisure Management Ltd. The Council has exercised its right to hold equity shares in the Joint Venture at cost. The investment is presented on the Balance Sheet as Long Term Investment valued at cost of £0.500m. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Sunderland Lifestyle Partnership is wound up.

Additional details on the relationship between the Council and Sunderland Lifestyle Partnership Ltd can be found in Note 33, Related Parties.

### Fair Values of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

31 March 2018	Financial assets measured at fair value			31 March 2019
£'000	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	£'000
16,400	Equity Shareholding in Newcastle International Airport Limited	Level 3	The fair value for Newcastle Airport has been assessed at 31st March 2019 based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations.	16,553
15	Other financial instruments classified as fair value through profit and loss	Level 1	Unadjusted quoted prices in active markets for identical shares	168
16,415	<b>Total</b>			<b>16,721</b>

### Transfers between Levels of the Fair Value Hierarchy

The fair value for Newcastle Airport has been assessed at a level 3 input level at 31 March 2019 based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations. This represents a change from previous years where the value was a level 2 input level in the fair value hierarchy, based on the last active trading of shares in 2012.

There have been no other transfers between levels of the fair value hierarchy.

### Changes in the Valuation Technique

There have been no other changes in the valuation technique used during the year for the financial instruments.

### Other Financial Instruments Classified as Fair Value through Profit and Loss

The Council holds a small number of various gilts and unit trust with a value at cost of £0.015. The market value of these holdings as at 31 March 2019 was £0.168m. These financial instruments have been classified as fair value through profit and loss and the gain of £0.153m has been taken to the Comprehensive Income and Expenditure Account.

# Notes to the Financial Statements

## Income, Expense, Gains and Losses

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

2017/2018			2018/2019	
Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000		Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000
0	0	<b>Net gains / (losses) on:</b>		
0	0	Financial assets measured at fair value through profit and loss	153	0
0	0	Financial assets measured at amortised costs	(25)	0
0	0	<b>Total net gains / (losses)</b>	<b>128</b>	<b>0</b>
		<b>Interest Revenue</b>		
3,251	0	Financial assets measured at amortised costs	3,740	0
3,251	0	<b>Total interest revenue</b>	<b>3,740</b>	<b>0</b>
		<b>Interest expense</b>		
(12,936)	0		(13,805)	0
(9,685)	0	<b>Total</b>	<b>(9,937)</b>	<b>0</b>

## The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for the financial assets carried at fair value (described in the earlier table) and subsidiaries and joint ventures included in group accounts and carried at cost, all other financial liabilities and financial assets held by the Council are carried on the balance sheet at amortised cost. The fair value of financial assets and liabilities assets is shown in the tables below. The fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) payable, PWLB prevailing market rates (new borrowing (certainty) rates) have been applied to provide the fair value under PWLB debt redemption procedures as per interest rate notice number 127/19;
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The financial assets in the tables below classed as Deposits with Money Market Funds, Banks and Building Societies and the financial liabilities held with PWLB and Non PWLB were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount for these assets we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet



## Notes to the Financial Statements

date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values calculated are as follows:

31 March 2018		Financial Liabilities	31 March 2019	
Carrying Amount (restated) £'000	Fair Value (restated) £'000		Carrying Amount £'000	Fair Value £'000
238,717	294,061	PWLB Debt	293,683	355,919
45,224	67,385	Non PWLB Debt	47,615	70,572
35,897	35,848	Short Term Borrowing	37,237	37,153
79,732	79,732	Long Term PFI and Finance Lease Liability	78,165	78,165
4,404	4,404	Short Term PFI and Finance Lease Liability	4,524	4,524
38,454	38,454	Short Term Creditors	41,091	41,091
442,428	519,884	<b>Financial Liabilities</b>	<b>502,315</b>	<b>587,424</b>

As PFI liabilities are accounting assessments derived from the unitary charge, they do not represent a conventional financial instrument and, as such, are not appropriate for a Fair Value application.

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £355.919m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £293.683m would be valued at £355.919m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption [charging a premium for the additional interest that will not now be paid]. The exit price for the PWLB loans including the penalty charge would be £448.516m.

## Notes to the Financial Statements

31 March 2018		Financial Assets	31 March 2019	
Carrying Amount (restated) £'000	Fair Value (restated) £'000		Carrying Amount £'000	Fair Value £'000
141,042	141,063	Deposits with Money Market Funds, Banks & Building Societies	174,347	174,347
206	206	Cash in Hand	265	265
56,481	56,481	Long Term Debtors	57,899	57,899
30,619	30,619	Short Term Debtors	30,912	30,912
0	0	Financial assets at fair value through other comprehensive income - designated equity instruments	16,553	16,553
0	0	Financial assets at fair value through profit and loss	168	168
16,415	16,415	Available-for-sale financial assets	0	0
5,500	5,500	Unquoted equity investment at cost	12,850	12,850
250,263	250,284	<b>Financial Assets</b>	<b>292,994</b>	<b>292,994</b>

Deposits with Money Market Funds, Banks and Building Societies, Cash, Short-term debtors and Short-term creditors are carried at cost as this is a fair approximation of their value.

The presentation of Cash and Cash Equivalents have been restated in 2017/2018. Further details can be found in Note 44, Prior Period Adjustments.

### Material Soft Loans Made by the Council

Loan Notes have been issued to IAMP LLP, a Joint Venture with South Tyneside Council.

2017/2018 £'000		2018/2019 £'000
0	Balance at start of year	2,820
4,091	Nominal value of new loans granted in the year	2,262
(1,271)	Fair Value adjustment on initial recognition	(578)
0	Increase in Discounted Amount	88
<b>2,820</b>	<b>Balance at end of year</b>	<b>4,592</b>

### Valuation Assumptions

The loan notes in respect of IAMP LLP for £6.353m (£2.262m in 2018/2019 and £4.091m in 2017/2018) have been made interest free and the interest rate at which the fair value of these soft loans have been made is (2.72% for £2.262m in 2018/2019 and 3.15% for £4.091m in 2017/2018) is arrived at by taking the cost to the Council if it had borrowed over a similar terms (2.12% in 2018/2019 and 2.55% in 2017/2018) and adding an allowance for the risk that the loan might not be repaid (0.60%). Calculating the present value of all future cash receipts in respect of the IAMP loan notes results in a fair value of £4.592m.

Additional details on the relationship between the Council and IAMP LLP can be found in Note 33, Related Parties.

## Notes to the Financial Statements

31 March 2018 £'000	Long Term Debtors	31 March 2019 £'000
14,575	Long Term Loan Note - Newcastle Airport	14,575
17,933	Long Term Loan Note - Siglion	17,933
5,728	Property Lease Debtors	5,714
12,186	Advances to Tyne and Wear Fire and Rescue Authority	11,699
1,700	Loan to Leisure Joint Venture	1,600
2,820	Loan to IAMP LLP	4,592
1,539	Other Long Term Debtors	1,786
56,481	<b>Total</b>	<b>57,899</b>

Long Term Debtors included in the table above are predominately in respect of organisations linked to the Council with a very high degree of certainty regarding payment. With the exception of the Loan to IAMP LLP all financial instruments are at a market rate of interest, no early repayment or impairment is recognised and therefore the values of these long-term debtors reflect the fair value of the debt.

### Note 16 – Short Term Debtors

31 March 2018 £'000		31 March 2019 £'000
14,002	Central government bodies	15,399
12,489	Other local authorities	1,099
2,179	NHS bodies	2,140
41,731	Other entities and individuals	35,880
70,401	<b>Total</b>	<b>54,518</b>

### Note 17 – Cash and cash equivalents

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

31 March 2018 £'000		31 March 2019 £'000
(10,966)	Cash held by the Council	(9,007)
77,041	Bank current accounts and Money Market Funds	72,973
15,031	Short-term deposits with banks and building societies	20,021
81,106	<b>Total Cash and Cash Equivalents</b>	<b>83,987</b>

### Note 18 – Assets Held for Sale

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

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

2017/2018 £'000		2018/2019 £'000
1,096	Balance outstanding at start of year	486
(285)	Assets Sold	(47)
(325)	Revaluation (Losses) / Gains	0
486	<b>Balance outstanding at year-end</b>	<b>439</b>

## Notes to the Financial Statements

### Note 19 – Short-Term Creditors

31 March 2018 £'000		31 March 2019 £'000
(13,581)	Central government bodies	(14,129)
(2,560)	Other local authorities	(2,187)
(2,991)	NHS bodies	(1,911)
(40,070)	Other entities and individuals	(43,330)
(59,202)	<b>Total</b>	<b>(61,557)</b>

### Note 20 – Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential at some point in the future, and a reliable estimate can be made of the amount of the obligation.

The estimated cost is charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation.

When payments are eventually made, they are charged to the provision in the Balance Sheet.

Estimated settlements are reviewed at the end of each financial year and any provisions which are no longer required are credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

The nature of the provisions held at 31 March 2019 is detailed in the table below:

31 March 2018 £'000	Nature of provision	Additional provisions £'000	Amounts used £'000	Amounts reversed £'000	31 March 2019 £'000
(4,761)	Potential costs of successful business rates appeals	(102)	1,664	0	(3,199)
(10,355)	Unequal back pay	(457)	3,819	0	(6,993)
0	Insurance	(853)	0	0	(853)
(191)	Other provisions	(5,040)	0	191	(5,040)
(15,307)	<b>Short Term Provisions</b>	<b>(6,452)</b>	<b>5,483</b>	<b>191</b>	<b>(16,085)</b>
(2,377)	Potential costs of successful business rates appeals	(1,793)	145	0	(4,025)
(3,394)	Insurance	(1,418)	1,798	456	(2,558)
(426)	Other provisions	(9)	319	0	(116)
(6,197)	<b>Long Term Provisions</b>	<b>(3,220)</b>	<b>2,262</b>	<b>456</b>	<b>(6,699)</b>
(21,504)	<b>Total Provisions</b>	<b>(9,672)</b>	<b>7,745</b>	<b>647</b>	<b>(22,784)</b>

#### Business rates appeals

Local Authorities are liable for successful appeals against business rates charged to businesses. A provision has been recognised for the best estimate of the amount that will be successfully appealed (i.e. that businesses have been overcharged) in relation to 2018/2019 and previous years, regardless of when that appeal is raised or settled. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the Valuation Office Agency (VOA) relating to the 2010 list, and historic estimates for likely appeals raised relating to the 2017 list. Whilst the settlement of these appeals is outside of the Council's control, it is considered likely that 2010 list appeals will be settled within the next financial year and hence are classified as a short term provision.

## Notes to the Financial Statements

### Unequal back pay

The Council has a number of outstanding equal pay complaints from staff, both existing and former, who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council in relation to previously operated bonus schemes. These complaints have been raised via grievances and claims which set out identical issues. Whilst the Employment Tribunal claims have been halted to enable without prejudice settlement discussions to take place, a minimal number of claims remain. Following settlement discussions, a significant number of grievances and claims have been settled. Efforts are ongoing to conclude Settlement Agreements in the remaining cases and these are anticipated to be settled during 2019/2020.

### Insurance

Provisions relating to insurance are based on the estimated value of potential claims, some of which are likely to result in a cost to the Council. Some claims are expected to be settled during 2019/2020 with others likely to take several years before they are concluded.

### Other provisions

Other provisions include ongoing legal claims involving the Council relating to land and property transactions as well as a number of guarantee bonds held by the Council. The provisions which the Council has established reflect the Council's best estimate of the likely costs based on the situation at 31 March 2019. The majority of these provisions are expected to be utilised during 2019/2020.

## Note 21 – Unusable Reserves

31 March 2018 £'000		Note	31 March 2019 £'000
162,629	Revaluation Reserve	21a	174,896
16,033	Available for Sale Financial Instrument Reserve	21b	0
0	Financial Instruments Revaluation Reserve	21c	16,186
389,580	Capital Adjustment Account	21d	375,164
(2,395)	Financial Instrument Adjustment Account	21e	(2,851)
(533,720)	Pensions Reserve	21f	(543,960)
23,817	Deferred Capital Receipts Reserve	21g	25,467
2,648	Collection Fund Adjustment Account	21h	2,358
(2,196)	Accumulated Absence Account	21i	(1,974)
56,396	<b>Total Unusable Reserves</b>		<b>45,286</b>

### 21a) Revaluation Reserve

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

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

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

## Notes to the Financial Statements

2017/2018 £'000		2018/2019 £'000
173,277	<b>Balance at 1 April</b>	<b>162,629</b>
19,464	Upward revaluation of assets	<b>27,307</b>
(7,046)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	<b>(3,591)</b>
185,695	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<b>186,345</b>
6,039	Difference between fair value depreciation and historical cost depreciation	<b>5,392</b>
17,027	Accumulated gains on assets sold or scrapped	<b>6,057</b>
23,066	Amount written off to the Capital Adjustment Account	<b>11,449</b>
162,629	<b>Balance at 31 March</b>	<b>174,896</b>

### 21b) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve historically contained the gains made by the Council arising from the increases in the value of its investments that had quoted market prices or otherwise did not have fixed or determinable payments.

This reserve has now been replaced by the Financial Instruments Revaluation Reserve.

2017/2018 £'000	
16,033	<b>Balance at 1 April</b>
0	Upward /(downward) revaluation of investments not charged to the (Surplus) / Deficit on the Provision of Services
16,033	<b>Balance at 31 March</b> <b>(transferred to Financial Instruments Revaluation Reserve 1 April 2018)</b>

### 21c) Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; or
- disposed of and the gains are realised.

This reserve replaces the Available for Sale Financial Instruments Reserve.

	2018/2019 £'000
<b>Balance at 1 April</b>	<b>0</b>
Balance transferred from Available for Sale Financial Instrument Reserve	<b>16,033</b>
Downward revaluation of investments	<b>153</b>
<b>Balance at 31 March</b>	<b>16,186</b>

### 21d) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is adjusted for the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

## Notes to the Financial Statements

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

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

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

2017/2018 £'000		2018/2019 £'000
445,570	<b>Balance at 1 April</b>	<b>389,580</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(41,776)	Charges for depreciation and impairment of non-current assets	<b>(35,524)</b>
23	Revaluation losses and reversal of prior year revaluation losses on Property, Plant and Equipment	<b>(171)</b>
(341)	Amortisation of intangible assets	<b>(370)</b>
(22,908)	Revenue expenditure funded from capital under statute	<b>(8,183)</b>
(62,044)	Amount of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	<b>(18,968)</b>
(127,046)		<b>(63,216)</b>
23,066	Adjusting amounts written out of the Revaluation Reserve	<b>11,449</b>
(103,980)	Net written out amount of the cost of non current assets consumed in the year	<b>(51,767)</b>
	Capital financing applied in the year:	
2,184	Use of Capital Receipts to finance new capital expenditure	<b>2,738</b>
23,890	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>9,438</b>
12,975	Application of grants to capital financing from the Capital Grants Unapplied Account	<b>11,301</b>
8,378	Statutory provision for the financing of capital investment charged against the General Fund balance	<b>9,693</b>
7,011	Capital expenditure charged against the General Fund balance	<b>11,668</b>
54,438		<b>44,838</b>
(100)	Writing down of Long Term Debtor	<b>(100)</b>
(6,348)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>(7,387)</b>
<b>389,580</b>	<b>Balance at 31 March</b>	<b>375,164</b>

### 21e) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2019 will be charged to the General Fund over the next 36 years.

## Notes to the Financial Statements

2017/2018 £'000		2018/2019 £'000
(1,198)	<b>Balance at 1 April</b>	<b>(2,395)</b>
(1,271)	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	<b>(619)</b>
74	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	<b>163</b>
(1,197)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	<b>(456)</b>
(2,395)	<b>Balance at 31 March</b>	<b>(2,851)</b>

### 21f) Pensions Reserve

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

2017/2018 £'000		2018/2019 £'000
(526,590)	<b>Balance at 1 April</b>	<b>(533,720)</b>
(21,310)	Remeasurement of the net defined benefit liability	<b>28,300</b>
(13,020)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	<b>(66,670)</b>
27,200	Employer's pensions contributions and direct payments to pensioners payable in the year	<b>28,130</b>
(533,720)	<b>Balance at 31 March</b>	<b>(543,960)</b>

### 21g) Deferred Capital Receipts Reserve

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

2017/2018 £'000		2018/2019 £'000
24,433	<b>Balance at 1 April</b>	<b>23,817</b>
(46)	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	<b>1,652</b>
(570)	Transfer to the Capital Receipts Reserve upon receipt of cash	<b>(2)</b>
23,817	<b>Balance at 31 March</b>	<b>25,467</b>



## Notes to the Financial Statements

### 21h) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2017/2018 £'000		2018/2019 £'000
4,559	<b>Balance at 1 April</b>	<b>2,648</b>
(1,911)	Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from the council tax and business rates income calculated for the year in accordance with statutory requirements	<b>(290)</b>
2,648	<b>Balance at 31 March</b>	<b>2,358</b>

### 21i) Accumulated Absences Account

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

2017/2018 £'000		2018/2019 £'000	
(2,687)	<b>Balance at 1 April</b>		<b>(2,196)</b>
2,687	Settlement or cancellation of accrual made at the end of the preceding year	<b>2,196</b>	
(2,196)	Amounts accrued at the end of the current year	<b>(1,974)</b>	
491	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements		<b>222</b>
(2,196)	<b>Balance at 31 March</b>		<b>(1,974)</b>

## Note 22 – Cash Flow Statement – Operating Activities

The net cash flows for operating activities include the following items:

31 March 2018 £'000		31 March 2019 £'000
2,883	Interest received	<b>2,749</b>
(12,851)	Interest paid	<b>(13,607)</b>
1,842	Dividends received	<b>200</b>
(8,126)	<b>Net cash flows from operating activities</b>	<b>(10,658)</b>

## Notes to the Financial Statements

### Note 23 – Cash Flow Statement – Investing Activities

31 March 2018 £'000		31 March 2019 £'000
68,774	Purchase of property, plant and equipment, investment property and intangible assets	63,883
60,057	Purchase of short-term and long-term investments	97,350
5,689	Other payments for investing activities	7,732
(5,110)	Net Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,153)
(130,955)	Proceeds from short-term and long-term investments	(60,142)
(20,476)	Other receipts from investing activities	(31,669)
(22,021)	<b>Net cash flows from investing activities</b>	<b>75,001</b>

### Note 24 – Cash Flow Statement – Financing Activities

31 March 2018 £'000		31 March 2019 £'000
(54,357)	Cash receipts of short and long-term borrowing	(64,491)
4,264	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	5,224
4,326	Repayments of short and long term borrowing	5,982
418	Other payments for financing activities	(1,373)
(45,349)	<b>Net cash flows from financing activities</b>	<b>(54,658)</b>

### Note 25 – Reconciliation of Liabilities arising from Financing Activities

	1 April 2018 £'000	Financing cash flows £'000	Non-cash changes		31 March 2019 £'000
			Acquisition £'000	Other non-cash changes £'000	
Long-term borrowings	(283,941)	(64,503)	7,138	8	(341,298)
Short-term borrowings	(35,897)	5,979	(7,138)	(181)	(37,237)
Lease liabilities	(5,980)	878	(3,792)	0	(8,894)
On balance sheet PFI liabilities	(78,156)	4,361	0	0	(73,795)
<b>Total liabilities from financing activities</b>	<b>(403,974)</b>	<b>(53,285)</b>	<b>(3,792)</b>	<b>(173)</b>	<b>(461,224)</b>

### Note 26 – Pooled Budgets

Section 75 of the NHS Act 2006 allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities, and other agencies in order to improve and co-ordinate services. A pooled budget is established to which each partner organisation makes an agreed contribution. The aim of the partnership is to provide a service to a target client group and allow organisations to work in a more unified way.

# Notes to the Financial Statements

## Better Care Fund

The Sunderland vision for integration through the Better Care Fund identifies 5 priority elements within the Integration Programme:

- an overall integrated operating model;
- locality integrated teams across health and social care;
- development of integrated commissioning processes;
- development of shared intelligence processes; and
- development of enhanced user focus.

Sunderland's overall aim for integrated care is to provide the right care and support to people in their own homes and communities through the development of the Community Integrated Locality Teams organised around GP practices, which delivers the following outcomes:

- services are co-ordinated around individuals and targeted to meet specific needs;
- outcomes are improved for individuals;
- improvements in the care experienced by individuals, their families and carer;
- independence is optimised, by providing the right support in a timely manner, focusing on a reablement approach;
- people have high-quality, tailored support which focuses on people staying out of hospital;
- people's care is co-ordinated and managed, with the GP at the heart of organising the care, avoiding unnecessary admissions to hospital and care homes – enabling people to regain skills and independence after episodes of ill health and/or injuries; and
- development of enhanced user focus.

Within Sunderland, a significant amount of work has been progressed to create the conditions for integration and alignment of resources at various spatial levels across the city. There is a strong track record of aligning resources towards certain targeted client groups, key outcomes and also at an area or neighbourhood level to better meet local needs (both formally and informally) and developing local responsive services.

At the heart of this programme is a commissioning approach which is focused on defined locality populations, rather than driven by a specific service. The populations will be the five Localities within Sunderland. The locality footprint is based on the five groupings of GP Practices across the city, with a population of circa 50,000 in each locality. These localities are deliberately co-terminus with the Council area regeneration and committee structures that have been in place for some time.

2017/2018 £'000		2018/2019 £'000
	<b>Funding Provided to the Pooled Budget</b>	
(13,227)	Sunderland City Council	<b>(17,004)</b>
(59,197)	Sunderland Clinical Commissioning Group	<b>(56,018)</b>
(72,424)	<b>Total Funding</b>	<b>(73,022)</b>
	<b>Expenditure met from the Pooled Budget</b>	
23,641	Sunderland City Council	<b>27,909</b>
48,783	Sunderland Clinical Commissioning Group	<b>45,113</b>
72,424	<b>Total Expenditure</b>	<b>73,022</b>
<b>0</b>	<b>Net Surplus arising on the pooled budget</b>	<b>0</b>
<b>0</b>	<b>Sunderland City Council Share of Surplus</b>	<b>0</b>

## Note 27 – Agency Services

Activity which has been commissioned by the Council on behalf of Health partners, for which the Council has been fully re-imbursed, has been treated as Agency activity and both income and

## Notes to the Financial Statements

expenditure have been excluded from the Council's accounts. The Council has received commission of £0.491m relating to this activity (£0.500m in 2017/2018).

Activity which has been commissioned by the Council on behalf of IAMP LLP has been treated as Agency activity and both income and expenditure have been excluded from the Council's accounts. As IAMP LLP is a Joint Venture arrangement, which the Council has entered into with South Tyneside Council, no commission has been received relating to this activity. Additional details on the relationship between the Council and IAMP LLP can be found in Note 33, Related Parties.

The following activity has been excluded from the accounts:

2017/2018 £'000		2018/2019 £'000
	<b>Agency arrangements with Health partners</b>	
32,258	Expenditure excluded from Health and Social Care Portfolio	<b>33,188</b>
(32,258)	Income excluded from Health and Social Care Portfolio	<b>(33,188)</b>
	<b>Agency arrangements with IAMP LLP</b>	
0	Expenditure excluded from Deputy Leader Portfolio	<b>13,587</b>
0	Income excluded from Deputy Leader Portfolio	<b>(13,587)</b>
0		<b>0</b>

As detailed within Related Party Transactions (Note 33), the Council provides support services to various other Authorities or Bodies. A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of income generated from this activity is relatively low in value and has therefore not been detailed above.

### Note 28 – Members' Allowances and Expenses

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

2017/2018 £'000		2018/2019 £'000
1,133	Allowances	<b>1,142</b>
12	Expenses	<b>7</b>
1,145	<b>Total</b>	<b>1,149</b>

# Notes to the Financial Statements

## Note 29 – Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

Post Holder Information 2018/2019	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Irene Lucas *	51,259	0	0	0	0	51,259	0	51,259
Chief Executive - Patrick Melia **	121,877	0	0	0	0	121,877	21,694	143,571
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Executive Director of Corporate Services ***	111,605	0	0	0	0	111,605	19,866	131,471
Executive Director of Peoples Services (Executive Director of Neighbourhoods with effect from 1 April 2019)	133,926	0	0	0	0	133,926	23,839	157,765
Executive Director of Commercial Development (Executive Director of City Development with Executive Director of Childrens' Services ****)	144,228	0	0	0	0	144,228	25,673	169,901
Director of Strategy, Partnerships & Transformation (Director of People, Communications & Partnerships with effect from 1 April 2019)	92,524	0	0	0	0	92,524	16,469	108,993
	103,295	0	0	0	0	103,295	18,386	121,681

\* Postholder resigned 31 July 2018

\*\* Postholder appointed 1 August 2018

\*\*\* Postholder changed during the year – the postholder at 1 April 2018 resigned 31 May 2018 and the new postholder was appointed 1 August 2018

\*\*\*\* Postholder appointed 23 July 2018 (post was vacant between 1 April 2018 and 23 July 2018)  
£87,195 has been recharged to Together for Children Sunderland Ltd in respect of this position

## Notes to the Financial Statements

### Note 29 – Officers' Remuneration

Post Holder Information 2017/2018	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Irene Lucas	179,231	0	0	0	0	179,231	0	179,231
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Executive Director of Corporate Services	131,300	0	0	0	0	131,300	22,923	154,223
Executive Director of People's Services	131,300	0	0	0	0	131,300	23,371	154,671
Executive Director of Economy & Place *	110,763	0	0	0	0	110,763	19,716	130,479
Executive Director of Childrens' Services **	109,417	0	0	0	0	109,417	19,476	128,893
Director of Strategy, Partnerships & Transformation	101,269	0	0	0	0	101,269	18,026	119,295

\* Postholder appointed June 2017

\*\* Postholder resigned January 2018

£91,529 of the above cost has been recharged to Together for Children Sunderland Ltd in respect of this position

## Notes to the Financial Statements

The Council's other employees (other than Senior Officers in preceding tables) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including termination payments) are shown below:

2017/2018		Remuneration	2018/2019	
Non-Teaching Staff	Teaching Staff		Non-Teaching Staff	Teaching Staff
20	38	£50,000 - £54,999	37	46
8	18	£55,000 - £59,999	10	27
3	17	£60,000 - £64,999	3	13
6	16	£65,000 - £69,999	4	16
2	8	£70,000 - £74,999	3	5
6	5	£75,000 - £79,999	2	5
3	1	£80,000 - £84,999	4	4
9	2	£85,000 - £89,999	1	2
1	1	£90,000 - £94,999	7	0
1	1	£100,000 - £104,999	0	0
0	0	£105,000 - £109,999	0	1
0	0	£110,000 - £114,999	1	0
1	0	£115,000 - £119,999	0	0
1	0	£120,000 - £124,999 *	3	0
0	0	£125,000 - £129,999	1	0
0	0	£130,000 - £134,999	1	0
0	1	£135,000 - £139,999	1	0
0	0	£140,000 - £144,999	1	0
0	0	£180,000 - £184,999	1	0
0	0	£185,000 - £189,999	1	0

\* One officer in this band has been seconded to an external organisation and their costs have been fully recovered

### Note 30 – External Audit Costs

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

2017/2018 £'000		2018/2019 £'000
136	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	105
17	Fees payable in respect of other services provided by Mazars LLP during the year	20
153	Total Costs	125

### Note 31 – Dedicated Schools' Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be

## Notes to the Financial Statements

applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/2019 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2018/2019 before Academy recoupment	44,282	164,604	208,886
Academy figure recouped for 2018/2019	(6,830)	(105,049)	(111,879)
Total DSG after Academy recoupment for 2018/2019	37,452	59,555	97,007
Plus			
Brought forward from 2017/2018	261	0	261
Less			
Carry forward to 2019/2020 agreed in advance			0
Agreed initial budgeted distribution in 2018/2019			97,268
In Year Adjustments	1,361	0	1,361
Final budgeted distribution in 2018/2019	39,074	59,555	98,629
Less			
Actual central expenditure	37,912	0	37,912
Less			
Actual ISB deployed to schools	0	59,555	59,555
Plus			
Local authority contribution for 2018/2019			0
<b>Carry forward to 2019/2020</b>	<b>1,162</b>	<b>0</b>	<b>1,162</b>

Note: Actual ISB deployed to schools is reflected at the same level as the ISB budget distribution in line with DSG disclosure note guidance.

### Note 32 – Grant Income

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

2017/2018 £'000		2018/2019 £'000
	<b>Capital Grant Receipts in Advance</b>	
418	Department for Education	836
556	Department for Transport	283
0	Environment Agency	542
276	Homes and Communities Agency	46
302	Other Capital Grants and Contributions	334
1,552	<b>Total</b>	<b>2,041</b>

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



## Notes to the Financial Statements

2017/2018 £'000		2018/2019 £'000
	<b>Credited to Services</b>	
	<b>Revenue Grants:</b>	
	Ministry of Housing, Communities and Local Government:	
1,802	Improved Better Care Fund	8,544
5,538	PFI	5,538
7,534	Additional Better Care Fund	4,494
1,575	Adult Social Care	2,547
1,061	Strengthening Families Grant	969
868	Independent Living Fund	840
573	New Burdens (various)	757
518	European Grants	390
152	Flexible Homeless Support	120
0	EU Exit Funding	105
53	Other grants	207
163	Domestic Violence Abuse Fund	0
	Department for Work and Pensions:	
118,610	Housing Benefit	112,971
202	Welfare Reform Additional Burdens	109
28	Universal Credits	48
50	Other grants	78
	Department of Health:	
24,003	Public Health	23,386
217	Local Reform and Community Voices	218
	Education Skills Funding Agency:	
99,864	Dedicated Schools Grant	98,368
7,356	Pupil Premium	6,571
2,415	Universal Free School Meals	2,344
2,225	16-19 Bursary	2,090
2,268	Skills Funding Agency Grant	1,379
792	PE and Sport	926
0	Teachers Pay Grant	341
0	Adoption Support Fund	203
530	SEN Reform	138
46	Extended Rights to Free Travel	79
526	Other grants	547
533	Education Services	0
644	Youth Justice Board	643
448	Arts Council	400
131	Heritage Lottery Fund	245
88	Home Office	153
182	Other Grants	190
280,995		275,938
	<b>Grants applied to revenue expenditure funded from capital under statute:</b>	
7,984	Ministry of Housing, Communities and Local Government	45
3,360	Department of Health	3,708
773	Department for Education	0
1,526	Other Capital Grants	825
13,643		4,578
294,638	<b>Total</b>	<b>280,516</b>

## Notes to the Financial Statements

2017/2018 £'000		2018/2019 £'000
	<b>Credited to Taxation and Non Specific Grant Income and Expenditure</b>	
	<b>Revenue Grants:</b>	
44,712	Revenue Support Grant	36,157
40,699	Top Up Grant	42,192
3,727	New Homes Bonus	3,195
14	Local Services Support Grant	14
4,113	Section 31 Business Rates Grant	5,092
0	Levy Distribution Grant	1,296
93,265		87,946
	<b>Capital Grants, Contributions and Donations:</b>	
8,679	Ministry of Housing, Communities and Local Government	30
5,535	Department for Transport	10,292
1,694	Department for Education	2,039
298	Homes and Communities Agency	78
391	Environment Agency	840
0	Football Foundation	1,478
315	Heritage Lottery Fund	1,165
2,422	South Tyneside Council *	0
114	Other Capital Grants and Contributions	716
19,448		16,638
112,713	<b>Total</b>	<b>104,584</b>

\* The contribution from South Tyneside in 2017/2018 relates to capital activity undertaken by the Council on behalf of the IAMP partnership. The partnership is funded equally between South Tyneside Council and Sunderland Council. Sunderland undertook some capital activity on behalf of the partnership whilst IAMP LLP was in the process of being set up. South Tyneside therefore reimbursed Sunderland for their share of the capital costs.

### Note 33 – Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 32.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances and expenses paid in 2018/2019 is shown in Note 28. During 2018/2019 financial year a number of Council members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee, partner or board member. These transactions amounted to payments of £1.120m made by the Council in 2018/2019 (£1.777m).

## Notes to the Financial Statements

in 2017/2018), of which £0.837m (£1.313m in 2017/2018) relates to payments to companies and £0.283m (£0.464m for 2017/2018) to voluntary organisations.

The figures stated above do not include transactions with Sunderland Care and Support Ltd, Together for Children Sunderland Ltd, Sunderland Homes Ltd or Siglion LLP as transactions between these companies and the Council have been separately identified as part of the production of Group Accounts for 2018/2019.

It should be noted that all Council members' pecuniary and non-financial interests which could conflict with those of the Council are open to public inspection as required by the Local Authority (Members' Interests) Regulation (SI 1992/618) laid under Section 19 of the Local Government and Housing Act 1989. The relevant members must therefore declare an interest (which is minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

### Officers

During the 2018/2019 financial year Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee, partner or board member. These transactions amounted to payments of £0.002m made by the Council in 2018/2019 (£0.004m in 2017/2018), all of which relates to payments to companies.

### Other Public Bodies

The Council has a pooled budget arrangement with Sunderland CCG for the provision of services to support reduced hospital admissions and length of stay. Transactions and balances outstanding are detailed in Note 26.

### Subsidiaries and Joint Ventures Controlled or Significantly Influenced by the Council

The Council delivers some of its activities through a number of wholly owned subsidiaries and joint ventures. The Council prepares Group accounts which consolidate the results and balances of the Council with these organisations in order to reflect the full extent of the Council's economic activity and financial position.

The Council's Group Accounts are presented after the single entity accounts.

### Sunderland Care and Support (Holding Company) Ltd (subsidiary)

Sunderland Care and Support (Holding Company) Ltd with its subsidiary Sunderland Care and Support Ltd commenced trading on 1 December 2013 for the provision of Adult Social Care Services for Sunderland City Council and was set up as a Local Authority Trading Company (LATC).

Sunderland Care and Support (Holding Company) Ltd is 100% owned by Sunderland City Council, with Sunderland Care and Support Ltd being owned fully by the Holding Company. Sunderland City Council contracts with Sunderland Care and Support (Holding Company) Ltd for the provision of Adult Social Care Services, the holding company then subcontracts to Sunderland Care and Support Ltd who deliver the following Adult Social Care Services:

- Reablement at home;
- Farnborough Court Intermediate Care Centre;
- Sunderland Telecare;
- Community Equipment Service and Handyperson Service;
- Day services;
- Supported living schemes;
- Registered residential services;
- Short break services;
- Independence at home (outreach) services;
- Sunderland Shared Lives;

## Notes to the Financial Statements

- See and Solve Solutions;
- Sunderland Home Improvement Agency; and
- Evening Service.

Both companies have a common board of directors appointed by the Sunderland City Council (as the shareholder of the holding company).

The value of the contract for the period was £34.018m (£33.146m in 2017/2018), this included agency costs which were reimbursed to the Council by health partners of £5.307m (£4.417m in 2017/2018).

In addition to contract related activity, the following transactions have occurred between the Council and Sunderland Care and Support Ltd:

- redundancy related costs incurred by Sunderland Care and Support Ltd of £1.234m were funded by the Council in 2018/2019 (£0.954m in 2017/2018);
- equipment and services were bought from Sunderland Care and Support Ltd of £0.037m (£0.095m in 2017/2018);
- Sunderland Care and Support Ltd bought back support services from the Council; £1.406m in 2018/2019 (£1.442m in 2017/2018);
- Sunderland Care and Support Ltd also managed home improvement agency and disabled facilities grants on behalf of the Council. Fees for this were £0.243m in 2018/2019 (£0.600m in 2017/2018); and
- Sunderland Care and Support Ltd also bought back other services including rent, other services and equipment purchases of £0.983m in 2018/2019 (£1.097m in 2017/2018).

At the year end, Sunderland Care and Support Ltd owed the Council £1.358m (£2.397m in 2017/2018) and the Council owed Care and Support Ltd £2.026m (£1.969m in 2017/2018).

The operational loss attributable to this subsidiary for 2018/2019 was £2.033m (£0.791m operational loss in 2017/2018).

The Council has confirmed it remains committed to working with Sunderland Care and Support Ltd to ensure it remains a going concern.

Sunderland Care and Support's registered office is: Sunderland City Council, Civic Centre, Sunderland.

### **Together for Children Sunderland Ltd (subsidiary)**

Established on the 1 April 2017 as a company limited by guarantee, Together for Children Sunderland Ltd delivers Early Help, Social Care and Education services for children and aims to develop a modern and responsive service that make a difference for children and families in Sunderland.

Together for Children Sunderland Ltd is a 100% council controlled company but the board of directors have day to day operational independence in respect of management of the company's business and operations.

The governance arrangements for the company are set out in the company's Articles of Association and its delegation scheme. The service contract details how Together for Children Sunderland Ltd will work with the Council to ensure the priorities and objectives specified within the contract are delivered, how decisions are made and how Together for Children Sunderland Ltd is held to account.

No assets or liabilities have been transferred to Together for Children Sunderland Ltd.

The initial value of the contract for the period was £52.664m, with the final contract value being £68.376m (£59.673m in 2017/2018). The value for 2018/2019 includes £4.837m of grants received by the Council that have been included within the contract with Together for Children Sunderland Ltd.

## Notes to the Financial Statements

In addition to contract related activity, the following transactions have occurred between the Council and Together for Children Sunderland Ltd:

- as agreed under the terms of the contract, the Council has met redundancy costs totalling £0.078m (£0.093m in 2017/2018);
- grants received by the Council of £19.752m, which are not part of the contract, have been passed on to Together for Children Sunderland Ltd (£22.377m in 2017/2018). This excludes £16.209m which has been received by the Council and passed on to maintained schools via Together for Children Sunderland Ltd (£15.107m in 2017/2018);
- Other service costs incurred by the Council, including schools, total £1.540m in 2018/19 (£1.112m in 2017/18); and
- Together for Children Sunderland Ltd bought back support, rent and other services from the Council, totalling £4.394m in 2018/2019 (£4.424m in 2017/2018).

At the year end, Together for Children Sunderland Ltd owed the Council £2.105m (£3.763m in 2017/2018) and the Council owed Together for Children Sunderland Ltd £2.555m (£1.731m in 2017/2018).

The operational loss attributable to this subsidiary for 2018/2019 was £5.326m (£22.654m operational loss in 2017/2018).

The Council has confirmed it remains committed to working with Together for Children Sunderland Ltd to ensure it remains a going concern.

Together for Children Sunderland Ltd's registered office is: Sunderland City Council, Civic Centre, Sunderland.

### **Sunderland Homes Ltd (subsidiary)**

In 2017 the Council incorporated a wholly owned company, Sunderland Homes Ltd (SHL). The purpose of the company is to fill some of the identified gaps in Sunderland's housing provision and bring empty properties back in to use. Projects to refurbish empty properties in the Hetton area commenced during 2018/2019.

The operational profit attributable to this subsidiary for 2018/2019 was £0.120m (£0.130m operational loss in 2017/2018).

Sunderland Homes Ltd's registered office is: Sunderland City Council, Civic Centre, Sunderland.

### **Siglion LLP (joint venture in 2017/2018, subsidiary in 2018/2019)**

On 7 November 2014 the Council and Carillion (Maple Oak) Limited formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50% of the LLP. Siglion has a wholly owned subsidiary (Siglion Nominee Limited) and Siglion and Siglion Nominee Limited have formed two further LLPs. These are Siglion Investments LLP and Siglion Developments LLP.

The Council transferred a number of investment properties including ground leases, retail properties, industrial properties and managed workspaces, strategic asset management into Siglion. In consideration of this transaction, the Council received loan notes totalling £23.5m. These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up. Loan Note B may be repaid and hence the value reduces over time as investment properties are disposed of. The current value of loan note B is 17.933m.

The Council purchased the member interest held by Carillion (Maple Oak) in March 2019 and now effectively owns 100% of the various Siglion entities (including Siglion Holdings LLP which was set up during 2018/2019).

Siglion's primary purpose is to assist in the delivery of economic and regeneration benefits to Sunderland through its objectives of:

## Notes to the Financial Statements

- improving the concentration of new economic activity in the city centre;
- creating a city centre that supports such higher value job creation;
- bringing dormant sites back into use;
- offering a wider choice of housing to the market; and
- positioning Sunderland as a place to invest.

Siglion's year end is 31 December. The information presented in the Council's accounts has therefore had to be restated to 31 March and includes three months of management accounts (January 2019 to March 2019).

The operational profit attributable to this subsidiary for 2018/2019 was £1.920m (£1.650m operational profit in 2017/2018).

Siglion's registered office is: Ground Floor, Echo 24 Building, West Wear Street, Sunderland.

### **Sunderland Lifestyle Partnership Ltd (joint venture)**

In June 2015 the Council entered into a unique joint venture partnership, known as Sunderland Lifestyle Partnership, with Sports and Leisure Management Ltd (SLM), who operate under the brand Everyone Active, to manage and operate the City's leisure facilities. SLM (as operator) have entered into sub-contracting arrangements with SLM Fitness and Health Limited, SLM Food and Beverage Limited and SLM Community Leisure Charitable Trust in order to sub-contract specific elements of the service.

The joint venture is a private company limited by shares and is owned by the Council and SLM in equal shares (50:50) and is managed by a board of directors with an equal number of representatives from each party.

The purpose of the joint venture is to:

- oversee SLM's (as the operator) delivery of the operating contract;
- act as landlord of the leisure facilities;
- provide strategic direction to further develop sports and leisure facilities and opportunities in the City; and
- to set an annual business plan for the joint venture and monitor performance of SLM (as operator) against that plan.

The key objectives in forming this partnership are:

- to contribute to the better physical and mental health and wellbeing, skill development and levels of attainment of Sunderland's citizens through increased participation in physical activity, sport and leisure;
- to develop a sport and leisure service that is self-sustaining (that requires no subsidy beyond the short term);
- to provide universal access to high quality sport and leisure facilities;
- to support sporting excellence; and
- to identify and develop additional commercial opportunities which contribute to the achievement of any of the above objectives.

The value of the contract for the period was £1.386m plus an additional contribution of £0.240m (£1.958m in 2017/2018).

The operational profit attributable to this joint venture for 2018/2019 was £0.006m (£0.006m operational profit in 2017/2018).

In order to help the joint venture to fund initial capital works, both the Council and SLM have provided loans to the joint venture (£2.000m and £0.700m respectively), and SLM has also provided a cash equity investment of £0.500m. The Council's loan is repayable over 20 years with the first principal repayment occurring during 2016/2017. The final principal repayment is payable during 2035/2036. £1.700m is outstanding at the end of 2018/2019 (£1.800m in 2017/2018).

## Notes to the Financial Statements

The draft accounts for Sunderland Lifestyle Partnership Ltd for the period 1 April 2018 to 31 March 2019, show a net profit before taxation of £0.042m and indicates that no dividend is proposed. The overall current net worth of the group is £0.978m.

Sunderland Lifestyle Partnership's registered office is: Sunderland Aquatic and Wellness Centre, Stadium Park, Sunderland.

### **IAMP (Joint Venture)**

IAMP LLP has been jointly established with South Tyneside Council in order to deliver the International Advanced Manufacturing Park to the north of Nissan. Both parties own 50% of the LLP.

Sunderland Council and South Tyneside Council participate as members of the LLP to (amongst other things) carry on the business of the joint acquisition, promotion, development and delivery of an International Advanced Manufacturing Park on the site which comprises land in South Tyneside and Sunderland, together with the provision of all necessary infrastructure required for the delivery of the site.

The operational profit attributable to this joint venture for 2018/2019 was £1.556m (£0.002m operational loss in 2017/2018).

IAMP's registered office is: Sunderland City Council, Civic Centre, Sunderland.

### **Other Entities Influenced by the Council**

#### **Newcastle Airport**

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council originally held a shareholding of 1,845 shares representing an 18.45% interest in this company.

On 16 November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors Ltd. As a result, the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.553m (£16.400m in 2017/2018). These shares are not held for trading outside of the LA7.

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation but no such events have occurred during 2018/2019. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2018 (£1.347m for the year ended 31 December 2017).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being

## Notes to the Financial Statements

received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £10.443m and a profit after tax of £7.435m for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £6.884m and a profit after tax of £4.408m.

### Other Relevant Information

The Council provides support services (including financial support services) to the following related parties:

Tyne and Wear Fire and Rescue Authority, Empire Theatre Trust Company Limited, Sunderland Care and Support Ltd, Together for Children Sunderland Ltd, Siglion LLP, a number of Academies, Voluntary Aided Schools, Sunderland Homes Ltd, IAMP LLP and Pooled Budget arrangements with Sunderland Clinical Commissioning Group.

### Note 34 – Capital Expenditure and Capital Financing

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

2017/2018 £'000		2018/2019 £'000
354,080	Opening Capital Financing Requirement	393,919
(12)	Recognition and Derecognition of Embedded Lease Assets	3,792
237	Recognition of PFI Assets	307
	<i>Capital Investment</i>	
66,554	Property, Plant and Equipment	62,061
0	Long term Investments	7,350
4,091	Long Term Debtors	2,443
499	Intangible Assets	839
22,908	Revenue Expenditure Funded from Capital under Statute	8,182
	<i>Sources of Finance</i>	
(2,184)	Capital Receipts	(2,738)
(36,865)	Government grants and other contributions	(20,739)
	Sums set aside from revenue:	
(7,011)	Direct revenue contributions	(11,668)
(8,378)	MRP	(9,693)
393,919	Closing Capital Financing Requirement	434,055
	<i>Explanation of movements in year</i>	
(286)	(Decrease) in underlying need to borrow (supported by government financial assistance)	(368)
44,532	Increase / (decrease) in underlying need to borrow (unsupported by government financial assistance)	42,029
(251)	Increase / (decrease) in underlying need to borrow (finance leases)	2,927
(4,156)	Increase / (decrease) in underlying need to borrow (PFI contracts)	(4,452)
39,839	Increase / (decrease) in Capital Financing Requirement	40,136



# Notes to the Financial Statements

## Note 35 – Leases

### a) Council as Lessee

#### Finance Leases

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

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

31 March 2018 £'000		31 March 2019 £'000
10,668	Other Land & Buildings	10,312
252	Vehicles, Plant and Equipment	3,180
10,920		13,492

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

31 March 2018 £'000		31 March 2019 £'000
	Finance Lease Liabilities (net present value of minimum lease payments)	
228	Current	703
5,752	Non-current	8,190
0	Finance costs payable in future years	0
5,980	Minimum lease payments	8,893

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

31 March 2018 Minimum Lease Payments £'000	31 March 2018 Finance Lease Liabilities £'000		31 March 2019 Minimum Lease Payments £'000	31 March 2019 Finance Lease Liabilities £'000
228	228	Not later than one year	703	703
95	95	Later than one year and not later than five years	2,548	2,548
5,657	5,657	Later than five years	5,642	5,642
5,980	5,980		8,893	8,893

#### Operating Leases

The Council has not acquired any vehicles or equipment by entering into an operating lease.

The Council has use of a small number of properties by entering into operating leases. The annual payment in 2018/2019 was £0.672m (£0.376m in 2017/2018). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

## Notes to the Financial Statements

31 March 2018 £'000		31 March 2019 £'000
10	Not later than one year	169
139	Later than one year but not later than five years	253
227	Later than five years	250
376		672

### b) Council as Lessor

#### Operating Leases

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

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

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

31 March 2018 £'000		31 March 2019 £'000
5,174	Not later than one year	5,741
10,950	Later than one year but not later than five years	12,089
151,699	Later than five years	179,027
167,823		196,857

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### Note 36 – Private Finance Initiatives and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the PFI contracts on its Balance Sheet as part of Property, Plant and Equipment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into the following elements:

- fair value of the services received during the year;
- finance cost;
- contingent rent;
- payment towards liability; and
- lifecycle replacement costs.

#### Current PFI Schemes

- Sandhill View

The Council entered into Sandhill PFI Contract in September 2001 and the Sandhill View Academy and Community Learning Centre subsequently became operational as a multi community use facility in September 2002. The Council receives annual grant of £1.549m

## Notes to the Financial Statements

towards the cost of this 25 year scheme. Sandhill View school transferred to Academy status on 1 July 2015 and part of the asset operated by the Academy on a long-term lease transferred from the Council's Balance Sheet. The Council still retains the overall liability to the PFI contractor to pay the unitary charge for the entire facility with the cost relating to the school being subsequently recovered from the Academy.

- Replacement Street Lighting and Highway Signs

The Council entered into a PFI contract, on 12 August 2003, to provide replacement street lighting and highway signs, this includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will end 31 August 2028. The Council receives annual grant of £2.185m towards the cost of this scheme.

- Waste Management Partnership

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. In April 2014, a 25 year Energy from Waste facility became operational under a PFI contract, led by Gateshead Council. The Council receives annual grant of £1.805m towards the cost of this scheme.

### Property, Plant and Equipment Assets

The assets used to provide services under these PFI schemes are recognised on the Council's Balance Sheet:

31 March 2018 Sandhill View £'000	31 March 2018 Street Lighting £'000	31 March 2018 Waste Partnership £'000		31 March 2019 Sandhill View £'000	31 March 2019 Street Lighting £'000	31 March 2019 Waste Partnership £'000
2,094	35,079	61,065	Cost / Valuation	2,095	35,386	59,026
93	14,981	2,908	Accumulated Depreciation	140	16,366	0
2,001	20,098	58,157	Net Book Value	1,955	19,020	59,026

### Service Concession Liabilities

The following transactions were processed during 2017/2018 and 2018/2019:

2017/2018 Sandhill View £'000	2017/2018 Street Lighting £'000	2017/2018 Waste Partnership £'000		2018/2019 Sandhill View £'000	2018/2019 Street Lighting £'000	2018/2019 Waste Partnership £'000
1,604	2,761	5,039	Provision of Services	2,108	3,121	5,376
0	385	830	Lifecycle costs	0	398	821
397	1,000	2,610	Repayment of Capital	382	1,119	2,860
712	1,502	1,198	Interest	673	1,418	1,052
260	115	224	Contingent rent	251	126	297
2,973	5,763	9,901	Total payment	3,414	6,182	10,406
(1,549)	(2,185)	(1,805)	PFI grant receivable	(1,549)	(2,185)	(1,805)
1,424	3,578	8,096	Net payment	1,865	3,997	8,601

Although the payments made to the contractor are described as unitary payments, they have been determined through competitive tendering to reflect the cost of the services and works provided, the

## Notes to the Financial Statements

capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

2017/2018 £'000		2018/2019 £'000
82,164	Balance outstanding at the start of the year	78,157
0	Additions	0
(4,007)	Repayment of capital	(4,361)
78,157	Balance outstanding at the year end	73,796

### Future Unitary Charge Payments

The unitary charge payments are subject to annual indexation in line with inflation and can be reduced if the contractor fails to meet prescribed availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the three PFI contracts at 31 March 2019 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2019/2020	8,693	4,015	1,963	3,460	18,131
Payable within 2 to 5 years	35,418	18,588	6,795	11,285	72,086
Payable within 6 to 10 years	40,963	23,813	10,751	7,286	82,813
Payable within 11 to 15 years	22,395	12,441	9,215	2,216	46,267
Payable within 16 to 20 years	22,581	14,939	8,552	929	47,001
Total	130,050	73,796	37,276	25,176	266,298

### Significant contractual information – terms of the arrangement

- Sandhill View

Refinancing gains: should the PFI Contractor choose to refinance the contract, the Council would be entitled to a share of any savings arising of between 25% and 50% depending upon the value. The Council is required to provide consent where any proposed refinancing increases Senior Debt to more than 110% of Senior Debt shown in the Financial Model at the date of the proposed refinancing.

Market testing: every five years the contractor is required to carry out a Facilities Management (FM) benchmarking process to establish the revised price in respect of each FM service on an open book basis.

- Replacement Street Lighting and Highway Signs

Refinancing gains: should the contractor choose to refinance its debts (subject to the Council's prior written consent), the Council would be entitled receive a 50% share of any Refinancing Gain arising from a Qualifying Refinancing.

Market testing: The electricity contract is subject to market testing every two years. Market testing is the responsibility of the contractor. Following each market test, the unitary payment is adjusted to reflect the up to date electricity costs.

- Waste Management Partnership

Refinancing gains: should the contractor choose to refinance its debts (subject to the Councils' consent), the Councils would be entitled to a share of any gains of between 50%-70% depending upon the value.

## Notes to the Financial Statements

Market testing: from service commencement, air pollution control residue (APCR) disposal and haulage costs are subject to market testing and benchmarking exercise every five years and the unitary charge must be adjusted accordingly.

### Significant contractual information – rights to use specified assets

- Sandhill View

The Council (and the Academy) has the priority right to use the facility during the core hours as specified in the contract (up to maximum annual usage levels).

- Replacement Street Lighting and Highway Signs

The Council as the highway authority is the principal beneficiary of the services and assets.

- Waste Management Partnership

The Council has full rights to use the asset within the Contract for the treatment of residual municipal waste up to the maximum tonnage level set out within the Contract. An additional fee is payable to the contractor for the use of the Waste Transfer Station or the Education and Visitor Centre outside normal operating hours.

### Significant contractual information – rights to expect provision of services

- Sandhill View

The Council has rights to expect the provision of the services in accordance with the terms and conditions of the contract for a 25 year period up to 2027.

- Replacement Street Lighting and Highway Signs

The Council has rights to expect the provision of the services in accordance with the terms and conditions of the contract for a 25 year period up to 2028.

- Waste Management Partnership

The Council has rights to expect the provision of residual waste treatment services for the duration of the contract.

### Significant contractual information – rights to receive specified assets at the end of the concession period

- Sandhill View

The PFI contractor holds a head lease over the land and buildings for the duration of this agreement. The Council (and in turn the Academy) each hold an underlease over the relevant parts of the site from which they each occupy/operate.

At the end of the contract the PFI Contractor's head-lease will terminate and at this point the Academy will be granted a new head lease for the entire site for the remainder of the 125 year Academy lease term. The Council will simultaneously take an underlease back from the Academy for the office, library and crèche areas.

- Replacement Street Lighting and Highway Signs

The Council retains title in all pre-existing apparatus. Title in new, accrued and additional apparatus passes to the Council during the PFI upon acceptance under the terms set out in the contract.

## Notes to the Financial Statements

- Waste Management Partnership

The Energy from Waste facility and waste transfer station is under the operational control of the contractor during the contract. The Council retains legal title to the land relating to its Waste Transfer Station and the asset will revert to the Council at the end of the contract period. The Energy from Waste facility is constructed on land owned by the contractor. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the Councils to operate along with a lease of the underlying land.

### Significant contractual information – renewal and termination options

- Sandhill View

The contract expires in September 2027. The Council has the right to terminate the contract early for contractor default (subject to the funder's step-in rights) or for convenience (i.e. no contractor default but subject to an early termination payment).

- Replacement Street Lighting and Highway Signs

The contract expires in August 2028. The Council has the right to terminate the contract early for contractor default (subject to the funder's step-in rights) or for convenience (i.e. no contractor default but subject to an early termination payment).

- Waste Management Partnership

The contract includes an option to extend for a period of 5 years beyond the contractual expiry date. It allows the Councils to terminate the contract with 20 business days' notice or either party to terminate on the other party's default or in the event of a force majeure (for example, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

## Note 37 – Impairment Losses

During 2018/2019, the Council recognised impairment losses totalling £3.303m (£8.107m in 2017/2018). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are demolition and regeneration work at sites within the city (£0.816m), stamp duty and associated expenses (£0.631m), minor transport modernisation works (£0.535m) and works to various schools (£0.830m).

## Notes to the Financial Statements

### Note 38 – Termination Benefits

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

The Council terminated the contracts of a number of employees in 2018/2019, incurring liabilities of £2.255m (£2.381m in 2017/2018). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

#### 2018/2019 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	8	93	0	93	7	28	0	28	121	0	121
£40 - £60	1	11	33	44	0	0	0	0	11	33	44
<u>Voluntary</u>											
£0 - £20	17	119	14	133	12	79	28	107	198	42	240
£20 - £40	2	28	39	67	5	79	65	144	107	104	211
£40 - £60	4	163	44	207	0	0	0	0	163	44	207
£60 - £80	3	43	164	207	0	0	0	0	43	164	207
£80 - £100	4	207	161	368	0	0	0	0	207	161	368
£100 - £150	0	0	0	0	0	0	0	0	0	0	0
£150 - £200	2	42	333	375	0	0	0	0	42	333	375
£200 - £250	1	41	182	223	0	0	0	0	41	182	223
£250 - £300	1	49	210	259	0	0	0	0	49	210	259
	34	692	1,147	1,839	17	158	93	251	850	1,240	2,090
<b>Total</b>	<b>43</b>	<b>796</b>	<b>1,180</b>	<b>1,976</b>	<b>24</b>	<b>186</b>	<b>93</b>	<b>279</b>	<b>982</b>	<b>1,273</b>	<b>2,255</b>

Exit costs payable to the employee are treated as remuneration and are included in Note 29 Officers' Remuneration for those staff who have received more than £50,000.

## Notes to the Financial Statements

### Note 38 – Termination Benefits

#### 2017/2018 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	8	30	0	30	50	289	16	305	319	16	335
£20 - £40	1	9	29	38	11	172	123	295	181	152	333
£40 - £60	0	0	0	0	1	43	0	43	43	0	43
£60 - £80	2	30	98	128	2	89	65	154	119	163	282
£80 - £100	1	20	69	89	0	0	0	0	20	69	89
	12	89	196	285	64	593	204	797	682	400	1,082
<u>Voluntary</u>											
£0 - £20	31	196	17	213	11	66	10	76	262	27	289
£20 - £40	6	40	145	185	4	32	95	127	72	240	312
£40 - £60	3	82	82	164	0	0	0	0	82	82	164
£60 - £80	2	26	115	141	0	0	0	0	26	115	141
£80 - £100	2	38	136	174	0	0	0	0	38	136	174
	44	382	495	877	15	98	105	203	480	600	1,080
<b>Total</b>	<b>56</b>	<b>471</b>	<b>691</b>	<b>1,162</b>	<b>79</b>	<b>691</b>	<b>309</b>	<b>1,000</b>	<b>1,162</b>	<b>1,000</b>	<b>2,162</b>

In addition to the costs analysed above, the Council has incurred a further £0.219m in 2017/2018 relating to pension costs for employees whose contracts were terminated in 2016/2017 and who were disclosed in the 2016/2017 Statement of Accounts.



# Notes to the Financial Statements

## Note 39 – Pensions Schemes Accounted for as Defined Contribution Schemes

### Teachers' Pension Scheme

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teacher's Pension Scheme, the Council's own contributions equated to approximately 63.6% for 2018/2019 (63.5% for 2017/2018).

In 2018/2019, the Council paid £5.236m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2017/2018 were £5.756m and 16.5%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £6.710m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 40.

The Council is not liable to the scheme for any other entities' obligations under the plan.

### NHS Staff Pension Scheme

During 2013/2014, NHS staff transferred to the Council. These staff maintained their membership in the NHS Pension Scheme. The scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the cost of these benefits by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contribution into the NHS Pension Scheme for staff employed by the Council, the Council's own contributions equated to approximately 56.2% for 2018/2019 (56.0% for 2017/2018).

In 2018/2019, the Council paid £0.081m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.4% of pensionable pay. The figures for 2017/2018 were £0.068m and 14.4%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £0.087m.

No additional benefits have been awarded upon early retirement outside of the terms of the NHS scheme and the Council is not liable to the scheme for any other entities' obligations under the plan.

# Notes to the Financial Statements

## Note 40 – Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

The Tyne and Wear pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of South Tyneside Council. Policy is determined in accordance with the Pension Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

### Discretionary Post-Retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

Following the TUPE of staff to Together for Children Sunderland Ltd on 1 April 2017, the Council entered into transactions which eliminated all further legal or constructive obligations for those staff. This resulted in a one-off gain on settlement of £24.380m in 2017/2018. This is presented in the disclosures below as well as in the Comprehensive Income and Expenditure Statement as an exceptional item.

Following legal rulings relating to GMP payments, the accounts include an allowance for full increases on GMP pensions for individuals reaching state pension age from 5 April 2016. This assumes that HM Treasury will legislate to continue with interim arrangements which are currently in place. The additional liability amounts to £10.7m and is shown as a past service cost in the disclosures below and as an exceptional item in the Comprehensive Income and Expenditure Statement. Additional details can be found in Note 3, Critical judgements in applying accounting policies.

Legal rulings have also been made regarding age discrimination arising from public sector pension scheme transition arrangements, in particular the 'McCloud' case, which affects judges pension

## Notes to the Financial Statements

schemes, and the 'Sargeant' case, which affects firefighters pension schemes. The accounts include an allowance for estimated liabilities relating to potential remedies for age discrimination within the LGPS arrangements. The additional liability amounts to £17.21m and is shown as a past service cost in the disclosures below and as an exceptional item in the Comprehensive Income and Expenditure Statement. Additional details can be found in Note 3, Critical judgements in applying accounting policies.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

## Notes to the Financial Statements

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2017/2018 £m	2018/2019 £m	2017/2018 £m	2018/2019 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	23.49	<b>24.83</b>	0.00	<b>0.00</b>
Past service costs	1.16	<b>1.57</b>	0.00	<b>0.00</b>
Past service costs relating to GMP indexation and equalisation	0.00	<b>10.70</b>	0.00	<b>0.00</b>
Past service costs relating to pension scheme transition arrangements (McCloud Judgement)	0.00	<b>17.21</b>	0.00	<b>0.00</b>
(Gain)/loss from settlements	(24.38)	<b>(1.24)</b>	0.00	<b>0.00</b>
Financing and Investment Income and Expenditure				
Net interest expense	11.70	<b>12.63</b>	1.05	<b>0.97</b>
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	11.97	<b>65.70</b>	1.05	<b>0.97</b>
Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(14.14)	<b>(50.03)</b>	0.00	<b>0.00</b>
Actuarial (gains) and losses arising on changes in demographic assumptions	0.00	<b>(68.16)</b>	0.00	<b>(1.60)</b>
Actuarial (gains) and losses arising on changes in financial assumptions	26.82	<b>88.47</b>	0.42	<b>0.99</b>
Actuarial (gains) and losses arising from liability experience	10.54	<b>1.92</b>	(2.33)	<b>0.11</b>
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	35.19	<b>37.90</b>	(0.86)	<b>0.47</b>
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(12.51)	<b>40.27</b>	(1.67)	<b>(1.73)</b>
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	24.48	<b>25.43</b>	2.72	<b>2.70</b>
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	11.97	<b>65.70</b>	1.05	<b>0.97</b>

## Notes to the Financial Statements

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Present value of the defined benefit obligation	1,623.22	<b>1,697.04</b>	38.45	<b>36.22</b>
Fair value of plan assets	1,127.95	<b>1,189.30</b>	0.00	<b>0.00</b>
Net liability arising from defined benefit obligation	(495.27)	<b>(507.74)</b>	(38.45)	<b>(36.22)</b>

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefit Arrangements	
	2017/2018 £m	2018/2019 £m	2017/2018 £m	2018/2019 £m
Opening balance at 1 April	1,638.11	<b>1,623.22</b>	42.03	<b>38.45</b>
Current service cost	23.49	<b>24.83</b>	0.00	<b>0.00</b>
Interest cost	40.12	<b>41.61</b>	1.05	<b>0.97</b>
Contributions from scheme participants	4.65	<b>4.80</b>	0.00	<b>0.00</b>
Remeasurement (gains) and losses:				
Actuarial (gains)/losses arising from changes in demographic assumptions	0.00	<b>(68.16)</b>	0.00	<b>(1.60)</b>
Actuarial (gains)/losses arising from changes in financial assumptions	26.82	<b>88.47</b>	0.42	<b>0.99</b>
Actuarial (gains)/losses arising from liability experience	10.54	<b>1.92</b>	(2.33)	<b>0.11</b>
Net increase in liabilities arising from disposals	(76.99)	<b>(3.07)</b>	0.00	<b>0.00</b>
Past service costs (including curtailments)	1.16	<b>29.48</b>	0.00	<b>0.00</b>
Benefits paid	(44.68)	<b>(46.06)</b>	(2.72)	<b>(2.70)</b>
Closing balance at 31 March	1,623.22	<b>1,697.04</b>	38.45	<b>36.22</b>

### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2017/2018 £m	2018/2019 £m	2017/2018 £m	2018/2019 £m
Opening fair value of scheme assets	1,153.55	<b>1,127.95</b>	0.00	<b>0.00</b>
Interest income	28.42	<b>28.98</b>	0.00	<b>0.00</b>
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	14.14	<b>50.03</b>	0.00	<b>0.00</b>
Net increase in liabilities arising from disposals	(52.61)	<b>(1.83)</b>	0.00	<b>0.00</b>
Contributions from employer	24.48	<b>25.43</b>	2.72	<b>2.70</b>
Contributions from employees into the scheme	4.65	<b>4.80</b>	0.00	<b>0.00</b>
Benefits paid	(44.68)	<b>(46.06)</b>	(2.72)	<b>(2.70)</b>
Closing balance at 31 March	1,127.95	<b>1,189.30</b>	0.00	<b>0.00</b>

## Notes to the Financial Statements

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	31 March 2018			31 March 2019		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	60.7	6.3	67.0	<b>58.0</b>	<b>7.0</b>	<b>65.0</b>
Property	0.0	8.5	8.5	<b>0.0</b>	<b>8.8</b>	<b>8.8</b>
Government Bonds	4.0	0.0	4.0	<b>4.1</b>	<b>0.0</b>	<b>4.1</b>
Corporate Bonds	11.7	0.0	11.7	<b>11.7</b>	<b>0.0</b>	<b>11.7</b>
Cash	3.7	0.0	3.7	<b>2.7</b>	<b>0.0</b>	<b>2.7</b>
Other	3.5	1.6	5.1	<b>3.5</b>	<b>4.2</b>	<b>7.7</b>
<b>Total assets</b>	<b>83.6</b>	<b>16.4</b>	<b>100.0</b>	<b>80.0</b>	<b>20.0</b>	<b>100.0</b>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefit liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2017/2018	2018/2019	2017/2018	2018/2019
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.9 years	<b>22.2 years</b>	22.9 years	<b>22.2 years</b>
Women	26.4 years	<b>25.3 years</b>	26.4 years	<b>25.3 years</b>
Longevity at 65 for future pensioners				
Men	25.1 years	<b>23.9 years</b>	n/a	<b>n/a</b>
Women	28.7 years	<b>27.2 years</b>	n/a	<b>n/a</b>
RPI	3.2%	<b>3.3%</b>	3.2%	<b>3.3%</b>
CPI	2.1%	<b>2.2%</b>	2.1%	<b>2.2%</b>
Rate of increase in salaries	3.6%	<b>3.7%</b>	n/a	<b>n/a</b>
Pension account revaluation rate	2.1%	<b>2.2%</b>	n/a	<b>n/a</b>
Rate of increase in pensions	2.1%	<b>2.2%</b>	2.1%	<b>2.2%</b>
Rate for discounting scheme liabilities	2.6%	<b>2.4%</b>	2.6%	<b>2.4%</b>
Long-term expected rate of return on assets in the scheme	2.6%	<b>2.4%</b>	2.6%	<b>2.4%</b>

Under IAS19 the long-term expected rate of return on assets is assumed to be the same as the discount rate.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

## Notes to the Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	<b>53.43</b>	<b>53.97</b>
Rate of increase in salaries (increase or decrease by 0.1%)	<b>7.19</b>	<b>7.10</b>
Rate of increase in pensions (increase or decrease by 0.1%)	<b>24.78</b>	<b>24.38</b>
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	<b>31.42</b>	<b>32.02</b>

### Impact on the Council's Cash Flows

The Council anticipates making £25.03m expected contributions to the scheme in 2019/2020.

The weighted average duration of the defined benefit obligation for scheme members is 18.7 years in 2018/2019 (18.7 years in 2017/2018).

### Note 41 – Contingent Liabilities

The Council has a number of outstanding equal pay complaints from staff, both existing and former, who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council in relation to previously operated bonus schemes. These complaints have been raised via grievances and claims which set out identical issues. Whilst the Employment Tribunal claims have been halted to enable without prejudice settlement discussions to take place, a minimal number of claims remain. Following settlement discussions, a significant number of grievances and claims have been settled. Efforts are ongoing to conclude Settlement Agreements in the remaining cases.

The Environment Agency previously confirmed that they regarded the Council as one of a number of named organisations that are potential contributors to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The basis for including the Council in the list of “Appropriate Persons” was the fact that, historically, disposal of domestic waste on the site had been undertaken by two of its predecessor authorities, namely Sunderland Rural District Council and Sunderland County Borough, with the City Council being held liable for the activities of its predecessors. The cost of the remediation works, which could be significant depending upon the level of remediation required, and the respective parties’ share of such costs has not, to date, been capable of being accurately quantified. In light of recent case law, the Council's position is that it should no longer be regarded as being liable in law for the waste disposal activities of Sunderland RDC and Sunderland County Borough. Discussions are ongoing with the Environment Agency in this regard.

### Note 42 – Contingent Assets

#### Section 106 Agreements

Under Section 106 of the Town and Country Planning Act 1990, contributions from developers are made towards public open spaces including allotments, educational facilities, locally equipped play parks, highways and public transport improvements, sports and recreational facilities and environmental improvements.

The Council has several large agreements in place with probable future contributions of £8.050m as well as numerous smaller agreements with various developers, however the timing of contributions is uncertain as these are only payable to the Council when certain trigger points are met at the respective developments.

# Notes to the Financial Statements

## Note 43 - Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks, including:

- credit risk - the possibility that other parties might fail to pay amounts due to the Council;
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- re-financing risk – the possibility that the Council might be requiring to renew a financial instrument or maturity at disadvantageous interest rates or terms; and
- market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

### Credit Risk Management Practices

The Council has considered its financial assets to determine whether their credit risk has increased significantly since initial recognition.

These have been grouped into two categories:

- investments with financial institutions, which have been considered collectively; and
- loans - which have been considered individually.

The credit risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested and time limits with a financial institution located within each category.

It is the policy of the Council to place deposits only with a limited number of high quality banks, building societies and money market funds that are on the Council's Approved Lending List. The counterparty criteria and associated investment limits are set out in the table below, taking account of the credit ratings issued by all three credit rating agencies:



## Notes to the Financial Statements

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					350	2 years
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund					120	Liquid Deposits
<b>Local Authority controlled companies</b> Duration limited to 20 years in accordance with Capital Regulations					40	20 years

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £183.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that a default was likely to crystallise.

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

The Council does not generally allow credit for customers, such that £14.415m is beyond its due date for payment. The past due amount can be analysed by age as follows:

31 March 2018 £'000		31 March 2019 £'000
13,416	Less than 3 months	13,611
213	Three to 6 months	184
332	Six months to one year	303
214	More than one year	317
14,175		14,415

## Notes to the Financial Statements

The Council recognises the need to impair any debt assessed as overdue on a scaled approach, based on past experience and current market conditions. In addition, the Council provides an additional impairment allowance for all debt raised but not yet due.

The impairment in 2018/2019 is £1.048m:

	Amount at 31 March 2019	Historical Experience of default	Historical Experience adjusted for market conditions as at 31 March 2019	Estimated maximum exposure to default and uncollectability at 31 March 2019	Estimated maximum exposure to default and uncollectability at 31 March 2018
	£'000	%	£'000	£'000	£'000
Customers	14,415	7.27	0	1,048	949
<b>Financial Assets</b>	<b>14,415</b>		<b>0</b>	<b>1,048</b>	<b>949</b>

The impairment for this contractual debt is included, along with impairment for Housing Benefit, Council Tax and Business Rate debt, in the Council's overall impairment of doubtful debt of £14.014m within Note 4.

### Loans

Loans are generally issued to organisations that the Council has an interest in such as subsidiaries, joint ventures or other public sector and community related organisations. Each of the bodies to which loans have been issued have been considered to assess their ongoing financial stability and viability. Consideration has been given to whether there has been any late payment against contractual cashflows as well as looking at the current financial position of each organisation. An assessment of the likelihood of default within the next twelve months has been determined for each loan.

### Amounts Arising from Expected Credit Losses

With the exception of one loan, the Council's financial assets have all been assessed as Stage 1 at both 31 March 2018 and 31 March 2019 which means there has been no significant increase in their credit risk. The 12-month expected credit loss for these assets has been assessed as nil.

One loan has been assessed as Stage 2 at 31 March 2018 reflecting that its credit risk had significantly increased since recognition. Lifetime expected credit losses have therefore been recognised in respect of this loan.

The changes in the loss allowance for all financial investments during the year is as follows:

	12 month expected credit loss	Lifetime expected credit loss - not credit impaired	Total
	£'000	£'000	£'000
1 April 2018	0	25	25
Amounts written off	0	(25)	(25)
31 March 2019	0	0	0

During the year, the Council wrote off financial assets with a contractual amount outstanding of £0.025m that are still subject to enforcement activity.

### Liquidity Risk

The Council manages its liquidity position through the setting and approval of prudential indicators

## Notes to the Financial Statements

and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed. If unexpected movements happen the Council has ready access to a facility to borrow from the Public Works Loan Board and from money markets. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities borrowing is as follows:

31 March 2018 £'000	Loans Outstanding	31 March 2019 £'000
35,897	Less than 1 year	37,237
6,266	Maturing in 1-2 years	6,150
17,600	Maturing in 2-5 years	15,388
394	Maturing in 5-10 years	5,087
15,010	Maturing in 10-20 years	10,010
15,000	Maturing in 20-30 years	15,000
64,500	Maturing in 30-40 years	64,500
165,171	Maturing in 40-50 years	225,163
319,838	<b>Total</b>	<b>378,535</b>

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

### Refinancing and Maturity risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

### Market Risk

#### Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and

## Notes to the Financial Statements

- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2019, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2018 £'000		31 March 2019 £'000
(476)	Increase in interest payable on variable rate borrowings	(376)
1,602	Increase in interest received on variable rate borrowings	1,592
1,126	<b>Impact on Surplus or Deficit on the Provision of Services</b>	1,216
(211)	Decrease in fair value of fixed rate investment assets	0
(211)	<b>Impact on Other Comprehensive Income and Expenditure</b>	0
69,181	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	84,758

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16.553m (2017/2018 £16.400m) in Newcastle Airport which is not listed on the stock exchange, a £12.350m (2017/2018 £5.000m) equity share in its Local Asset Backed Vehicle, Siglion, and a £0.500m (2017/2018 £0.500m) equity share in its Leisure Joint Venture, Sunderland Lifestyle Partnership.

Whilst these holdings are generally illiquid and are not anticipated to be sold the Council is consequently exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it generally only acquires shareholdings in return for 'open book' arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

## Notes to the Financial Statements

The Airport shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

The investment in the Airport has been elected as 'fair value through other comprehensive income', meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve.

The equity shares in Siglion LLP are carried at cost in the Council's accounts. Siglion's financial statements at 31 March 2019 exceed the value of the investment held within the Council's Balance Sheet.

The Council's equity share in Sunderland Lifestyle Partnership has been carried at cost. Any gain or loss would not be material to the Council's financial position.

The Council also holds a small number of various gilts and unit trusts with a value at cost of £0.168m which are classified as 'financial assets at fair value through profit and loss', meaning that all movements in price impact on the gains and losses recognised in Other Comprehensive Income and Expenditure.

### Foreign Exchange Risk

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

## Note 44 – Prior Period Adjustments

In accordance with the Council's accounting policies, a number of disclosures relating to 2017/2018 have been restated.

### Restructure of the Council's management reporting arrangements

The Council amended its management reporting structure with effect from 16 May 2018. All Portfolios were affected by this restructure. Comparative data for 2017/2018 has been restated.

The table below shows the impact of the changes between Portfolios as presented in the Comprehensive Income and Expenditure Statement.

	2017/2018		
	2017/2018 accounts	Portfolio changes	Restated position
	£'000	£'000	£'000
Leader	9,825	(5,122)	4,703
Deputy Leader	14,611	(10,494)	4,117
Cabinet Secretary	20,399	4,981	25,380
Children, Learning and Skills	0	75,986	75,986
Community and Culture	0	12,614	12,614
Environment and Transport	0	42,103	42,103
Health and Social Care	0	55,427	55,427
Housing and Regeneration	0	13,337	13,337
Childrens Services	75,621	(75,621)	0
Health, Housing and Adult Services	61,911	(61,911)	0
Public Health, Wellness and Culture	2,848	(2,848)	0
City Services	42,160	(42,160)	0
Responsive Services and Customer Care	6,292	(6,292)	0
IAS19 settlement adjustment	(24,380)	0	(24,380)
<b>Cost of Services</b>	<b>209,287</b>	<b>0</b>	<b>209,287</b>

## Notes to the Financial Statements

### Cash and cash equivalents

Cash in hand and at bank and cash overdrawn have previously been presented separately on the Balance Sheet. In compliance with the Code, these have been offset in 2018/2019's accounts. 2017/2018's position has been restated accordingly with the overdrawn position of £11.172m being moved from current liabilities to current assets.

This has reduced both total assets and total liabilities by £11.172m and therefore has had no effect on the net assets of the Council.

# Collection Fund Statement

## Collection Fund Statement for Year Ended 31 March 2019

2017/2018				2018/2019		
Council Tax £'000	Business Rates £'000	Total £'000		Council Tax £'000	Business Rates £'000	Total £'000
(102,543)	0	(102,543)	<b>Income</b>	(109,284)	0	(109,284)
0	(89,688)	(89,688)	Council Tax Payers	0	(93,108)	(93,108)
(102,543)	(89,688)	(192,231)	Business Ratepayers	(109,284)	(93,108)	(202,392)
			<b>Expenditure</b>			
			Apportionment of Previous Years' Surplus			
2,500	0	2,500	Sunderland City Council	1,845	0	1,845
154	0	154	Tyne and Wear Fire and Rescue Authority	111	0	111
189	0	189	Police and Crime Commissioner for Northumbria	140	0	140
2,843	0	2,843		2,096	0	2,096
89,914	40,901	130,815	Precepts, Demands and Shares:	95,201	42,254	137,455
5,387	835	6,222	Sunderland City Council	5,595	862	6,457
6,824	0	6,824	Tyne and Wear Fire and Rescue Authority	7,722	0	7,722
0	3,619	3,619	Police and Crime Commissioner for Northumbria	0	2,337	2,337
0	41,736	41,736	Central Government - Transitional Protection Payable	0	43,116	43,116
102,125	87,091	189,216	Central Government - Share	108,518	88,569	197,087
0	707	707	Charges to Collection Fund:	0	750	750
0	341	341	Disregarded Amounts - Enterprise Zones	0	340	340
229	1,462	1,691	Cost of Collection - Business Rates	339	1,650	1,989
99	(737)	(638)	Write Offs	27	(836)	(809)
0	(211)	(211)	Impairment of Debtors Allowance	0	176	176
328	1,562	1,890	Provision for Business Rate Appeals	366	2,080	2,446
2,753	(1,035)	1,718	<b>Deficit / (Surplus) for the Year</b>	<b>1,696</b>	<b>(2,459)</b>	<b>(763)</b>
(4,938)	(441)	(5,379)	Balance brought forward as at 1 April	(2,185)	(1,476)	(3,661)
(2,185)	(1,476)	(3,661)	<b>Fund Balance Carried Forward as at 31 March</b>	<b>(489)</b>	<b>(3,935)</b>	<b>(4,424)</b>
			<b>Fund allocated to</b>			
(1,924)	(723)	(2,647)	Sunderland City Council	(429)	(1,928)	(2,357)
(115)	(15)	(130)	Tyne and Wear Fire and Rescue Authority	(25)	(39)	(64)
(146)	0	(146)	Police and Crime Commissioner for Northumbria	(35)	0	(35)
0	(738)	(738)	Central Government	0	(1,968)	(1,968)
(2,185)	(1,476)	(3,661)		<b>(489)</b>	<b>(3,935)</b>	<b>(4,424)</b>

## Notes to the Collection Fund Statement

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund, therefore, is to isolate the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to council tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Sunderland, the council tax precepting bodies are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

Business rates surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant bodies in the following year.

### Note 1 – Income from Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the council tax base.

The basic amount of council tax for a Band D property, inclusive of major preceptors, was £1,549.70 for 2018/2019 (£1,470.77 for 2017/2018), is multiplied by the proportion specified for the particular band to give an individual amount due.

The council tax base for 2018/2019 was 69,991 (69,402 in 2017/2018). It was approved by Cabinet on 10 January 2018 and was calculated as follows:

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	180	5/9	100
A	77,640	6/9	51,760
B	18,002	7/9	14,002
C	16,452	8/9	14,624
D	8,553	1	8,553
E	3,155	11/9	3,856
F	1,048	13/9	1,514
G	624	15/9	1,040
H	20	18/9	40
Net effect of Premiums and Discounts			(24,432)
Total			71,057
Anticipated Collection Rate			98.5%
<b>Tax Base for the Calculation of Council Tax</b>			<b>69,991</b>



## **Notes to the Collection Fund Statement**

### **Note 2 – Income from Business Ratepayers**

The Council collects business rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

For 2018/2019, the total business rates rateable value at the year-end is £231.013m (£231.865m in 2017/2018). The national multipliers for 2018/2019 were 48.0p (46.6p for 2017/2018) for qualifying small businesses, and the standard multiplier being 49.3p (47.9p for 2017/2018) for all other businesses.

### **Note 3 – Council Tax/Business Rates Impairment of Debtors Allowance**

The Collection Fund provides for bad debts on arrears based on prior years' experience, and a formulaic approach to outstanding debt levels.

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. Most of these sums relate to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts and as such have already been accounted for in a previous period.

In respect of Council Tax, as at 31 March 2019, the provision for bad debt was estimated at £4.711m (£4.683m at 31 March 2018).

In respect of Business Rates, as at 31 March 2019, the provision for bad debt was estimated at £3.800m (£4.635m at 31 March 2018).

The bad debt provision is allocated to the relevant preceptors, in proportion to their share.

### **Note 4 – Business Rate Provision for Valuation Appeals**

The Collection Fund also provides for provision for appeals against the rateable valuation set by the VOA not settled as at 31 March 2019.

As at 31 March 2019, the provision for appeals was estimated at £14.743m (£14.567m at 31 March 2018). The appeals provision is allocated to the relevant preceptors, in proportion to their share.

## Group Financial Statements - Narrative Statement

The Council's standard financial statements consider the Council only as a single entity. However, the Council delivers some of its activities through a number of wholly owned subsidiaries and joint ventures, thus the full extent of the Council's economic activity and financial position is not reflected in the Council's single entity accounts. Group accounts are therefore produced to present the full picture. The group accounts consolidate the results and balances of the Council with those organisations considered to be part of the group:

- Subsidiaries
  - Sunderland Care and Support (Holding Company) Ltd;
  - Together for Children Sunderland Ltd;
  - Sunderland Homes Ltd;
  - Siglion LLP (Joint Venture status in 2017/2018); and
  - Siglion Holdings Ltd.
- Joint Ventures
  - Sunderland Lifestyle Partnership Ltd; and
  - IAMP LLP.

Further detail on the relationship between the Council and these organisations is presented in Note 33, Related Parties, of the Council's single entity accounts.

### Preparation of Group Accounts

The group accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Local Government Act 2003 and The Accounts and Audit Regulations 2015.

In preparing the group accounts all statutory main group statements have been incorporated, along with specific notes where balances are materially different from those within the Council's accounts.

The financial statements required under the Code are detailed below:

#### 1. Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

#### 2. Comprehensive Income and Expenditure Statement

This reports the net cost for the year of all group functions and demonstrates how that cost has been met from general government grants and income from local taxpayers.

#### 3. Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by reserves held by the group.

#### 4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the reporting period.

#### 5. Notes to the Accounts

## Group Financial Statements - Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

The Statement shows how the movement in year of the Group's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practice, and the statutory adjustments required to return to the amounts chargeable to council tax for the year.

The Increase / Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. The table below shows the details for both 2017/2018 and 2018/2019.

	Council						Council's share of Subsidiaries and Joint Venture Reserves	Total Group Reserves
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2017</b>	<b>18,224</b>	<b>125,462</b>	<b>4,754</b>	<b>8,771</b>	<b>157,211</b>	<b>133,397</b>	<b>12,079</b>	<b>302,687</b>
Movement in reserves during 2017/2018:								
Total Comprehensive Income and Expenditure	(66,241)	0	0	0	(66,241)	(8,892)	(22,266)	(97,399)
Adjustments between accounting basis & funding basis under regulations	69,674	0	2,209	(3,774)	68,109	(68,109)	0	0
Transfers to / (from) Earmarked Reserves	(3,083)	3,083	0	0	0	0	0	0
Adjustment between group accounts and Council's single entity accounts							(2,344)	(2,344)
(Increase) / Decrease in 2017/2018	350	3,083	2,209	(3,774)	1,868	(77,001)	(24,610)	(99,743)
<b>Balance at 31 March 2018</b>	<b>18,574</b>	<b>128,545</b>	<b>6,963</b>	<b>4,997</b>	<b>159,079</b>	<b>56,396</b>	<b>(12,531)</b>	<b>202,944</b>
Movement in reserves during 2018/2019:								
Total Comprehensive Income and Expenditure	(68,336)	0	0	0	(68,336)	52,169	15,622	(545)
Adjustments between accounting basis & funding basis under regulations	63,238	0	(436)	477	63,279	(63,279)	0	0
Transfers to / (from) Earmarked Reserves	6,282	(6,282)	0	0	0	0	0	0
(Increase) / Decrease in 2018/2019	1,184	(6,282)	(436)	477	(5,057)	(11,110)	15,622	(545)
<b>Balance at 31 March 2019</b>	<b>19,758</b>	<b>122,263</b>	<b>6,527</b>	<b>5,474</b>	<b>154,022</b>	<b>45,286</b>	<b>3,091</b>	<b>202,399</b>

## Group Financial Statements - Comprehensive Income and Expenditure Statement

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

The statement is presented in line with the Council's Portfolio structure which has been in place since 16 May 2018 and 2017/2018's position has been restated accordingly. Further details can be found in Note10.

2017/2018 (restated)				2018/2019		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
4,941	(225)	4,716	Leader	5,358	(1,258)	4,100
12,190	(8,073)	4,117	Deputy Leader	6,834	(1,967)	4,867
161,666	(132,149)	29,517	Cabinet Secretary	156,710	(125,809)	30,901
203,286	(127,629)	75,657	Children, Learning and Skills	198,485	(124,321)	74,164
15,176	(3,042)	12,134	Community and Culture	17,743	(2,907)	14,836
65,948	(23,297)	42,651	Environment and Transport	65,849	(21,754)	44,095
136,473	(82,369)	54,104	Health and Social Care	145,198	(89,487)	55,711
29,600	(15,298)	14,302	Housing and Regeneration	10,658	(8,044)	2,614
0	0	0	IAS19 GMP equalisation	10,700	0	10,700
0	0	0	IAS19 pension scheme transition arrangements (McCloud Judgement)	17,210	0	17,210
0	0	0	Equal pay settlement/provision	457	0	457
629,280	(392,082)	237,198	<b>Cost of Services</b>	635,202	(375,547)	259,655
74,238	0	74,238	Other operating expenditure	30,643	0	30,643
35,290	(6,300)	28,990	Financing and investment income and expenditure	35,726	(4,497)	31,229
0	(245,165)	(245,165)	Taxation and non-specific grant income and expenditure	0	(244,684)	(244,684)
738,808	(643,547)	95,261	<b>(Surplus) or Deficit on Provision of Services</b>	701,571	(624,728)	76,843
1	(828)	(827)	Joint ventures accounted for on an equity basis	0	(781)	(781)
(190)	(4,576)	(4,766)	Tax expenses of subsidiaries	0	654	654
738,619	(648,951)	89,668	<b>Group (Surplus) / Deficit</b>	701,571	(624,855)	76,716
		(12,418)	(Surplus) or deficit on revaluation of non current assets			(43,467)
		0	(Surplus) or deficit from investments in equity instruments designated at fair value through comprehensive income			(153)
		20,149	Re-measurements of the defined benefit liability			(32,551)
		7,731	<b>Other Comprehensive Income and Expenditure</b>			(76,171)
		97,399	<b>Total Comprehensive Income and Expenditure</b>			545

## Group Financial Statements - Balance Sheet

The Balance Sheet shows the value at 31 March of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the group may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves, unusable reserves, is those that the group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

## Group Financial Statements - Balance Sheet

31st March 2018 £'000		Notes	31st March 2019 £'000
893,322	Property, Plant and Equipment	3	980,677
12,192	Heritage Assets		12,192
54,110	Investment Property		46,723
2,349	Intangible Assets		2,819
16,415	Long Term Investments		16,721
8,243	Investments in Joint Ventures		1,266
56,481	Long Term Debtors		42,897
1,043,112	<b>Long Term Assets</b>		1,103,295
60,142	Short Term Investments		90,625
1,110	Inventories		1,709
74,296	Short Term Debtors		56,869
486	Assets Held for Sale		439
89,868	Cash and Cash Equivalents	2 / 10	97,784
225,902	<b>Current Assets</b>		247,426
(35,897)	Short Term Borrowing		(37,237)
(64,173)	Short Term Creditors		(70,511)
(15,307)	Provisions		(16,085)
(1,552)	Grant Receipts in Advance - Capital		(2,041)
(116,929)	<b>Current Liabilities</b>		(125,874)
(283,941)	Long Term Borrowing	6	(341,298)
(579,270)	Defined Benefit Pension Scheme Liability		(596,286)
(79,732)	Other Long Term Liabilities		(78,165)
(6,197)	Provisions		(6,699)
(949,140)	<b>Long Term Liabilities</b>		(1,022,448)
202,945	<b>Net Assets</b>		202,399
18,574	General Fund		19,758
128,545	Earmarked General Fund Reserves		122,263
6,963	Capital Receipts Reserve		6,527
4,998	Capital Grants Unapplied		5,474
159,080	<b>Usable Reserves held by Sunderland City Council</b>		154,022
2,743	Investments in Joint Ventures		766
(15,080)	Sunderland Care and Support Ltd		(17,113)
(22,654)	Together for Children Sunderland Ltd		(27,980)
0	Siglion LLP / Siglion Holdings Ltd		5,087
(130)	Sunderland Homes Ltd		(10)
(35,121)	<b>Profit and Loss from subsidiaries and Joint Ventures</b>		(39,250)
162,629	Revaluation Reserve - Sunderland City Council	3	174,896
22,590	Revaluation Reserve - Sunderland Lifestyle Partnership Ltd		42,341
0	Financial Instruments Revaluation Reserve		16,186
389,580	Capital Adjustment Account		375,164
(2,395)	Financial Instrument Adjustment Account		(2,851)
(533,720)	Pensions Reserve		(543,960)
23,817	Deferred Capital Receipts Reserve		25,467
2,648	Collection Fund Adjustment Account		2,358
(2,196)	Accumulated Absence Account		(1,974)
16,033	Available for Sale Financial Instruments Reserve		0
78,986	<b>Unusable Reserves</b>		87,627
202,945	<b>Total Reserves</b>		202,399

## Group Financial Statements - Cash Flow Statement

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

2017/2018 £'000		Notes	2018/2019 £'000
95,743	Net (surplus) or deficit on the provision of services		<b>76,843</b>
(118,605)	Adjust net (surplus) or deficit on the provision of services for non cash movement		<b>(129,377)</b>
37,856	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		<b>25,213</b>
14,994	Net cash flows from operating activities		<b>(27,321)</b>
(22,021)	Investing activities	4	<b>74,063</b>
(45,349)	Financing activities	5	<b>(54,658)</b>
(52,376)	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(7,916)</b>
37,492	Cash and cash equivalents at the beginning of the reporting period		<b>89,868</b>
89,868	<b>Cash and cash equivalents at the end of the reporting period</b>	2	<b>97,784</b>

# Notes to the Group Financial Statements

## Note 1 – Accounting Policies

The group accounting policies are largely the same as those specified within the Council only statement, however there are some slight divergences from these policies within the group. These are detailed below:

- **Group Transactions**

The Council both commissions services from and provides support services to the subsidiary companies.

- **Consolidation of Subsidiaries**

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

- **Consolidation of Subsidiaries with different financial year end**

Siglion's year end is 31 December. The information presented in the Group accounts has therefore had to be restated to 31 March and includes three months of management accounts (January 2019 to March 2019).

- **Consolidation of Joint Ventures**

Joint Ventures have been consolidated using the equity method. An investment is brought into the group balance sheet and adjusted by the Council's share in the joint venture's net asset movement. The Council's share of the joint venture's operating results for the year is included within the group income and expenditure account.

- **Capital Expenditure**

The de-minimus level for capital expenditure for the subsidiary companies is £5,000 which is lower than that of the Council.

- **Accounting Standards**

The accounts for the subsidiary companies have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Other than where specifically addressed in the accounts, differences between these standards and the Code would have no material effect on the Group Statements.

- **Deferred Tax**

Deferred tax is recognised in respect of an obligation to pay more tax in the future or a right to pay less tax in the future as at the Balance Sheet date. This represents differences between the company's taxable profits and its results as stated in the financial statement.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to be resolved, based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.



## Notes to the Group Financial Statements

### Note 2 – Group Cash and Cash Equivalents

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

31 March 2018 (restated) £'000		31 March 2019 £'000
(10,966)	Cash held	(9,007)
85,803	Bank current accounts and Money Market Funds	86,770
15,031	Short-term deposits with banks and building societies	20,021
89,868	<b>Total Cash and Cash Equivalents</b>	<b>97,784</b>

### Note 3 – Group Property, Plant and Equipment

#### Sunderland Lifestyle Partnership Ltd

On 1 June 2015 the Council transferred a number of leisure assets to its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports and Leisure Management Ltd.

As these assets were transferred under a long term lease, the Council has written these assets out of its accounts, reducing assets by £52.289m in 2015/2016. Under the accounting requirements applicable to Sunderland Lifestyle Partnership, the Joint Venture has accounted for these assets at the present value of the minimum lease payments.

In order to comply with the Council's accounting requirements, within the Council's Group Statements, the Council's share of these assets (50%) has been re-instated at a valuation of £42.341m (£22.590m in 2017/2018).

These assets were revalued during 2018/2019 and the increase in value of £19.751m is reflected in the Revaluation Reserve – Joint Ventures line on the Group Balance Sheet.

#### Siglion LLP

Siglion LLP has historically been treated as a Joint Venture, however the Council now fully owns the company and the Group Accounts for 2018/2019 therefore reflect Siglion LLP as a subsidiary of the Council.

The following property, plant and equipment owned by Siglion LLP is therefore now shown on the Group Balance Sheet:

	31 March 2019 £'000
Property, Plant and Equipment	26,227
Assets under Construction	6,117
<b>Total</b>	<b>32,344</b>

### Note 4 – Group Reserves

#### Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

It should be noted that the Financial Statements for the Council's subsidiary companies should be prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard

## Notes to the Group Financial Statements

applicable in the UK and Republic of Ireland', however, the financial position under FRS102 is not significantly different under IAS19.

The Pensions Reserves within the subsidiary companies are subsets of the Profit and Loss Reserves for those companies and are therefore shown on the Balance Sheet within Usable Reserves. The Pension Reserve held by the Council is shown on the Balance Sheet under Unusable Reserves. The table below presents the Pension Reserve activity for each member of the group.

2017/2018					2018/2019			
Council	SCAS	Together for Children	Total Group		Council	SCAS	Together for Children	Total Group
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
(526,590)	(17,200)	0	(543,790)	<b>Balance at 1 April</b>	<b>(533,720)</b>	<b>(18,320)</b>	<b>(27,230)</b>	<b>(579,270)</b>
(21,310)	860	301	(20,149)	Remeasurement of the net defined benefit liability/(asset)	<b>28,300</b>	<b>2,620</b>	<b>1,631</b>	<b>32,551</b>
(13,020)	(4,610)	(30,812)	(48,442)	Items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	<b>(66,670)</b>	<b>(7,180)</b>	<b>(10,098)</b>	<b>(83,948)</b>
27,200	2,630	3,281	33,111	Employer's pensions contributions and direct payments to pensioners payable in the year	<b>28,130</b>	<b>2,700</b>	<b>3,551</b>	<b>34,381</b>
<b>(533,720)</b>	<b>(18,320)</b>	<b>(27,230)</b>	<b>(579,270)</b>	<b>Balance at 31 March</b>	<b>(543,960)</b>	<b>(20,180)</b>	<b>(32,146)</b>	<b>(596,286)</b>

### Share Capital Reserve

Three ordinary shares of £1 have been allotted and fully paid for in Sunderland Care and Support (Holding Company) Ltd, Siglion Holdings Ltd as well as Sunderland Homes Ltd. All subsidiaries in the group are ultimately owned 100% by the Council.

## Note 5 – Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the group are not materially different from those within the Council only statements.

## Note 6 – Group Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

- the Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets; and

## Notes to the Group Financial Statements

- arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

A proportion of employees of Sunderland Care and Support Ltd and Together for Children Sunderland Ltd are members of the Local Government Pension Scheme.

The Tyne and Wear pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of South Tyneside Council. Policy is determined in accordance with the Pension Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

### **Discretionary Post-Retirement Benefits**

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### **Transactions Relating to Post-employment Benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement and is presented within the Council's unusable reserves.

The subsidiary companies within the group do not raise council tax receipts and therefore the costs of post-employment / retirement benefits are not transferred to unusable reserves. These future liabilities are reflected within each company's Profit or Loss position on the Balance Sheet.

# Notes to the Group Financial Statements

## Note 7 – Group Termination Benefits

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

The Group terminated the contracts of a number of employees in 2018/2019, incurring liabilities of £3.614m (£3.503m in 2017/2018). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

### 2018/2019 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	8	93	0	93	7	28	0	28	121	0	121
£20 - £40	0	0	0	0	0	0	0	0	0	0	0
£40 - £60	1	11	33	44	0	0	0	0	11	33	44
£60 - £80	1	16	62	78	0	0	0	0	16	62	78
£80 - £100	0	0	0	0	0	0	0	0	0	0	0
	10	120	95	215	7	28	0	28	148	95	243
<u>Voluntary</u>											
£0 - £20	50	309	30	339	12	79	28	107	388	58	446
£20 - £40	10	144	143	287	5	79	65	144	223	208	431
£40 - £60	9	234	217	451	0	0	0	0	234	217	451
£60 - £80	6	100	324	424	0	0	0	0	100	324	424
£80 - £100	6	247	289	536	0	0	0	0	247	289	536
£100 - £150	1	23	83	106	0	0	0	0	23	83	106
£150 - £200	2	42	333	375	0	0	0	0	42	333	375
£200 - £250	1	41	182	223	0	0	0	0	41	182	223
£250 - £300	1	49	210	259	0	0	0	0	49	210	259
	86	1,189	1,811	3,000	17	158	93	251	1,347	1,904	3,251
<b>Total</b>	<b>96</b>	<b>1,309</b>	<b>1,906</b>	<b>3,215</b>	<b>24</b>	<b>186</b>	<b>93</b>	<b>279</b>	<b>1,495</b>	<b>1,999</b>	<b>3,494</b>

In addition to the costs analysed above, the Group has incurred a further £0.120m in 2018/2019 relating to pension costs for employees whose contracts were terminated in 2017/2018 and who were disclosed in the 2017/2018 Statement of Accounts.

# Notes to the Group Financial Statements

## Note 7 – Group Termination Benefits

### 2017/2018 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	43	280	20	300	50	289	16	305	569	36	605
£20 - £40	7	58	189	247	11	172	123	295	230	312	542
£40 - £60	7	81	287	368	1	43	0	43	124	287	411
£60 - £80	2	30	98	128	2	89	65	154	119	163	282
£80 - £100	2	32	139	171	0	0	0	0	32	139	171
	61	481	733	1,214	64	593	204	797	1,074	937	2,011
<u>Voluntary</u>											
£0 - £20	34	239	17	256	11	66	10	76	305	27	332
£20 - £40	7	63	145	208	4	32	95	127	95	240	335
£40 - £60	3	82	82	164	0	0	0	0	82	82	164
£60 - £80	2	26	115	141	0	0	0	0	26	115	141
£80 - £100	2	38	136	174	0	0	0	0	38	136	174
	48	448	495	943	15	98	105	203	546	600	1,146
<b>Total</b>	<b>109</b>	<b>929</b>	<b>1,228</b>	<b>2,157</b>	<b>79</b>	<b>691</b>	<b>309</b>	<b>1,000</b>	<b>1,620</b>	<b>1,537</b>	<b>3,157</b>

In addition to the costs analysed above, the Group has incurred a further £0.346m in 2017/2018 relating to pension costs for employees whose contracts were terminated in 2016/2017 and who were disclosed in the 2016/2017 Statement of Accounts.

## Notes to the Group Financial Statements

### Note 8 – Group Officers’ Remuneration

Employees of the group receiving more than £50,000 remuneration for the year (excluding employer’s pension contributions) are shown below:

2017/2018		2018/2019
Non-Teaching Staff	Remuneration	Non-Teaching Staff
28	£50,000 - £54,999	51
16	£55,000 - £59,999	20
5	£60,000 - £64,999	7
6	£65,000 - £69,999	6
2	£70,000 - £74,999	4
6	£75,000 - £79,999	3
3	£80,000 - £84,999	4
12	£85,000 - £89,999	1
4	£90,000 - £94,999	8
0	£95,000 - £99,999	2
1	£100,000 - £104,999	0
0	£110,000 - £114,999	2
1	£115,000 - £119,999	0
1	£120,000 - £124,999	3
0	£125,000 - £129,999	1
0	£130,000 - £134,999	1
0	£135,000 - £139,999	1
0	£140,000 - £144,999	1
0	£180,000 - £184,999	1
0	£185,000 - £189,999	1

Only the position relating to non-teaching staff is affected by remuneration within subsidiaries. Therefore, the table above does not include Teaching staff or Senior Officers of the Council whose remuneration costs are disclosed in Note 29 of the Council’s single entity accounts.

### Note 9 – Audit Exemptions for Subsidiaries

Sunderland Homes Ltd (company registration number 10635229) is exempt from the audit requirements of the Companies Act 2006 by virtue of Section 479A. The Council has opted, under section 479C of the Companies Act, to provide a statutory guarantee over the liabilities of Sunderland Homes Ltd as at 31 March 2019.

Liabilities due to organisations outside of the Group total £0.001m.

### Note 10 – Prior Period Adjustments

In accordance with the Council’s accounting policies, a number of disclosures relating to 2017/2018 have been restated.

#### Restructure of the Council’s management reporting arrangements

The Council amended its management reporting structure with effect from 16 May 2018. All Portfolios were affected by this restructure. Comparative data for 2017/2018 has been restated.

## Notes to the Group Financial Statements

Further details relating to the impact of the changes between Portfolios in the Council only accounts can be found at Note 44 of the Council's accounts.

The additional impact on the Group accounts is summarised below:

- Sunderland Care and Support Ltd, which was previously reported under Health, Housing and Adult Services, is now reported under Health and Social Care;
- Sunderland Live Ltd (2017/2018 only), which was previously reported under Public Health, Wellness and Culture, is now reported under Community and Culture;
- Together for Children Ltd, which was previously reported under Children's Services, is now reported under Children, Learning and Skills; and
- Sunderland Homes Ltd, which was previously reported under Health, Housing and Adult Services, is now reported under Housing and Regeneration.

### Cash and cash equivalents

Cash in hand and at bank and cash overdrawn have previously been presented separately on the Balance Sheet. In compliance with the Code, these have been offset in 2018/2019's accounts. 2017/2018's position has been restated accordingly with the overdrawn position of £11.172m being moved from current liabilities to current assets.

This has reduced both total assets and total liabilities by £11.172m and therefore has had no effect on the net assets of the Council.

### Note 11 – Reconciliation of the Single Entity Comprehensive Income and Expenditure Statement to the Group Comprehensive Income and Expenditure Statement

This table shows how the group entities have contributed to the overall Comprehensive Income and Expenditure position:

2017/2018 £'000		2018/2019 £'000
75,133	<b>Total comprehensive income on the Council's Comprehensive Income and Expenditure Statement</b>	<b>16,167</b>
	<b>Add operational (profit) / loss attributable to subsidiaries:</b>	
791	Sunderland Care and Support Ltd (reflected on the Health and Social Care Portfolio)	<b>2,033</b>
(482)	Sunderland Live Ltd (2017/2018 only) (reflected on the Community and Culture Portfolio)	<b>0</b>
(1,726)	Together for Children Ltd (reflected on the Children, Learning and Skills Portfolio)	<b>5,326</b>
24,380	Together for Children Ltd (reflected as Exceptional Item relating to Pensions) *	<b>0</b>
130	Sunderland Homes Ltd (reflected on the Housing and Regeneration Portfolio)	<b>(120)</b>
0	Siglion LLP / Siglion Holding Ltd (2018/2019 only) (reflected on the Housing and Regeneration Portfolio)	<b>(2,329)</b>
	<b>Add operational (profit) / loss attributable to joint ventures:</b>	
(825)	Siglion LLP (2017/2018 only)	<b>0</b>
(3)	Sunderland Lifestyle Partnership Ltd	<b>(3)</b>
1	IAMP LLP	<b>(778)</b>
	<b>Add revaluation gain attributable to joint venture:</b>	
0	Sunderland Lifestyle Partnership Ltd	<b>(19,751)</b>
97,399	<b>Total</b>	<b>545</b>

## Notes to the Group Financial Statements

\* Exceptional Items relating to Pensions exist in Council's single entity accounts and in Together for Children's accounts but net to nil in the Group Accounts (2017/2018 only).

\*\* Revaluation gain relating to leisure assets held by Sunderland Lifestyle Partnership Ltd (2018/2019 only). Further details can be found in Note 3.



# Glossary of Terms

## ***Accrual***

A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which receipt/payment has not been received/made by the year end.

## ***Accounting Policies***

Those principles, bases, conventions, rules and practice applied by the Council which specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising;
- selecting measurement bases for; and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

## ***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 - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

## ***Agency Services***

Services which are performed by or for other councils or bodies, where the council/body responsible for the service reimburses the council carrying out the work for the cost of the work carried out.

## ***Amortisation***

Is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

## ***Appropriations***

Are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

## ***Assets***

An asset is "a resource controlled by the Council as a result of past events and from which future economic benefits are expected to flow to the entity" (International Accounting Standards Board (IASB) definition). Current assets are ones that may change in value on a day-to-day basis (e.g. Inventories). Non-current assets are tangible assets that yield benefit to the Council and the services it provides for a period of more than one year (e.g. Land and Buildings).

## ***Available for Sale Assets***

Are non-operational assets that meet the following criteria:

- they are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups);
- the sale is highly probable, with the Council committed to a plan to sell the asset;
- an active programme to locate a buyer and complete the plan has been initiated; and
- the asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

## ***Balance Sheet***

A statement of the recorded assets, liabilities and other balances at the year end.

# Glossary of Terms

## **Balances**

The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

## **Business Rates (also known as Non-Domestic Rates)**

All non-domestic properties are valued by the Valuation Office Agency and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate with the proceeds shared between Central Government, the Council and Tyne and Wear Fire Authority on a defined basis.

## **Capital Expenditure**

Is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

## **Capital Financing**

The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

## **Capital Financing Requirement (CFR)**

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

## **Capital Grants**

Are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

## **Capital Receipts**

Money received from the sale of land or other capital assets. Capital receipts are held by the Council and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

## **Cash**

Comprises cash on hand and demand deposits, including uncleared BACS payments and unrepresented cheques.

## **Cash Equivalents**

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## **CIPFA (the Chartered Institute of Public Finance and Accountancy)**

Provides guidance in the interest of public services. It is the professional body for accountants working in the UK public sector (and local government in particular). It provides financial and statistical information for local authority and other public sector bodies, and advises central government and other bodies on public finance.

## **Code of Practice on Local Authority Accounting in the UK**

'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Council.

## **Collection Fund**

The fund maintained by the Council into which are paid the amounts of council tax and business rates which it collects and out of which are to be paid precepts issued by major precepting authorities, central government and its own demands.

# Glossary of Terms

## **Community Assets**

These are assets that the Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. An example would be parks.

## **Componentisation**

Is the allocation of the overall value of a significant non-current asset into separate components with materially different useful lives. This ensures that the depreciation charged more accurately reflects the consumption of economic benefits, recognising that some components will wear out more quickly than others. There is no minimum requirement for the number of components for a non-current asset, and the number will vary depending on the nature and complexity of the asset.

## **Constructive Obligation**

An obligation that derives from the Council's action where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## **Contingencies**

Are funds set aside as a reserve to meet the cost of unforeseen items of expenditure, shortfalls in income and to provide for inflation. This is not included in individual budgets because their precise value cannot be determined in advance.

## **Contingent Asset**

A contingent asset is a probable asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

## **Contingent Liability**

Are either:

Possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or  
Present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

## **Contingent Rents**

Are lease payments that changes as a result of changes occurring subsequent to the inception of the lease, other than the passage of time (such as indexation of a long-term contract).

## **Contributions paid to the Pension Fund**

Cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

## **Council Tax**

The form of local taxation operated from April 1993, based on properties.

## **Creditors**

Are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include receipts in advance, where the Council receives income from external bodies or individuals in advance of service provision.

## **Current Assets**

Are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

## **Current Liabilities**

Are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

## Glossary of Terms

### ***Current Service Cost (Pensions)***

Is the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Services for which the employees worked.

### ***Debtors***

Are amounts owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year. The technical definition is: financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

### ***Defined Benefit Scheme (Pensions)***

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### ***Defined Contribution Scheme (Pensions)***

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### ***Depreciation***

Is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

### ***Discretionary Benefits***

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

### ***Estimation Techniques***

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured. Where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible non-current asset consumed in a period; and
- different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

### ***Events after the Balance Sheet Date***

Are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

### ***Exceptional Items***

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### ***Expected Rate of Return on Pension Assets (For a funded defined benefit scheme)***

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

# Glossary of Terms

## ***Expenditure***

Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the Council).

## ***Fair Value***

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## ***Financial Instruments***

Are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## ***General Fund***

This accounts for the services of the Council except for the Collection Fund. The net cost is met by Council tax, Government Grants and business rates.

## ***Government Grants***

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

## ***Grants***

Are assistance by other bodies in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

## ***Gross Expenditure***

Is the total cost of providing the Council's services before taking into account income.

## ***Historical Cost***

Refers to the original monetary value of an asset.

## ***IASs (International Accounting Standards)***

Are accounting pronouncements issued by the IASB. They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole. The main standards referred to within this document are IAS 19 Employee Benefits, which primarily gives a framework for the required pension fund disclosures, and IAS 16 Property, Plant and Equipment which prescribes the accounting treatment of property, plant and equipment assets.

## ***Impairment***

Is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices or collectability.

## ***Impairment Allowance for Doubtful Debts***

Doubtful debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; impairment allowances are funds set aside to provide for debtors failing to pay.

## ***Income***

Amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Council).

## ***Infrastructure Assets***

These are non-current assets which cannot be sold or given away; expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways, footpaths and bridges.

# Glossary of Terms

## ***Intangible Assets***

Are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

## ***Interest Cost (Pension)***

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

## ***International Financial Reporting Standards (IFRS)***

Standards issued by the IASB which present the Council's accounts in a consistent and comparable format with other organisations internationally.

## ***Investments (Pension Fund)***

The investments of the pension fund will be accounted for in the statements of that fund. However Councils are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

## ***Investment Properties***

Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

## ***Investments (Non-Pensions Fund)***

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

## ***Joint Ventures***

A Joint Venture exists where the Council and another party exercise joint control over an entity with decisions relating to the organisation requiring unanimous consent by the parties sharing control.

## ***Leasing***

The method of financing the provision of various capital assets to discharge the Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease.

## ***Levies***

Similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through council tax as with precepting bodies; they are items of expenditure on the face of the Comprehensive Income and Expenditure Account.

## ***Liabilities***

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

## ***Loans Outstanding***

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

# Glossary of Terms

## ***Local Government Pension Scheme (LGPS)***

Is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities.

## ***Long Term Contracts***

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

## ***Minimum Lease Payments***

Are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- b) For a lessor, any residual value guaranteed to the lessor by:
  - (i) The lessee;
  - (ii) A party related to the lessee; or
  - (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

## ***Minimum Revenue Provision***

Is the minimum amount which must be charged to the Council's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

## ***Net Book Value***

The amount at which non-current assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

## ***Net Interest on the Net Defined Benefit Liability/Asset, i.e. net interest expense for the authority***

Is the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / asset at the beginning of the period - taking into account any changes in the net defined benefit liability / asset during the period as a result of contribution and benefit payments.

## ***Net Realisable Value***

Is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

## ***Non-current Assets***

Are those that yield benefits to the Council and the services it provides for a period of more than one year.

## ***Non-Operational Assets***

Non-current assets held by a Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

## ***Operational Assets***

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

## ***Past Service Costs (Pensions)***

For a defined benefit pension scheme, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus

## Glossary of Terms

or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

### ***Pension fund***

An employees' pension fund is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

### ***Post Balance Sheet Events***

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### ***Precept***

The amount levied by various authorities (i.e. the Tyne and Wear Fire and Rescue Authority and the Police and Crime Commissioner for Northumbria) which is collected by the Council on their behalf.

### ***Prior Period Adjustments***

Those material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of material errors. A material error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### ***Projected Unit Method***

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time.

### ***Provisions***

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

### ***Private Finance Initiatives (PFI)***

PFI's are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangement.

### ***Prudential Framework***

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of council capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework councils are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that councils will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all councils must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the council before the start of the relevant financial year as part of its budget setting process.



# Glossary of Terms

## ***Public Sector Audit Appointments Ltd***

As independent company incorporated by the Local Government Association. The company is responsible for appointing auditors to Local Government, Police and Fire Authorities. Before April 2015, its responsibilities were discharged by the Audit Commission.

## ***Public Works Loan Board (PWLB)***

A Central Government agency, which lends money to councils at lower interest rates than those generally available from the private sector. Councils are able to borrow a proportion of their requirements to finance capital spending from this source.

## ***Related Parties***

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of a council include:

- central government;
- councils and other bodies precepting or levying demands on the council tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administering authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be exhaustive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

## ***Related Party Transaction***

Is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

## ***Reserves***

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

## ***Residual value***

Is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

## ***Retirement Benefits (Pensions)***

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

## Glossary of Terms

- an employer's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### ***Return on plan assets***

Shows the difference between the actual return and interest income on pension fund assets notionally allocated to the Council (separate to the amount disclosed within Net Interest). It is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure excluding amounts included in net interest on the net defined benefit liability/asset.

### ***Revenue Contributions***

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

### ***Revenue Expenditure***

Expenditure incurred on the day-to-day running of the Council, the costs principally include employee expenses, capital financing charges and general running costs.

### ***Revenue Expenditure Funded by Capital under Statute***

This is expenditure that is legally allowed to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example, improvement grants.

### ***Revenue funding***

Is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

### ***Revenue Support Grant (RSG)***

A grant paid by Central Government to Local Authorities to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between council tax and business rates income and the Council's spend.

### ***Scheme Liabilities (Pensions)***

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

### ***Settlement (Pensions)***

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### ***Specific Grants***

Government grants to councils in aid of particular services.

### ***Strain on the fund***

When a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council's consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

## Glossary of Terms

### ***Subsidiaries***

A subsidiary exists where the Council exercises control and gains benefits / exposure to risk arising from this control.

### ***Support services or overheads***

Are those that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent; and
- the effect on the revenue budget of any additional costs incurred.

### ***Unusable reserves***

Are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences.

### ***Usable reserves***

Are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'.

### ***Useful Life***

The period over which the Council will derive benefits from the use of a non-current asset.