

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

**Meeting to be held on Friday 4 November 2022 at 1.30pm in
Committee Room 1, City Hall, Plater Way, Sunderland, SR1 3AA**

ITEM		PAGE
1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on Friday 22 July 2022 (Copy attached.)	1
4.	Risk and Assurance Map Update 2022/2023 Report of the Assistant Director of Assurance and Property Services (copy attached).	11
5.	Audited Statement of Accounts 2021/2022 Report of the Assistant Director of Finance (copy attached).	35
6.	Treasury Management Second Quarterly Review 2022/2023 Report of the Assistant Director of Finance (copy attached).	261

ELAINE WAUGH
Assistant Director of Law and Governance

City Hall
Sunderland

27 October 2022

AUDIT AND GOVERNANCE COMMITTEE
Friday 22 July 2022

Present:

Mr G N Cook in the Chair

Councillors P Gibson, Nicholson, Stewart, Trueman and P Wood together with Mr M Knowles.

In Attendance:

Jon Ritchie (Executive Director of Corporate Services) Paul Wilson (Assistant Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Catherine Auld (Assistant Director of Economic Regeneration), Nick Humphreys (Data Protection Officer), Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

There were no apologies for absence.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 29 April 2022 be confirmed as a correct record.

Risk and Assurance Map 2022/2023

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

Following on from discussion at the meeting on 4 February 2022 regarding the high risk score for 'Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2040', Catherine Auld, the Assistant Director of Economic Regeneration was in attendance to deliver a presentation on the City's approach to low carbon.

The Council had set a target to be carbon neutral by 2030 and for the city as a whole to achieve this by 2040. The Council and its partners had agreed to monitor the position on a quarterly basis and this information was published on the Council website. Annual data reports were produced and emissions were also disclosed through the Carbon Disclosure Project.

The city was on target to achieve the five year reduction target of 16.1% for carbon emissions from 2016-2020, however from 2020 emissions had to be reduced by 14.4% every year. The strategic priorities to achieve this were in relation to seven areas: -

1. Our behaviour
2. Policies and operational practices
3. An energy efficient built environment
4. Renewable energy generation and storage
5. Low carbon and active transport
6. Green economy
7. Consumption and waste

There were a large number of projects and actions sitting under each priority including using public transport, cycling and walking rather than driving, a strong focus on green infrastructure and urban greening, installation of LED lighting and air source heat pumps in Council buildings, the Sunderland Energy Storage and Efficiency Project and local community growing projects.

Councillor Stewart said that it was helpful to see the overview and asked which strategic priorities were ahead or behind schedule, and queried how those which were behind could be resolved.

The Assistant Director of Economic Regeneration explained that, based on the data, from a Council perspective reducing the reliance on gas in buildings and changes to the fleet were moving slowly. She felt that this was where the biggest challenge lay currently but over the last year there had been a lot of engagement and good conversations with Procurement on these matters. The built environment was a huge area and energy costs had to be considered as well as de-carbonisation.

Councillor Trueman commented that low carbon was a large, important and difficult agenda and he did not think the car industry was helping with this as the costs of electric vehicles could be prohibitive. He also felt that there should be Government initiatives to force developers to build housing on brownfield sites. The Chair noted that the whole region would need to work together to achieve this aim.

Turning to the Risk and Assurance Map update, the Map and the Strategic and Corporate Risk Profiles had been agreed by the Committee in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk

Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies.

Risk scores marked as Red on the Map reflected a whole range of issues, many of which were out of the Council's control and the Assistant Director of Assurance and Property Services highlighted the Cumulative Assurance Position was the most important column as this gave a summary position; all of these were rated as Green or Amber which was positive. Within the first, second and third lines of assurance, a cross denoted where it was planned to get assurance from and these were currently all Green and Amber.

There had been some changes to the Strategic Risk Areas as follows: -

- The risk score in relation to R011 '*Unable to control variants of the Covid virus, which could increase the spread of the infection across Sunderland.*' had reduced from 16 (Red) to 12 (Red). This was because although the Covid rates continued to fluctuate the impact of hospitalisations was reducing.
- The risk description in relation to R013 had changed to '*Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment*'.
- It was proposed to close R016 as this risk was now covered in R018 and the development of the new Cultural Strategy.
- The risk score for R021 '*Opportunities are not taken to enable families and individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms and progress their ambitions.*' had increased from 8 (Amber) to 16 (Red).
- The risk description in relation to R022 had changed from '*Delivery of the City Plan is restricted by financial pressures.*' to '*Aspirations to develop the City Plan may be restricted by financial pressures*'. This was to reflect the fact the Council's budgeting process and development of the City Plan were aligned.

There had been one change to the Corporate Risk Profile since the last report with the risk score for R06 reducing from 12 (Red) to 8 (Amber) due to a new service planning process being introduced.

The audits to be carried out during this year and the detailed results of completed Internal Audit work were shown at Appendix 4 and the Committee were informed that there were eight significant risk recommendations made over three audits in the 2021/2022 Internal Audit Plan. These were summarised as: -

- Corporate Business Continuity Arrangements
This audit focussed specifically on the ability of the Council's business critical services to function in the event of a failure in the ICT provision. Two significant risk recommendations were made to improve the business continuity planning process in relation to identifying actions that would be taken by business critical

services should ICT not be available for a significant length of time. Work with these services was already ongoing and should be complete by the agreed timescale. The overall risk rating for this audit was Amber.

- **Cyber Security – Vulnerability Management**
Following an external review by the National Cyber Security Centre and Department of Levelling Up, Housing and Communities a report and cyber treatment plan were issued to and agreed by the Council in January 2022. The report and cyber treatment plan made a number of high priority recommendations and funding had been made available to implement the plan. The Internal Audit report made three significant risk recommendations in relation to implement the cyber treatment plan and the update of policies and procedures as a result of this. The overall assurance rating for this Audit was Amber.
- **IT Disaster Recovery**
The cyber treatment plan mentioned in the point above also made recommendations with regard to IT Disaster Recovery. Internal Audit made three significant risk recommendations in relation to these issues which were agreed and were being progressed. The overall assurance rating for this audit was Red.

Performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Mr Knowles commented that he felt it was correct that the risk in relation to Covid should still be Red as health services were still struggling due to staff absences. With regard to the significant risk recommendations by Internal Audit, he asked if there was an issue with resources or any particular theme.

The Executive Director of Corporate Services highlighted that the threat in relation to cyber issues continued to change and the resource related to that work had to change too. In relation to Covid risks, it took a while for different ways of working to come in and this had been taken into the context of the Medium Term Financial Plan.

Councillor Wood referred to the cost of living crisis and the extent to which inflation was having an impact.

The Executive Director of Corporate Services said that this was starting to have an effect and was reflected in the latest budget monitoring update to the Council. Utility costs were more than twice what they were a few years ago and the costs of materials had an impact on the Capital Programme and investment proposals. The situation was being managed as closely as possible, additional contingencies had been put in place and the Council was as well positioned as it could be in an increasingly challenging environment. He added that Government support for people and businesses often came through the Council and required a significant resource of staff time.

Councillor Stewart noted that the Strategic Risk Profile mentioned a cost of living task force and asked when that would report, and he highlighted that external assurance was Red in relation to service delivery arrangements.

The Executive Director of Corporate Services explained that the task force was a work in progress and being led by the Executive Director of Health, Housing and Communities. He would try to get an update on the development of the work.

The Assistant Director of Assurance and Property Services advised that the Red marker for service delivery was related to a previous Ofsted inspection and should now be Green.

2. RESOLVED that the report be noted.

Annual Report on the Work of the Committee

The Executive Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2021/2022 and the outcome of the work. The report was designed to demonstrate how the Committee had fulfilled its role and would be presented to the Council once agreed by the Committee.

The report summarised the matters considered during the year including the Risk and Assurance Map, External Auditor reports, the Annual Governance Review, Treasury Management, the Statement of Accounts, the Council's status as a going concern and the Data Protection Annual Report.

The report showed that the work of the Committee was wide ranging with Members monitoring performance more closely in those areas where it was deemed appropriate, including the impact of the Covid pandemic.

Having noted the positive report, it was: -

3. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

Treasury Management Review of Performance 2021/2022

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2021/2022 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 3 March 2021.

The Council's Treasury Management function continued to perform well with an average interest rate on borrowing at 2.55%, which compared favourably with other local authorities as did the 0.22% rate of return achieved on investments. The investment rate and rate of return had reduced from 2020/2021 which was reflective of the market in which the Council was operating.

Members were reminded of the basis for the agreed Borrowing Strategy for 2021/2022 and that it had been reviewed in July and October 2021 and February 2022 and was updated where necessary to reflect changing circumstances. The strategy for 2021/2022 had been to adopt a pragmatic approach in identifying the low

points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 2.60% for long-term borrowing was set for 2021/2022 in light of the views prevalent at the time the Treasury Management policy was set in March 2021.

There had been high levels of volatility in financial markets during 2021/2022 and PWLB rates had started the year at 2.03%, dropping to 1.49% in August 2021 before reaching a peak of 2.17% in October 2021. From then rates gradually fell to a low of 1.25% during December 2021 before steadily rising to end the financial year at 2.39%. The Council took advantage of low borrowing rates to take out £100million of new borrowing during the financial year at a rate of 1.4%.

The Authorised Borrowing Limit for External Debt had been set at £911.927m for 2021/2022 and the Operational Boundary for External Debt was set at £886.927m and the authority was well within the tolerances for these.

The Investment Strategy for 2021/2022 was also approved by the Council on 3 March 2021 and had a general policy objective of the prudent investment of its treasury balances. The investment policy was regularly monitored and reviewed to ensure it had the flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The funds managed by the Council's in-house team amounted to £298.790 million and all investments complied with the Annual Investment Strategy.

Following consideration of the report, the Committee:-

4. RESOLVED that the positive Treasury Management performance for 2021/2022 be noted.

Treasury Management First Quarterly Review 2022/2023

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the first quarter of 2022/2023 and setting out the Lending List Criteria and Approved Lending List.

The Chief Accountant highlighted that since February 2022 there had been significant activity in the global economy, as a result of the impact of the pandemic and then the war in Ukraine. This had led to increases in food, utilities and fuel prices, as well as other supplies, which was driving increases in inflation. The Bank of England had increased the base rate of interest in an attempt to control the UK economy and it was within this context that Treasury Management was operating.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. In respect of borrowing, due to delays in capital programme expenditure and some temporary use of reserves to fund the Capital Programme no new borrowing had been required to date during 2022/2023 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 1.02% compared with a benchmark of 0.89%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

It was currently forecast that the Bank of England Base Rate would peak at 2.75% in March 2023 and then gradually fall back. It was expected that there would be an increase in PWLB rates with a peak at 3.5% later in the year. The Chief Accountant directed the Committee to paragraph 3.2, Appendix A which showed the investment position at the end of June and he advised that a rate of 2.4% had been secured from Standard Chartered during the previous week.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Mr Knowles commented that international and domestic situation was giving a cause for concern and noted that tax cuts may lead to increased interest rates. The Chief Accountant agreed that it was a fluid situation and that the team continued to work closely with Treasury Management advisors on this and also actively monitored and tried to secure funds at an opportune time.

Councillor Stewart asked if there had been any modelling done about the impact on mortgages and householders. The Chief Accountant advised that the Monetary Policy Committee would be mindful of this but he was not aware of any specific modelling being carried out.

Consideration having been given to the report, it was:-

5. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 1 of 2022/2023 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

The Council's Going Concern Status Report

The Executive Director of Corporate Services submitted a report inviting the Committee to consider the Council's status as a going concern.

Local Authorities were created and abolished only by statutory changes and as such there was an underlying assumption in the 2021/2022 CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting Code) that their accounts would be prepared on a going concern basis.

Authorities were required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector meant that the Chief Finance Officer (section 151 officer) may need to consider whether action was required under section 114 of the 1988 Act, where the section 151 officer must report, following consultation with the council's monitoring officer, to all authority's Councillors if they believed expenditure was likely to exceed incoming resources in the current or in any future year.

The report outlined the assessment of the Council's status as a going concern in line with best practice and in doing so, detailed the 2021/2022 year end position which showed a small underspend of £0.037m. The Executive Director of Corporate Services highlighted that the Capital Programme had continued to be delivered with some re-profiling during the course of the year which was normal.

The General Fund Balance was unchanged at £12.000m and usable revenue reserves had increased to £144.200m. Overall Net Assets had also increased from £191m to £319m and underlying reserves were good.

The budget for 2022/2023 had been set with an increase in council tax of 2.99% and councillors and officers continue to work together to monitor and manage budgets throughout the year.

The Council's Executive Director of Corporate Services' (Section 151 officer) view was that the Council was aware of the challenges it faced and was prepared to deliver its services in the future taking account of the known risks. Any transition required to deliver savings could be supported by transitional reserves, therefore the Council was a going concern and the Statement of Accounts would be prepared on that basis.

Accordingly the Committee: -

6. RESOLVED that the Council was considered to be a going concern based on the assessment in the report and that the accounts should be prepared and approved on that basis.

Data Protection Annual Report

The Data Protection Officer submitted a report presenting information about the work and findings of the Council's Data Protection Office during the past year.

The Committee was asked to consider: -

- the Data Protection arrangements outlined in the report; and
- performance against Data Protection standards in the 2021/2022 year.

The Council had designated a Data Protection Officer (DPO) as required by Data Protection law, to advise on its data protection compliance responsibilities and act as its point of contact with the Information Commissioner's Office (ICO). The Council had historically received support with Data Protection compliance from the Council's Data Protection Office, a Strategic Information Governance Group made up of senior officers and chaired by the Executive Director for Corporate Services in the role of Senior Information Risk Officer (SIRO). The Data Protection Office also provided a DPO service under service level agreements to connected organisations, including the Council's wholly owned companies, NECA and those schools and academies which subscribed to the service.

Following the appointment of a new DPO in March 2021, a revised Information Management Policy and Strategy (IMPS) was approved by Chief Officer Group in October 2021. The IMPS was designed to reflect changes to working arrangements and priorities imposed by the Council's response to Covid, the migration to the Office 365 Microsoft Teams environment and the move to City Hall.

During 2021/22, the DPO team had been part of the Corporate Support Review, which has led to the development of comprehensive new Information, Advice and Guidance materials and training packages to support Information Asset Owners (IAOs) and staff, allowing them to 'self-serve' in line with the Thinking Operating Model.

The attention of the Committee was drawn to the General Data Protection Regulation which was underpinned by the two key principles of transparency and accountability. The Council took a 'Data Protection by Design' approach to the planning, implementation and management of business systems and operational arrangements. It was now mandatory to carry out a Data Protection Impact Assessment (DPIA) for high risk initiatives and to seek advice from the Data Protection Office with regard to their completion. During the year, the Data Protection Office had supported the Council and companies to develop 18 DPIAs for a range of projects, initiatives, and business process reviews.

Turning to subject access requests, 163 cases were closed in-year of which 94 were responded to within the statutory timescale of one calendar month and 69 cases exceeded the timescale. This compared to 61 being in-time and 79 exceeding timescales in 2020/21. The upturn could be substantially attributed to the changes to working practices, especially the adoption of new digital processes and the reversion to regular physical access to records held in the City Hall which had been previously unavailable due to lockdown.

Subject access requests could be challenging work with a large volume of records to be reviewed and delays could incur when Health and other professionals were asked to give their view before the release of records originating from their area of work.

The attention of the Committee was drawn to Appendix A of the report which detailed the numbers and gradings of data breaches reported for the period from 1 April 2021 to 31 March 2022 and Appendix B which provided information about the types and distribution of breach reports across the Council's Directorates and companies.

There had been fewer data breaches in 2021/2022 with 96 being reported against 136 in 2020/2021, however four breaches had been reported to the Information Commissioner's Office in the course of the year. The Council reported three breaches directly to the ICO; two were around children's safeguarding and one a case of missing paper records highlighted during the bulk migration of paper records to a new provider.

There had been no formal enforcement action taken in relation to the breaches or with the Council's, and its connected organisations', general compliance with their data protection responsibilities. Where the ICO made recommendations, these had been accepted and implemented within the service areas.

Throughout 2021/2022, the Data Protection Office had supported the Council and its partners in the roll-out of the suite of products under Windows 10 and Office 365 and had supported the developing proposals for the design and occupation of City Hall, the agile working arrangements and the closure of the Civic Centre, particularly the migration, archiving and secure disposal of paper and electronic records.

The Data Protection Office has developed a revised Service Plan for 2022/22. The plan built on the Information Management Policy and Strategy and Corporate Support Review to implement a suite of Data Protection Protocols and to update the Performance and Reporting Framework.

Consideration having been given to the report, it was:-

7. RESOLVED that the Data Protection Annual Report 2021/2022 be noted

External Auditor's Progress Report

Diane advised that there was not a written report for the Committee on this occasion but she reported that Mazars had received the Statement of Accounts from the Council and had started their audit work.

8. RESOLVED that the update be noted.

Jon Ritchie, Executive Director of Corporate Services

The Chair paid tribute to Jon Ritchie on his last meeting of the Committee before leaving Sunderland City Council for a new role in another local authority. He expressed thanks on behalf of Members for all the support and assistance Jon had provided to the Committee during his time as Executive Director.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

4 November 2022

RISK AND ASSURANCE MAP UPDATE – 2022/23

Report of the Assistant Director of Assurance and Property Services

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider:
- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
 - work undertaken by the audit, risk and assurance service during the year to date; and
 - the performance of Internal Audit.
- 1.2 The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note and consider the report.

3. Background/Introduction

- 3.1 In April 2022 the Committee agreed the Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2022/23. Both the Strategic and Corporate Risk Profiles have been updated as well as the Risk and Assurance Map following consultation with Chief Officers and relevant key officers. The 'X's in the assurance columns show where assurance is expected to be received from in the current financial year.

4. Risk and Assurance Map

- 4.1 The Risk and Assurance Map at Appendix 1 has been updated to reflect any changes to both the Strategic and Corporate Risk Profiles and these are described in more detail in paragraphs 4.2 and 4.3 below.

Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile, attached at Appendix 2. All changes to the Strategic Risk Profile are shown in red text for ease of reference. There are updates to the mitigating actions, as follows:
- The mitigating action in relation to R06 '*Unable to maximise the opportunities created by the Smart City Infrastructure*' has been updated regarding a funding bid for city centre shuttles.

- The mitigating action for R13 '*Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment*' has been updated to reflect current needs.

Corporate Risk Areas

4.3 The middle section of the Map shows the cumulative risk assessments and the assurance levels relating to the risks identified in the Corporate Risk Profile, attached at Appendix 3. The changes to the Corporate Risk Profile are as follows:

- The risk score for R02 '*Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans*' has been reduced from 8 (Amber) to 4 (Green) due to the regular communications regarding the Council's priorities to employees and regular contact with Partners.
- The risk score for R40 '*The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive)*' has reduced from 8 (Amber) to 4 (Green) due the significant amount of work undertaken by ICT during and since the pandemic, to provide an effective ICT service to the Council.
- The assurance rating from the Business Continuity and Emergency Planning Lead in relation to R45 '*Lack of awareness of content of business continuity plans*' has changed from Amber to Green. This has resulted in the overall assurance rating for Business Continuity moving from Amber to Green which has been reflected in the Risk and Assurance Map.

Council Owned Companies

4.4 The bottom section of the Map shows the Assurance position in relation to Companies that are wholly owned by the Council and are part of the group for the financial statements. There have been no changes to the Risk and Assurance Map in relation to Council Owned Companies.

Assurance from Internal Audit

- 4.5 The audits to be carried out this year and the detailed results of completed Internal Audit work is shown at Appendix 4, with the summary outcomes shown on the Map.
- 4.6 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the Strategic and Corporate Risk Areas and Council Owned Companies. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time.

4.7 Whilst completing the Internal Audit Plan for 2021/22 there were 8 significant risk recommendations made over three audits. Internal Audit are to monitor the implementation of these recommendations and an update is as follows:

- **Corporate Business Continuity Arrangements**
This audit focussed specifically on the ability of the Council's business critical services to function in the event of a failure in the ICT provision. Two significant risk recommendations were made to improve the business continuity planning process in relation to identifying actions that would be taken by business critical services should ICT not be available for a significant length of time. Work has been undertaken with all of the business critical services to identify additional actions to be taken and document them in the business continuity plans.
- **Cyber Security – Vulnerability Management**
Following an external review by the National Cyber Security Centre and Department of Levelling Up, Housing and Communities a report and cyber treatment plan were issued to and agreed by the Council in January 2022. The report and cyber treatment plan made a number of high priority recommendations and funding has been made available to implement the plan. The Internal Audit report made three significant risk recommendations in relation to implement the cyber treatment plan and the update of policies and procedures as a result of this. Action has been taken in relation to all of the significant risk recommendations and they are expected to be complete by the agreed implementation date. In addition, Quarterly updates are being provided to the Department of Levelling Up, Housing and Communities.
- **IT Disaster Recovery**
The cyber treatment plan mentioned in the point above also made recommendations with regard to IT Disaster Recovery. The Internal Audit made three significant risk recommendations in relation to these issues which were agreed and are being progressed. Positive progress is being made regarding all of the significant recommendations and plans are in place to complete them.

Assurance from Risk and Assurance Team

4.8 Areas that the Risk and Assurance Team are currently involved in are shown below. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:

- Major capital schemes such as the International Advanced Manufacturing Park, City Centre developments and the new Wear footbridge.
- Smart Cities Programme.
- Risk management support to Adult Services.
- Adult safeguarding assurance support.
- Risk management support to Housing Services.
- Risk management work in relation to the end of PFI contracts.

Assurance from others within the Council

- 4.9 Assurance provided from others within the Council is shown in the Risk and Assurance Map.

Assurance from Management

- 4.10 Arrangements are in place to obtain assurance from senior managers for all service areas within the Council through an annual governance questionnaire which has been undertaken for 2021/22.

Assurance from External Sources

- 4.11 The Map includes assurance from relevant external sources.

Overall

- 4.12 The overall assurance levels are either green or amber. The Risk and Assurance Map, Strategic and Corporate Risk Profiles were recently considered by the Chief Officers and the issues raised above highlighted.

5. Internal Audit Performance

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5. All KPIs are on target.

6. Conclusion

- 6.1 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

7. Recommendation

- 7.1 The Audit and Governance Committee are asked to note and consider the report.

Risk and Assurance Map – 2022/23

Strategic and Corporate Risk Areas			1st Line	2 nd Line								3 rd Line	
	Current Risk Score	Cumulative Assurance Position	Management Assurance	Other Internal Assurance Activity									
				Law & Governance	Financial Resources	Programmes & Projects	Performance	DPO	ICT	People Mgt	Health & Safety		
Strategic Risk Areas													
Dynamic Smart City													
More and better jobs											X		
More and better housing											X	X	
More local people with better qualifications and skills											X		
A stronger City Centre with more businesses, housing and cultural opportunities											X		
A lower carbon City with greater digital connectivity for all											X	X	
Healthy Smart City													
Access to equitable opportunities and life chances											X		X
Reduced health inequalities enabling more people living healthier longer lives											X	X	
People enjoying independent lives											X	X	
Cleaner and more attractive City and neighbourhoods											X		
A City with great transport and travel links											X		
Vibrant Smart City													
More residents participating in their communities											X		
More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities											X		
More people feeling safe in their homes and neighbourhoods											X		
More resilient people											X		
Enabling													
Finance											X		X
Partnership Working											X	X	
Corporate Risk Areas													
Strategic Planning							X					X	
Commissioning				X								X	
Service Delivery Arrangements				X								X	
Partnership/Integrated Working				X								X	
Procurement											X	X	
Relationship/Contract Management													
Legality				X	X						X	X	
Risk Management											X	X	
Corporate Performance Management							X					X	
Financial Management				X		X						X	X
Income Collection												X	X
Capital Programme Management						X					X		
People Management				X				X	X		X	X	
Health and Safety				X					X			X	
ICT Infrastructure							X						
Cyber Security							X					X	
Information Governance/Security				X			X					X	
Business Continuity Management				X						X			
Programme and Project Management				X		X					X	X	
Asset Management									X			X	
Anti-Fraud and Corruption				X								X	
Council Owned Companies													
Sunderland Care and Support Ltd.						X						X	
Together for Children Sunderland Ltd.						X				X		X	X
Siglion LLP						X						X	

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

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City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Overall Assurance	Management Assurance	Risk and Assurance	Internal Audit	External Assurance
	A lower carbon city with greater digital connectivity for all.	R06	Unable to maximise the opportunities created by the Smart City Infrastructure.	Unable to agree an appropriate solution. Unable to attract funding to develop the required infrastructure.	Businesses and residents are not attracted to the City. Unable to access faster speeds and more reliable connectivity than existing 3G and 4G networks.	City Plan. Contract with City Fibre. Virgin Media upgrades. Pilot secured for healthier homes. Logistic Pilot at Nissan and Vantec. Partnership with Digital Catapult.	3	2	6		3	2	6	Sunderland City Council has awarded a 20-year strategic partnership to BAI Communications to design, build and operate next generation digital infrastructure including a private 5G small cell network. Project areas include; <ul style="list-style-type: none"> □Manufacturing and logistics. □Intelligent traffic mapping and air quality □Education, including digital skills. □Social Care. □Smart buildings Council continues to work with BAI Communications to progress the Delivery Plan. SAFC and Sunderland University have signed contracts for infrastructure services and discussions continue with the Hospital Trust, the College and Property Developers. Winner of the Social Impact Award at the Small Cells Awards May 22. Expression of interest submitted for the UKSPF Investment Plan development to support digital inclusion activities. Through to second round of bidding for a £5.5m CCAV bid for autonomous city centre shuttles.	Assistant Director of Smart Cities					
	A lower carbon city with greater digital connectivity for all.	R07	Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040 .	Measures are not in place to meet the aspirations of the Council and City to become carbon neutral. Limited business take-up of low carbon initiatives	Fail to reduce greenhouse gas emissions and make related financial savings.	Carbon Management Plan. City Plan.	4	4	16		3	2	6	Implement the Low Carbon Framework and Delivery plan to reduce individual carbon footprints, improve energy efficiency of existing homes and buildings, develop low carbon and active transport modes, develop renewable energy generation / storage grow the city's green economy, reduce the volume of all consumption and waste, increase opportunities to reuse materials and recycle waste. Sunderland's Low Carbon framework sets an ambition for the Council becoming carbon neutral by 2030 and the City to become carbon neutral by 2040. Score increased to 4x4 to reflect the difficulty and importance of meeting this global challenge Carbon Action Plan is being refreshed. However inflation and financial pressures may slow the take up of carbon reduction initiatives	Executive Director of City Development					
	Access to equitable opportunities and life chances.	R08	The Council is not able to fulfil its statutory responsibility for Children and Young People and also ensure families are supported to enable them to achieve their desired outcomes.	Children and young people, if not protected, are at risk of harm or exploitation by others. Families are in need of support to respond to challenges and achieve the best possible outcomes for their children	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk and harm or exploitation by others.	TfC contract monitoring arrangements. City Plan. Outstanding Ofsted outcome	4	1	4		4	1	4	Ofsted Report August 21 "Leaders and managers are confident, ambitious and influential in changing the lives of local children, young people and their families including cared for children and care experienced young people." "A new and vibrant culture is now widespread across children's services in Sunderland. This successful approach has resulted in children's voices and influence being central to assessments, planning and interventions. Staff across the council and the multi-agency partnerships are hugely focused on seeking to identify vulnerabilities and needs, providing support for children and families before problems escalate.	Director of Children Services					
	Access to equitable opportunities and life chances.	R09	Families are not sufficiently resilient and resourceful to respond to challenges and achieve the best possible outcomes for their children.	Families unable to support children at home with educational progress. Families do not have financial stability. Parents do not have emotional stability to support their families.	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk from harm or exploitation by others.	TfC City Plan. Outstanding Ofsted outcome	4	2	8		4	1	4	Monitor commissioning arrangements and outcomes, including the priority areas of Safeguarding, the development of life skills and support for families, which enhance access to the same opportunities and life chances. Joint work between TfC and SCC on MTFP to ensure joined up financial planning	Director of Children Services					
	Reduced health inequalities enabling more people to live healthier longer lives.	R10	Unable to improve the historically poor Health outcomes in Sunderland and reduce Health inequalities.	Adverse impact of Covid 19 on health inequalities. The Sunderland Joint Strategic Needs Assessment identified high level health challenges for Sunderland including: Long term health problems- excessive alcohol, smoking, poor diet and low levels of physical activity. Poor mental health and wellbeing. Increased health risks of people with a physical or learning disability. Increased cost of living is adding additional pressures on the health of the community.	Life expectancy and healthy life expectancy are below the national average. Ill health continues to present an unsustainable burden on the health and care system and wider City economy.	Joint Strategic Needs Assessment. Health & Wellbeing Board. H&WB Priority Working Groups City Plan. Altogether Better Alliance	4	4	16		4	2	8	Healthy City Plan agreed to address the major issues identified in the Joint Strategic Needs Assessment The Health & Wellbeing Board oversees the Delivery Plan and Workstreams including, Best Start in life, Young people aged 11-19, Smoke free Sunderland, Addressing alcohol harms, Healthy economy, Mental health and wellbeing, Ageing well. There is also a Covid -19 health inequalities workstream to address the health inequalities amplified during the pandemic. Council has prioritised its ways of working in developing an approach to tackling inequalities. The creation of a new Health, Housing & Communities Directorate, provides greater scope to address long term health issues in the community.	Executive Director of Health, Housing & Communities					
	Reduced health inequalities enabling more people to live healthier longer lives.	R11	Unable to control variants of the Covid virus, which could increase the spread of the infection across Sunderland.	Complexities in controlling the spread of the virus / variants. Individuals do not adhere to guidance	Adverse impact on peoples health, both short and long term (including council employees). People are asked to self isolate.	Sunderland Health Protection Board Sunderland Outbreak Control Board	4	3	12		4	1	4	Mitigation will be based on the COVID-19 Control Plan. Continued rollout and development of the vaccination process and continued delivery of the NHS Test and Trace programme. Whilst Covid rates continue to fluctuate the impact of hospitalisations is reducing.	Executive Director of Health, Housing & Communities					
	Reduced health inequalities enabling more people to live healthier longer lives.	R12	The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership, covering the North east and Cumbria may reduce the resources available in Sunderland for Health and Social Care	Under new proposals NHS and local authorities will be given a duty to collaborate with each other under a statutory Integrated Care Systems (ICSs). These will include an ICS Health and Care Partnership, bringing together the NHS, local government and partners,	A regional ICS Health and Care Partnership, covering the North east and Cumbria, may prioritise areas outside of Sunderland	Health & Wellbeing Board.	3	3	9		3	2	6	Local partners to work together to promote Sunderland interests at a regional level. Assistant Director of Integrated Commissioning jointly appointed (CCG) to develop Sunderland Based Place Arrangements. National changes to the NHS may be delayed and this may impact on local arrangements. Integrated Care System now live. High level Place Based arrangements have been agreed, with work on-going to develop the supporting requirements.	Executive Director of Health, Housing & Communities					

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HEALTHY SMART	People enjoying independent lives.	R13	Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment.	Increase in the level of long term conditions, including increasing proportions of people with multiple long term conditions. Potential market failure in the supply chain. Difficulties in keeping supply and demand in equilibrium. Work force issues. Increased requests to support the NHS around hospital discharges.	Care options for adults do not meet the needs of individuals or result in increased costs to the Council.	Health & Wellbeing Board. City Plan.	4	2	8		4	1	4	<p>Deliver better integrated care through promotion and support for self-care. Implementing a multi agency neighbourhood mangement approach to better co-ordinate health and care services.</p> <p>Reviewing approach to services in peoples homes to remodel what home care, reablement and telecare services need to be for future demand,</p> <p>Continue to expand the use of technology enabled care solutions to support peoples independence. The greater reach and capacity of new connectivity being developed through our joint venture with BAI Communications will enable existing deployment of assistive technologies for vulnerable people to scale significantly.</p> <p>The Sunderland Voluntary Sector Alliance has been launched to build on the outstanding contribution made by the city's voluntary and community sector in supporting communities during the pandemic. It will improve support for the sector and expand their role, working with partner organisations across the city to meet the city's strategic needs.</p> <p>Using local intelligence with our Partners, through the Ageing Well Delivery Board. We have identified key areas of targeted work that will contribute to reducing falls, and the impact of falls, on our residents. New falls strategy for the City is in development.</p> <p>Continue to work with the Association of Directors of Adult Social Services (ADASS) on market sustainability for social care including DHSC Fair Cost of Care exercise. Arrangements in place through ADASS to manage the Social Care Reform Agenda.</p> <p>Put in place new multi agency Front Door service to more effectively triage customers to get the help they need more quickly and in a co-ordinated way.</p>	Director of Adult Services & SCAS Chief Operating Officer					
	Cleaner and more attractive City and neighbourhoods.	R14	Council resources and the input of residents are not fully optimised to tackle environmental issues in neighbourhoods.	The level of services delivered by the council does not always meet customer expectations. Recycling bins are often contaminated. Increased fly tipping.	Fail to achieve cleaner and greener streets across the City. Recycling rates are not increased.	City Plan.	4	2	8		4	1	4	<p>Environmental issues are a concern to residents and are therefore included in the Neighbourhood Improvement Plans. CLEAN and GREEN promotion introduced supported by the Sunderland Echo encouraging volunteers to tackle local environmental issues. Implement a Waste Management Strategy to tackle environmental issues. A new Enforcement Delivery model has been introduced with a greater focus on Environmental issues. To encourage communities to take greater responsibility for their environment, we are issuing sanctions where appropriate following enforcement investigations.</p>	Executive Director of City Development, Executive Director of Health, Housing & Communities, Director of Environmental Services					
	A City with great transport and travel links.	R15	The City cannot meet the challenge to develop an active and green transport system in response to Covid and other pressures.	Enhanced electric infrastructure required. Limited pedestrian and cycling routes. Winter maintenance programme may be impacted by the availability of resources (grit and drivers)	Fail to change the use of cars as the primary source of travel. Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6		3	1	3	<p>Review the Transport Movement Plan for Sunderland to reflect new opportunities. Plans have been agreed to revamp Sunderland's Central Train Station, beginning with the demolition of the current south entrance. SSTC3 link road from Northern Spire to City Centre opened November 2021 High Level Footbridge design in development A submission has been made to the Levelling Up Fund LUF for a multi million pound investment in green travel across the city</p>	Executive Director of City Development					
VIBRANT SMART	More residents participating in their communities.	R17	Pathways are not in place to encourage / support more residents to participate in making their neighbourhoods more desirable.	Residents are not fully aware of opportunities to participate in their neighbourhoods.	Neighbourhoods become less attractive. Outward migration continues.	City Plan. Vibrancy Board.	3	2	6		3	2	6	<p>Implement Neighbourhood Plans, which incorporate input from residents. Develop and implement a Volunteers Strategy. Strategy completed and Volunteer Sunderland website launched. Community Support Workers are now in post supporting the Sunderland Voluntary Sector Alliance and external funding has been secured to grow its capacity across the city.</p>	Executive Director of Health, Housing & Communities					
	More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities.	R18	Sunderland may not be recognised as a cultural destination of choice.	The developing cultural offer is not fully understood. Limited number of City centre hotels.	City's cultural offer does not contribute fully to the City being an attractive and vibrant place to invest, work, learn, live and visit. Adverse impact of Covid restrictions.	City Plan. Vibrancy Board.	3	2	6		3	1	3	<p>Develop a wider Vibrancy Partnership to promote new events and increase cultural activity. Vibrancy Board set up. Board to develop a Delivery Plan to promote Sunderland as a cultural destination of choice. Tourism offer and City Brand being reviewed. Covid 19 has resulted in reduced visitor numbers and disruption to cultural activities, but online events and exhibitions have been created. Sunderland continues to promote its tourist attractions to take advantage in the upsurge in "staycations" In July 21, a new tourism campaign was launched. The campaign is named 'City of Surprises', aiming to raise Sunderland's profile as a destination of choice this summer and to support the economic recovery of the city. A Tourism recovery plan is now in place to promote and sustain the return of visitors and participation of residents in cultural events, programmes and activities. A new Cultural Strategy is in development to address the Council's Cultural priorities and the Cities Cultural priorities. A cultural regeneration team has been established to take forward the Council's priorities</p>	Executive Director of City Development					
	More people feeling safe in their homes and neighbourhoods.	R19	Reduced trust in public protection.	Significant local crime events. Vulnerable residents are exploited by organised crime syndicates. Community Engagement has indicated that fear of crime is an issue although crime statistics are low. Young People's survey Nov 19 indicated that Knife crime and Hate crime are issues of concern.	Localised community tensions. Vulnerable individuals have their lives controlled by criminal organisations.	Safer Sunderland Partnership. City Plan.	4	2	8		4	1	4	<p>Support Partners to improve community safety and maintain high levels of feelings of safety for all. Criminal activity to be disrupted through increased Policing and other Agency intervention and enforcement activity. Promote Sunderland more positively as a City that welcomes all, with neighbourhoods that are attractive, safe, inclusive and cohesive. Targeted engagement to be undertaken with communities to establish the cause of concerns and actions that can be taken to reduce the level of concern. Sunderland Domestic Abuse Safe Accommodation Strategy agreed (see R20 below) Data released February 2022 shows that 95% of residents who took part in the survey said they felt very or fairly safe living in their neighbourhood Crime for April 2021 to December 2021 (at 20,842 incidents) has decreased when compared with the same period in the previous year (14,480 incidents).</p>	Executive Director of City Development					
	More people feeling safe in their homes and neighbourhoods.	R20	Council fails to provide support for victims of domestic abuse as required by the Domestic Abuse Act 2021.	New legislation imposing duties on the Council to provide accommodation-based support for victims of domestic abuse	Individuals / Families continue to suffer from the adverse impacts of domestic abuse	Domestic Abuse Act 2021 Health & Wellbeing Board	4	2	8		4	1	4	<p>Domestic Abuse Local Partnership Board, developing a strategy for the provision of accommodation-based support. Cabinet (Dec21) approved the Sunderland Domestic Abuse Safe Accommodation Strategy, which aims to improve the lives of victims, survivors and their children describing how safe accommodation and support for domestic abuse victims-survivors will be provided over the next three years. Currently obtaining views from residents and survivors to develop a wider strategy to protect people from Domestic Abuse (not just the provision of accommodation as required by Statute)</p>	Executive Director of Health, Housing & Communities					

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Overall Assurance	Management Assurance	Risk and Assurance	Internal Audit	External Assurance
	More resilient people.	R21	Opportunities are not taken to enable families and individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms and progress their ambitions.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity. Impacts of Covid 19 through redundancies and reductions in income. Sharp rises in the cost of living, including food, gas, electricity and fuel.	Increase in the number of families falling into debt and requiring welfare support. Increase in the number of children being able to achieve at school.	Sunderland Foodbank. City Plan.	4	4	16	4	1	4	Sunderland City Council, in partnership with the voluntary and community enterprise sector has; Published our Statement of Intent for fuel energy measures to address fuel poverty/energy efficiency in privately owned homes. Launched an affordable credit solution for all residents and staff. Recommissioned advice provision for benefits, debt, employment and housing across neighbourhoods. Developed and expanded 'Making your money go further' toolkit. Adopted a standard financial assessment by the council and key partners and a coordinated approach to debt support. Implemented a financial resilience service to support the new Council Housing Service in creating sustainable tenancies. Reviewed Adult Learning specifications to reflect a better aligned curriculum with meaningful progression pathways for learners to achieve their work and life goals. Increased resident participation in digital opportunities. Increased resident participation in digital opportunities. During the first few months of the pandemic the use of foodbanks more than trebled and high usage has continued throughout 2020/21. Since August 21 figures have increased again with the December figure being the highest seen in the last three years and the quarterly figure increasing from 3,919 residents supported in Quarter 2, to 5,908 residents supported in Quarter 3. Foodbanks and crisis food providers are being given additional support to assist with the additional winter pressures. An Internal Task Group has been established to review how further support can be provided, working with Partners and the Voluntary Sector in response to the cost of living crisis	Executive Director of Health, Housing & Communities					
ENABLING	Finance.	R22	Aspirations to develop the City Plan may be restricted by financial pressures.	Uncertainty as to the level of Revenue Support Grant (4 year agreement ended). Progressive reduction in Government funding since 2010. Brexit. Cessation of European Funding with UKSPF only released spring 2022. Changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Inability / delay in addressing Sunderland's challenges / priorities. Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Medium Term Financial Strategy. Budget Plan. City Plan.	4	3	12	4	1	4	The 2022/23 budget and MTFP was approved by Council in March 2022. At the same time, the update to the City Plan ensured a joined up strategy and financial view for the council. In year budget monitoring is tracking delivery of the budget in light of significant inflationary pressures (contractual, pay, utilities etc) Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position – the Let's Talk approach is being used with residents, supplemented with the usual engagement with Trades Unions, Schools Forum and business community. Lobbying of Government around funding for local authorities undertaken jointly through ANEC, SIGOMA etc.	Assistant Director of Finance					
	Partnership Working.	R23	Objectives and priorities of Council and other Partner(s) may conflict or are not aligned to deliver the priorities in the City Plan.	Reducing resources may lead to partners concentrating on their own priorities at the expense of City priorities. Lack of understanding by each partner as to the contribution they can play to the delivery of the City Plan. Lack of partnership performance monitoring. Not all Partnership Boards across the City are aligned and may not have a full understanding of the varying priorities and delivery objectives.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8	4	2	8	Partners represented on the City Board to support delivery of the City Plan. Partners to identify projects that support delivery of the City Plan.	Assistant Director of Corporate Affairs					

CORPORATE RISK PROFILE

Risk Likelihood	Risk Impact
1 = Unlikely	1 = Minor
2 = Possible	2 = Moderate
3 = Likely	3 = Significant
4 = Almost Certain	4 = Critical

4				
3				
2				
1				
	1	2	3	4
Negative Impact				

Appendix 3

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Current Score (November 2022)			Mitigating Actions	Owner	Source of Assurance	Target Score		
						Impact	Likelihood	Rating				Impact	Likelihood	Rating
R01	Strategic Planning	The priorities set out in the City Plan do not address the needs of the City as whole.	Corporate planning process does not adequately reflect the views of the community. Various sections of the community are not engaged. The Council does not understand the impact of external factors on the community.	Fail to contribute to the welfare and future prosperity of our communities.	COG. JLT. City Plan. Strategic Risk Profile. Corporate Service Plan Template	4	1	4	City Plan driven by required outcomes and commissioning activity.	Assistant Director of Corporate Affairs	Risk and Assurance Team Internal Audit Governance questionnaire	4	1	4
R02		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans.	Lack of timetable re corporate / service planning Lack of communication of plans	Lack of delivery of plans by those partners/services responsible	COG. JLT. City Plan. Strategic Risk Profile. Corporate Service Plan Template	4	1	4	Communication of the City Plan continues across the Council and Partners. Service planning process to ensure that service plans reflect delivery of the City Plan.	All Assistant Directors/Directors	Risk and Assurance Team Internal Audit	4	1	4
R03	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	Community engagement arrangements. Intelligence Service. Performance Management Framework.	4	2	8	Identify intelligence required and potential sources to inform decisions. Develop engagement plans to gather the required information. Analyse the information and use the results to inform the commissioning decisions.	All Assistant Directors/Directors	Governance questionnaire Internal Audit Corporate Performance Management	4	1	4
R04		Most appropriate and cost effective commissioning option to meet identified needs and achieve commissioning priorities and outcomes is not chosen.	Failure to identify and evaluate relevant possible commissioning options of delivering services taking into account the resources available. Failure to build or shape capacity in 'market' and cooperative working e.g. partnerships to enable effective service options not in place to help achieve commissioning priorities and outcomes Inadequate options appraisal process Lack of resource or expertise Lack of Provider/Supplier capacity due to the impact of external factors.	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	City Plan. Service Plans. Strategic Risk Register	4	2	8	Options appraisal undertaken on service design following assessment of customer needs. Appropriate procedure followed to commission the preferred option, e.g. procurement, service re-design.	All Assistant Directors/Directors	Cabinet reports Internal Audit	4	1	4
R05		Commissioning assessment process is not undertaken on a timely or regular basis.	Inadequate resources. Insufficient forward planning for contracted services.	Changes in needs of community are not identified promptly. Inappropriate use of limited resources. Community's real needs are not met. Existing arrangements/contracts extended where it may not be the optimal solution	Service Plans.	4	2	8	Review of performance to ensure service delivery model is delivering outcomes. Commissioning Cycle to include planned review date either linked to outcome or contract timescales.	All Assistant Directors/Directors	Internal Audit	3	1	3
R06	Service Delivery Arrangements	Service Plans do not include actions to achieve the City Plan priorities	Service plans are not driven by the City Plan	Fail to meet the needs of the City	Service Planning Process aligned to City Plan. Performance Management Framework.	4	2	8	Service Planning process is driven by the City Plan. Service Planning Process is communicated to all Assistant Directors.	All Assistant Directors/Directors	Internal Audit Corporate Performance Management	3	2	6
R07		The level of services delivered by the council does not meet customer needs and/or expectations.	Lack of understanding of the priorities Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues Lack of capacity due to increased demand as a result of external factors	Required outcomes for customers not achieved. Reputational damage. Wasted resources.	Service Planning Process. Performance management arrangements. Transformation Programme. Strategic Risk Profile	4	3	12	Performance in relation to the delivery of outcomes is regularly monitored.	All Assistant Directors/Directors	Corporate Performance Management Internal Audit Governance questionnaire	4	1	4

Assurance					
Overall Assurance	1st Line	2nd Line		3rd Line	
	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
Strategic Planning	X	Performance	X	X	
		Performance	X	X	
Commissioning	X				X
			X		X
			X		
Service Delivery Arrangements		Performance		X	X
	X		X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R08		Performance targets are not set or do not clearly identify the acceptable levels of service delivery performance.	Lack of understanding of how to measure acceptable performance.	Unable to understand if performance levels are acceptable.	Corporate performance management process.	3	2	6	Targets should be set for all performance measures (where appropriate to do so) to clarify acceptable levels of performance.	All Assistant Directors/Directors	Governance questionnaire Corporate Performance management Internal Audit	3	1	3		X	Performance	X	X	
R09		Management fail to take prompt effective action in response to unacceptable performance results reported or fails to follow up to ensure remedial action is effective.	Lack of time to consider performance. Performance information not accurate, timely or understood. Management not held to account for performance. Lack of resource or control to make necessary changes.	No or delay in action taken to improve service which may have major impact on customers. Poor reputation for Council.	Corporate Performance management. Performance Clinics.	3	2	6	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance.	All Assistant Directors/Directors	Corporate Performance management arrangements Internal Audit Governance questionnaire	3	1	3		X	Performance		X	
R10		Services fail to monitor their financial resources to ensure effective delivery of planned services.	Lack of time spent on budget monitoring. Lack of understanding of the service's financial position. Lack of complete or timely financial information.	Services not effectively delivered due to lack of resources.	Budget managers guidance. Financial Resources support.	4	1	4	Managers continue to engage with Financial Resources to understand the financial performance of their services areas	All Assistant Directors/Directors	Financial Resources Internal Audit Governance questionnaire	4	1	4			Performance			
R11		Services do not meet the needs of the City as key risks are not identified or appropriately managed.	Potential barriers to the delivery of services are not identified or assessed.	Services not effectively delivered. Waste of resources.	Service Planning process.	3	3	9	Services should continue to identify risks to service delivery during the service planning process and consider appropriate mitigating actions.	All Assistant Directors/Directors	Risk and Assurance Internal Audit Governance questionnaire	3	1	3			Performance			
R12	Partnership / Integrated Working	Objectives and priorities of Council and other partner(s) conflict/are not aligned to deliver the priorities of the City.	Reducing resources forces partners to concentrate on their own priorities at the expense of partnership priorities. Lack of communication of plans between partners. Lack of partnership performance monitoring. Increased demand on limited resources due to the impact of external factors	Unable to achieve City priorities and support communities.	City Plan. Partnership Boards. Partnership Framework.	4	2	8	Continue engagement with partners regarding activity being undertaken to contribute to the delivery of the City Plan	All Assistant Directors/Directors	Internal Audit	4	1	4	Partnership / Integrated Working				X	
R13		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing).	Lack of formal comprehensive written partnership agreement.	Delay in delivery of plans and outcomes for community. Lack of delivery of priorities.	Partnership Framework.	4	2	8	All Assistant Directors should be reminded of the requirements of the partnership Code of Practice. Partnership agreement in place with each partner setting out the expectations of each party and the required reporting arrangements.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	4	1	4		X			X	
R14	Procurement	The product or service procured does not deliver the intended outcomes.	Poor specification. Lack of understanding of what is needed by commissioner. Poor communication between commissioner and procurement. Limited capacity of providers/suppliers due to external factors. Inadequate evaluation process	Fail to obtain value for money. Objectives/outcomes are not achieved. Most appropriate commissioning options are not obtained.	Procurement Procedure Rules.	3	1	3	The Council's procurement procedures continue to be followed and good procurement practice is undertaken	All Assistant Directors/Directors	Internal Audit Risk and Assurance	3	1	3	Procurement			X	X	
R15		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training. Lack of knowledge of legal/Council requirements. Failure to adhere to requirements (deliberate, e.g. corruption or accidental).	Legal/financial penalties. Challenge, delays in award of contracts. Loss of reputation.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	2	1	2	Communication with COG / Assistant Directors regarding failure to comply with Procurement Procedure Rules. Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Internal Audit	2	1	2				X	X	
R16		Value for money not obtained.	Lack of competition. Corruption. Inappropriate specification. Poor procurement planning.	Poor quality of goods/services and customer service. Pay higher prices - waste of scarce resources.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	3	2	6	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	All Assistant Directors/Directors	Internal Audit	3	1	3					X	
R17	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes.	Lack of clear contract/specification provisions in place to allow effective management of the contract. Lack of appreciation of importance of contract management during the procurement process. Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award. Lack of contract management activity following contract award	Fail to obtain value for money, i.e. pay too much or poor service obtained. Objectives are not achieved. Excessive resources used on dispute resolution.	Contract management framework. Corporate Procurement support to officers.	4	2	8	Contract management arrangements should be in place for all key contracts entered into by the Council.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	4	1	4	Relationship / Contract Management	X	Performance	X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R18	Legality	Council fails to act within its statutory powers.	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers. Decision makers have lack of access to legal expertise. Lack of awareness of officers as to their legal responsibilities. Changes in law are not recognised and implemented.	Councils actions are found to be ultra vires. Financial penalties. Legal challenge. Loss of reputation. Delay in delivery of outcomes.	Constitution and Procedure Rules.	3	1	3	Ongoing review of key decisions by Law and Governance. Officers continue to be aware of changes in legislation that impact on their services.	Assistant Director of Law and Governance All Assistant Directors/Directors	Law and Governance Governance questionnaire Internal Audit	3	1	3	Legality	X	Law and Governance	X	X	
R19	Risk Management	Failure to identify and manage the major risks and opportunities to delivering priorities and plans.	Risk Management process is not aligned with delivering priorities. Senior Management/Members do not monitor the management of key risks to the Council. Risk appetite of the Council is not identified and communicated.	Priorities are not achieved. Loss of reputation. Potential financial penalties.	Risk Management Policy and Strategy. Integrated Assurance Framework. Strategic Risk Profile	3	2	6	The Council's strategic and corporate risks are identified, assessed and managed through COG and the Audit and Governance Committee. Risk Management Policy and Strategy to be reviewed.	Assistant Director of Assurance and Property Services	Risk and Assurance Team Audit and Governance Committee Governance questionnaire	3	1	3	Risk Management	X		X	X	
R20	Corporate Performance Management	Performance reporting fails to give a full and accurate picture of the progress in achieving strategic priorities and outcomes.	Performance reporting does not address all priority issues. Performance indicators are inappropriate. Performance targets not set to aid evaluation of performance. Performance data reported is inaccurate, out of date, difficult to understand or incomplete. Performance reporting not timely.	Reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Performance Management Framework.	3	1	3	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance.	Assistant Director of Corporate Affairs	Corporate performance management Internal Audit	3	1	3	Performance Reporting		Performance		X	
R21	Financial Management	Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced. Failure to achieve plans and outcomes for community. Council financial resources overstretched.	MTFS Budget consultation process	4	1	4	The strategic financial plan should be aligned with the priorities in the City Plan.	Assistant Director of Finance	Financial Resources	4	1	4	Financial Management					
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Poor intelligence gathering or horizon scanning. Lack of resources. Lack of consultation/communication with senior officers. Lack of clarity of the financial support from Government.	Decisions made with inaccurate information. Plans made which are not adequately resourced. Failure to achieve plans and outcomes for community. Council financial resources overstretched.	Strategic financial planning process. Strategic Risk Register.	4	3	12	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position.	Assistant Director of Finance	Financial Resources External Audit	3	1	3						
R23		Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council.	Financial savings in one area may have a more than proportionate increase in other service areas	Savings plans are not achieved in practice.	Financial Reporting Procedures.	3	1	3	The Council's financial position is regularly reported to COG and Members.	Assistant Director of Finance	Financial Resources	3	1	3			Financial Resources		X	
R24		The Council does not take all opportunities to pursue external funding when available.	Lack of awareness of funding streams available. Lack of planning regarding priorities to be able to react to available funding.	The Council fails to deliver its priorities in an efficient way. Some priorities may not be delivered.	External Funding Team. Strategic funding group.	3	1	3	Ensure that horizon scanning considers changes in future sources of funding.	Assistant Director of Finance	Internal audit	3	1	3			Financial Resources			
R25		The Council does not maximise the use of external funding that has been allocated.	Lack of planning. Lack of awareness of the terms and conditions of the funding. Delays in project completion	Loss of grant income. Some priorities may not be delivered.	Financial monitoring. Project management standards.	3	2	6	The Council monitors the use of all grant monies to ensure there is no loss.	Assistant Director of Finance	Internal Audit	3	1	3			Financial Resources			
R26		Financial reporting fails to give a full and accurate picture of the progress to achieving corporate financial priorities and targets.	Financial reporting does not address all priority issues. Financial performance measures are inappropriate. Financial targets not set to aid evaluation of performance. Financial performance data reported is inaccurate, out of date, difficult to understand or incomplete. Financial performance reporting not timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Corporate Performance Reporting. Performance Clinics.	3	1	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies or inconsistencies.	Assistant Director of Finance	Financial Resources Corporate Performance Management	3	1	3			Financial Resources		X	
R27		The Council fails to pay its employees (and those of other clients) accurately and on time.	Lack of resources to process the changes to the payroll. Lack of a clear timetable for the submission of information. Lack or payroll staff with the required training	Delay in making salary payments. Claims from employees for costs incurred for late payment of bills. Loss of reputation as a payroll provider.	Policies and procedures in place for operating the payroll system. Employee self service.	3	1	3	Controls in place to ensure that the payroll runs are complete and accurate and operate efficiently.	Assistant Director of Smart Cities	Internal Audit	3	1	3					X	X
R28		The Council fails to make payments to its suppliers and clients accurately and on time.	Lack of resources to process the required payments. Lack of appropriate checks on payments before processing. Lack of controls in place to ensure payments are processed per the required timescales.	Loss of reputation with suppliers. Claims for interest for late payments.	Procedures in place within the Purchase to Pay system	3	1	3	Procedures required for making payments accurately and on time are up to date and fully understood by staff within the payments service	Assistant Director of Finance/Assistant Director of Smart Cities	Internal Audit	3	1	3					X	X

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R29		The Council fails to process payments for benefits accurately or on time.	Poor assessment procedures. Lack of timetable for assessing claims. Delay in the processing of claims.	Customers do not receive the correct amount of benefit resulting in financial hardship. Customers receive their payments late causing unnecessary debt.	Assessment procedures and performance indicators in place.	4	1	4	Established procedures are in place and followed by adequately trained staff for the assessment and processing of benefit claims.	Assistant Director of Finance	Internal Audit	4	1	4					X	X
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to its.	Lack of resources. Inadequate procedures for raising accurate bills. Inappropriate methods to allow customers to pay bills. Over generous credit terms. Economic conditions increase the number of bad debtors. Procedures fail to identify non payments. Ineffective enforcement of credit control arrangements.	Financial loss. Unable to balance the budget.	Financial procedure rules. Performance indicators in place.	3	1	3	Regular monitoring that the income received is in line with that expected as per the Council's budget.	Assistant Director of Finance	Financial Resources Internal Audit	3	1	3	Income Collection (including CT/NNDR)				X	X
R31		Prosperity within the City fails to grow resulting in the expected level of income being uncollectable.	Number of businesses in the City reduces or does not grow. Increased number of families suffering financial hardship. Debts increase and become harder to recover. External factors have resulted in a worsening financial and domestic situation of many residents.	Financial loss. Negative impact on cashflow. Inability to achieve financial targets.	City Plan. Strategic financial planning.	3	4	12	Clear performance measures and regular monitoring of the debtor position highlight potential loss of income.	Assistant Director of Finance	Financial Resources Internal Audit	3	2	6						
R32	Capital Programme Management	Capital projects do not support the delivery of strategic priorities and desired outcomes.	Capital projects are based on available funding and not linked to priorities. Inadequate business cases for projects.	Priorities are not delivered. City does not have the required infrastructure. Poor integration of city developments.	Capital Programme Board	3	1	3	The Capital Programme is directly aligned to the City Plan and strategic priorities.	Assistant Director of Finance	Financial Resources Internal Audit	3	1	3	Capital Programme Management		Financial Resources	X	X	
R33		The intended benefits of capital projects are not identified and/or realised.	Lack of awareness of funding conditions Poor planning Poor monitoring of projects Lack of monitoring of the realisation of benefits after the completion of the projects	Loss of funding. Council resources used to fill funding gaps. Other planned projects postponed. Lack of delivery of the Council priorities.	Capital Programme Board	3	3	9	Corporate approach to planning and monitoring of the delivery of the benefits of each project and the wider Capital Programme.	All Assistant Directors/Directors	Financial Resources Internal Audit	3	2	6				X	X	
R34	People Management	The council does not have the required skills and capacity to deliver the City's priorities.	Shrinking workforce leading to a reduction in capacity and skills. Rapid loss of key/senior officers and associated expertise. Lack of effective workforce planning to ensure Council has workforce to meet the needs of Council going forward. Insufficient resources to maintain effective HR management resource and arrangements. Insufficient training and development. Staff absence due to sickness.	Lack of or delay or increased costs in delivering priorities.	Corporate Performance Management.	3	3	9	Workforce planning strategy in place that is appropriately monitored to ensure its is effectively implemented.	Assistant Director of Smart Cities	People Management Internal Audit Governance questionnaire	3	2	6	HR Management	X	Health and Safety	X	X	
R35		Reduction in productivity and morale of workforce.	Increasing workloads. Instability due to ongoing changes. Job insecurity. Increased demand / pressures due to external factors.	High absence/sickness rates. Stress related absence. Lower standards of service delivery. Increased costs. Increased homeworking has had a positive impact of staff morale.	Corporate Performance management. Performance Clinics.	4	2	8	Recognition of reduced capacity. Employees feeling valued and supported.	All Assistant Directors/Directors	People Management Internal Audit	4	2	8			People Management			
R36	Health and Safety	Council officers do not fully understand H&S roles and responsibilities.	Roles and responsibilities not clearly documented and/or communicated effectively. Loss of knowledge from organisational change and staff churn. Ineffective training and awareness programme. Lack of easy access to relevant documents on the Hub.	Lack of ownership and accountability for H&S. Inconsistent approach to the management of H&S issues across directorates, divisions and teams. Reduced compliance with quality standards and best practice. Inability to adequately prevent incidents occurring. Inadequate documentation and controls leading to injury and death.	Corporate Health and Safety Team. Corporate Health and Safety Statement of Intent.	4	2	8	H&S Strategy/Policy to be reviewed and revised. Revised Strategy/Policy to be agreed by COG.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4	Health and Safety		Health and Safety	X	X	

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R37		The council's key H&S risks are not identified, understood or agreed.	Lack of effective coordinated corporate approach to the identification of H&S risks. Lack of awareness or prioritisation of H&S across Chief officers, managers and operational colleagues. Lack of clear responsibilities of premises managers, landlords and leaseholders.	Key H&S risks not effectively managed leading to injury or death of the public, staff, suppliers or partners. H&S legal duties not fulfilled and/or demonstrated. Reduced oversight and accountability at strategic and operational levels across the council leading to uninformed decision making. None compliance with quality standards. Litigation and adverse PR.	Corporate Health and Safety Team.	4	2	8	Continue to monitor Health and Safety Risks through the assurance framework and work with relevant colleagues to manage the risks in place.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4			Health and Safety		X	
R38		Appropriate action plans are not developed and agreed to manage the council's key H&S risks.	Lack of joined up corporate approach to the management of H&S risks. Lack of effective process to develop clear and robust action plans to establish relevant controls and officer ownership.	Effective controls not established and/or operated appropriately. Inconsistent and disjointed approach across the council to the management of shared risks leading to confusion and mismanagement of control systems.	Corporate Health and Safety Team. Health and Safety Audits. Risk assessments developed for tasks and council buildings.	4	2	8	Continue to oversee the management of Health and Safety risks through the Executive Group and annual reporting to COG.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4			Health and Safety		X	
R39		Strategic approach to incident management does not adequately inform decision making.	Lack of understanding of responsibilities and accountability for incident response. Non-compliance with incident reporting arrangements. Immitted trend analysis and learning lessons from incidents. Availability of quality data/information to inform effective reporting to COG.	Ineffective decision making. Implementation of inappropriate controls. Existing controls not reviewed and revised in response to learning from incidents becoming out-of-date and ineffective. Avoidable repetition of incidents.	Corporate Health and Safety Team. Annual Health and Safety Report. Regular Executive Health and Safety meetings where detailed information is presented and discussed	3	2	6	Continue to monitor compliance with incident reporting arrangements and address any areas for development.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	3	1	3			Health and Safety		X	
R40	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive).	Reducing resources impacts upon the ability to maintain a stable infrastructure. Lack of funds to maintain/upgrade infrastructure. Increased reliance/demand on ICT due to move to hybrid working.	Disruption to service provision impacting on delivery of priorities. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	ICT development plan. Wide roll out of laptops, Windows 10 and Microsoft Teams to aid hybrid working.	4	1	4	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services.	Assistant Director Smart Cities	ICT Internal Audit	4	1	4	ICT Infrastructure	X	ICT	X	X	
R41		ICT infrastructure is not resilient to 'disasters'.	Lack of planning for disasters (prevent or respond to). No adequate business continuity/disaster recovery ICT infrastructure in place. Lack of business continuity/disaster recovery plan which has been tested. Key employees not briefed as to their disaster recovery responsibilities.	Disruption to service provision impacting on delivery of priorities. Loss of productivity. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	Business continuity arrangements (ICT and in services).	4	2	8	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services.	Assistant Director Smart Cities All Assistant Directors/Directors	ICT Internal Audit Business continuity officer	4	1	4		X	ICT	X	X	
R42	Cyber Security	The Council is exposed to vulnerabilities and threats, both internal and external, (e.g. hacking, phishing, denial of service attack) resulting in a loss of systems and/or confidential information.	Lack of appreciation by management of threat/risks of cybercrime to Council's operations. Low priority given to cybersecurity. Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness). Lack of monitoring of alerts/warnings, e.g. no Security and Incident and Event Management (SIEM) solution in place. Lack of investment in existing infrastructure increases level of vulnerability penetration testing vulnerability test results not actioned in suitable time scales. Lack of resources. Lack of understanding of what valuable data the Council holds. Increased cyber activity during Covid 19 outbreak.	Loss of public trust, customer confidence, finance and reputational damage. Fines / compensation. Loss of systems or data loss. Major business disruption.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan.	Assistant Director Smart Cities	ICT Internal Audit	4	2	8	Cyber Security		ICT	X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R43	Information Governance / Security	Council's data is not accurately protected.	Lack of awareness of the importance of protecting the Council's data. Lack of compliance with data security arrangements. The Council is not aware of the data its holds or ensures that its is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data. Increased remote working brings increased risk to data held in homes.	Loss of public trust and reputational damage. Fines / compensation. Claims from those who have been adversely effected.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	3	2	6	Council has appropriate information governance and security arrangements in place which are complied with throughout the organisation.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	3	Information Governance / Security	X	DPO	X	X	
R44	Business Continuity Management	The Council's business critical services cannot function in the event of an incident.	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes. Business continuity plans are not tested appropriately. A number of incidents impact at the same time e.g. Covid 19, Brexit, winter flu, adverse winter weather	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans. Response to the first wave of Covid 19 was successful with no failures to deliver critical services.	3	2	6	Business continuity plans are reviewed and tested on a regular basis and take into account the cumulative effects of concurring incidents.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4	Business Continuity Management	X	Business Continuity	X		
R45		Lack of awareness of content of business continuity plans.	Lack of effective communication strategy. Lack of testing.	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals. Loss of reputation.	Corporate Business Continuity Group. Business Continuity plans. Successful response to Covid 19 outbreak.	4	1	4	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them.	All Assistant Directors/Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4		X	Business Continuity	X		
R46	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes.	Lack of agreed Project Management Standards. Lack of Project Plans and Governance. Lack of monitoring of achievement.	Fail to obtain value for money. Programme and Project objectives are not achieved.	Corporate Project /Programme management arrangements.	3	3	9	The expected benefits of programmes and projects are clearly set out at the start and their achievement monitored throughout.	All Project Sponsors	Project Office Risk and Assurance Internal Audit Governance questionnaire	3	1	3	Programme / Project Management	X	Programmes and Projects	X	X	X
R47	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised.	Council does not "sweat" its assets to obtain the maximum returns. Fail to maintain property. Changes in size and direction of Council and services its provides. Lack of asset management planning. Changes in how services delivered. Changes in technology. Assets become uneconomic to run. Lack of investment in asset management planning. Council unaware of assets its owns.	Fail to increase council income. Fail to decrease costs.	Asset Management Plan.	3	3	9	The use of Council assets are monitored on an ongoing basis, particularly in response to changing staffing levels and changing service delivery models.	Assistant Director of Assurance and Property Services	Internal Audit	3	2	6	Asset Management			X	X	
R48		The Council does not fulfil its statutory duties in relation to its property portfolio.	Lack of resources. Lack of planning. Lack of monitoring or conditions of assets. Lack of knowledge of changes to the property portfolio.	Members of the public or staff are at risk of being harmed. Legal action taken against the Council. Reputational Damage.	Asset Management Plan.	4	2	8	The Council's Asset Management Plan is updated maintained accurately on an ongoing basis. Condition of assets are monitored on an appropriate basis and maintenance scheduled as required.	Assistant Director of Assurance and Property Services	Health and Safety Internal Audit	4	1	4						
R49	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption.	Relaxation of controls due to a reduction of resources. Lack of anti fraud culture. Lack of anti fraud and corruption procedures embedded into processes.	Financial loss potentially resulting in a reduced service offering to the customer.	Anti fraud and corruption policy and procedures.	2	2	4	Managers are aware of the fraud risks within their area and maintained appropriate controls bearing in mind changes to service delivery and staffing levels.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	2	2	4	Anti Fraud and Corruption	X			X	

Internal Audit coverage

Strategic Risk Profile

Key Risk Area	2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		2022/23 Audits / Opinions		Overall Opinion
More and better jobs											
More and better housing					Housing Service Governance Arrangements	M			Housing Regulatory Framework/HRA		
					Housing Regulatory Framework	M					
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							Programme Governance Arrangements - Smarter Cities		Programme Governance Arrangements - Smarter Cities		
									Carbon Reduction Plan		
Access to the same opportunities and life chances							Taxi Licensing	M			
More people living healthier longer lives							Public Health Grant	S	Health Protection Board		
									Homelessness	M	
People enjoying independent lives					Rollout of assistive technologies		Adults Safeguarding - MASH	M	Adult Social Care Recovery Arrangements		
					Adults Safeguarding - MASH		Financial Safeguarding - CPAT	S	Business Continuity Arrangements - Assistive Technologies		
					Blue Badges						
Cleaner and more attractive City and neighbourhoods			Environmental Services	M							
A City with great transport and travel links											
More creative and cultural businesses											
More residents participating in their communities											
More visitors visiting Sunderland and More residents participating in cultural events					Collections Management - Museums		Collections Management	M			
More people feel safe in their neighbourhoods and homes											
More resilient people											
Finance											See below
Partnership Working			Partnership Arrangements						Partnership Arrangements		

Corporate Risk Profile

Key Risk Area	2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		2022/23 Audits/Opinions		Overall Opinion
Strategic Planning	Service/Business Planning	M							Partnership Arrangements		
	Derwent Hill	S									
Commissioning									Performance Monitoring within Public Health		
Service Delivery Arrangements	Liquid Logic including business processes		Licencing		Financial Safeguarding/CPAT		Financial Safeguarding/CPAT Communications	S	Delivery of Council Restructure		
	Derwent Hill	S	Development Control		Bereavement Services				Planning and Development Control	S	
			Environmental Services	M	Housing Service Governance Arrangements	M			Delivery of Port Business Plan		
			Delivery of Council Restructure	M	Housing Regulatory Framework	M			Highways Work Programme	S	

			Liquid Logic - Adults	S	Adults Safeguarding - MASH					
					Blue Badges					
Partnership /Integrated Working			Partnership Arrangements					Partnership Arrangements		
Procurement	Revenue Procurement	S	Revenue Procurement	S			Procurement Strategy	S	Revenue Procurement	
	Use of agency contract	M	Capital Procurement	M			Purchasing Cards	M		
	Catering consortium	M					Charging methodology - Highways	S		
							Use of agency framework	M		
Relationship/Contract Monitoring	Contract Management Arrangements for key contracts	S	Contract Monitoring SCAS	M						
	Contract Management - IAMP consultants	M	Contract Monitoring - Siglion	S						
			Contract Monitoring - Sunderland Homes							
Legality	Delegated Decision Making	M					Compliance with Operating Licence	L	Planning and Development Control	S
									Compliance with the Operating Licence	
									Delivery of Environmental Services Action Plan	
	Emergency Planning and Response	S							Compliance with the Operating Licence, Non Environmental Services	L
Risk Management	Derwent Hill	S							External Funding	
									Highways Work Programme	S
Corporate Performance Management	Performance Reporting - Data Quality	S	Performance Monitoring - City plan				Performance Monitoring - City Plan	S	Performance Management within Housing	
			Delivery of PEER Review Action Plan	S					Performance Management within Public Health	
Financial Management					Wave 3 Rocket Feasibility	S	BACS	S	Local Transport Capital Settlement - Highways Maintenance Needs	S
					Disabled Facilities Grant	S	Budget Management	S	Local Transport Capital Settlement - Integrated Transport	S
					Local Transport Capital Maintenance / Incentive Needs	S	Payroll	M	Local Transport Capital Settlement - Incentive Element	S
					Local Transport Integrated Transport	S	Accounts Payable	S	Nexus	S
	Financial Reporting Arrangements				Nexus	S	Local Transport Capital Settlement - Capital Maintenance	S	Pothole Action Fund	S
					Pothole	S	Local Transport Integrated Transport	S	Sunderland A1290 Safety Improvement Scheme Phase 2	S
					Cycling to Sunderland		Nexus	S	Disabled Facilities Grants	
	EFA Funding	S		S	Vaux Phase 1		Pothole Action Fund	S	Public Sector Decarbonisation	
	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management	S	Budget setting	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	Sustainable Mobility Hub	
	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	Capital Asset Accounting	S	Disabled Facilities Grant	S	Riverside Sunderland Strategic Infrastructure Works	
	Nexus (Combined Authority)	S	Payroll		BACS	S	Disabled Facilities Grant - Additional Monies	S	Hillthorn Business Park Power Supply	
	Pothole Action Fund	S	Accounts Payable	M	Payroll	S	Cycleways	S	Green Homes Grant LA Decarbonisation	
	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding	S	Accounts Payable	S	Vaux Phase 1		Vaux LGF	
	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S	COVID-19 Compliance and Enforcement Grant	S	SSTC3 Design and Development		SSTC 3 Design and Development	S
	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S			Travel Demand Management	S	External Funding	
	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S			Travel Demand Management - Top Up Monies	S	BACS	
	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S			Home to School/College Transport - Second Half of Spring Term	S	Payroll	
	A19 Ultra Low Carbon Enterprise Zone	S	Local Transport Capital Settlement - Incentive Element	S			Home to School/College Transport - Summer Term	S	Accounts Payable	
	External Funding	S	Better Care Fund - DFG	S			Home to School/College Transport - 2020/21 Academic Year	S	Benefits Overpayment and Recovery	S
	Building Maintenance Financial Management	L	Vaux Phase 1						The provision of project promotion and prevention of Better Mental Health Grant Funding	S
	Payroll	S	Northern Gateway	S					Additional Drug Treatment Crime and Harm Reduction Universal Compnent Grant Funding	S

								Test and Trace Support Payment Scheme Funding Grant Determination 31/5309	S	
								Test and Trace Support Payment Scheme Funding Grant Determination 31/5435	S	
								Test and Trace Support Payment Scheme Funding Grant Determination 31/5668	S	
								Test and Trace Support Payment Scheme Funding Grant Determination 31/5704	S	
	BACS	S	Local Transport Capital - Highway Maintenance	S				Test and Trace Support Payment Scheme Funding Grant Determination 31/5385	S	
	Accounts Payable	S	Liquid Logic including business processes	S				Test and Trace Support Payment Scheme Funding Grant Determination 31/5789	S	
								Test and Trace Support Payment Scheme Funding Grant Determination 31/6187	S	
								Test and Trace Support Payment Scheme Funding Grant Determination 31/6215	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5075	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5219	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5244	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5304	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5341	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5411	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5183	S	
								Test and Trace Contain Outbreak Management Fund Surge Funding 31/5456	S	
	Liquid Logic including business processes		Pothole Action Fund - Additional Monies	S				Test and Trace Contain Outbreak Management Fund Surge Funding 31/5518	S	
	Derwent Hill	S								
Income Collection (including CR/NNDR)	Cash Receipting	S	Cash Receipting, compliance	S	Business Rates Recovery		Business Rates Recovery	S	Income Collection	
	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing	S	Business Rates Valuation	S	Council Tax Recovery	S	Accounts Receivable	
	Derwent Hill	S	Accounts Receivable - Recovery	S	Council Tax Valuation	S	Accounts Receivable Recovery and PI	M	Land Charges	
			Council Tax Liability	S	Council Tax Recovery		Housing Rent Collection	M		
			Business Rates setting and billing	S	Accounts Receivable Recovery	S	Income Collection	S		
			Business Rates Liability	S	Cash Receipting	S				
Capital Programme Management	Benefits Realisation		Project Management Benefits Realisation, including capital funding	M						
HR Management	Human Resource Management - updated SAP procedures		HR - SAP Optimisation		Recruitment and Selection		Recruitment and Selection	M	Human Resource Case Management	
	Apprenticeships	S	Port - Effectiveness of Restructure							
			Communications re organisational change	S						
Health and Safety	Corporate Health and Safety Arrangements	M							Port Health and Safety	

ICT Infrastructure	Externally hosted systems	M			ICT Disaster Recovery and Business Continuity		ICT Disaster Recover / Business Continuity	L			
	Intrusion prevention and incident management	M	ICT Asset management	M							
Cyber Security	Intrusion prevention and incident management	M	Cyber Security	M	Cyber Security	M	Cyber Security	M	Cyber Security		
			Mobile Device Management	S					Information Security		
Information Governance/Security	General Data Protection Regulation - Compliance	M	GDPR	M	GDPR	M	GDPR	M	GDPR		
									Information Security		
	Derwent Hill	S			Civica Upgrade				Archived Records Management		
Business Continuity Management			Update of Directorate plans re new structures	M			Corporate Business Continuity Arrangements	M	Business Continuity Arrangements Arrangements - Assistive Technologies		
									Resilience of Port Management Structure		
Programme/Project Management	Benefits Realisation		Project Management Benefits Realisation, including capital funding	M	ICT Disaster Recovery and Business Continuity		Programme Governance Arrangements - Smarter Cities		Programme Governance Arrangements - Smarter Cities		
Asset Management					Collections Management - Museums		Housing Asset Management	M	Corporate Asset Management Strategy and Compliance		
							Collections Management	M			
Anti Fraud and Corruption	Building Maintenance Financial Management	L	Payroll compliance Testing		Transaction Testing NFI	S	BACS	S	BACS		
	Revenue Procurement	S	BACS compliance testing	S	Blue Badges		Purchasing Cards	M	Income Collection		
	Use of Agency Contract	M	Cash Receipting	S	Mileage Claims	S	Income Collection	S	Accounts Receivable		
	Payroll compliance testing	S	AR Recovery	S	Testing on grants issued re Covid-19	S	Accounts Receivable Recovery and PI	M	Accounts Payable		
	BACS	S	ICT Asset Management	M	BACS	S	Accounts Payable	S	Land Charges		
	Accounts Payable	S	Council Tax Setting and Billing	S	Cash Receipting	S	Business Rates Recovery	S	Benefits Overpayment and Recovery	S	
	Cash Receipting	S	Council Tax Liability	S	Accounts Receivable Recovery	S	Council Tax Recovery	S	Revenue Procurement		
	Accounts Receivable/Periodic Income	S	Accounts Payable	M	Accounts Payable	S	Housing Rent Collection	M	Payroll		
	Derwent Hill	S									
	Refuse Collection	S									
Schools	14 schools in the plan, 15 completed to date. 12 Substantial, 2 Moderate, 1 limited	S	23 schools in the plan. 21 complete to date. 17 Substantial, 4 Moderate	S	23 schools in the plan, 10 complete to date. 9 substantial, 1 moderate	S	20 schools in the plan, 20 complete to date. 18 substantial, 1 Moderate, 1 Limited	S	19 schools in the plan, 8 complete to date. 6 substantial, 1 moderate, 1 limited	S	
Sunderland Care and Support	Unit Costing		Risk and Assurance Framework		Risk and Assurance Framework	S	Compliance with Financial Procedures in establishments	S	Compliance with Financial Procedures in Establishments		
	Risk and Assurance Framework		DPO Checks	S	DPO checks	S	ICT Security within establishments	S	Business Continuity Arrangements Arrangements		
	Information Governance/GDPR	M	Unit Costing		Security of service users cash in transit	S	DPO Checks	S	DPO Checks		
	Compliance with Financial Procedures in Establishments	M	Compliance with financial procedures in establishments	S	Compliance with financial procedures in establishments		Workforce planning, resilience and wellbeing		Workforce planning, resilience and wellbeing		
			Business Continuity (Telecare)	L	Collection of rental income	M			Transport Arrangements		
			Recruitment and DBS Checks	S	Workforce planning and resilience						
Together for Children	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim		
	Budget Monitoring	S	Schools Financial Support Service	S	Administration Support Services	S	Staff Wellbeing		Business Continuity Planning		
	HR management / recruitment / agency workers / performance	S	Performance Management - Data Quality	S	Complaints Procedure		Next Steps		Holiday and Activity Fund		
	Information Governance/GDPR	L	Purchase cards	M	Information Governance/GDPR		Nook Lodge - Compliance with Financial Procedures in Establishments	S	Interrupted Educational Pathways		
	Next Steps	S	Achievement of cost savings		HR Case Management	S	Procurement of Independent Providers - Residential	M	National Assessment and Accreditation System Grant Claim	S	
	Compliance with Financial Procedures within Establishments	S	Legal services		SEND Financial Framework	S	Counter Fraud	M	GDPR		
			Designated Officer	S			National Assesment and Accreditation System Grant Claim	S	Staff Wellbeing	S	
	Liquid logic		Liquid logic	M	Purchase Cards	M					
Siglion LLP			Governance Arrangements	M	Contract/relationship management		Financial Management	S	GDPR		
					Performance Management		Contract/relationship management	M	Risk Management Arrangements		
					Procurement	M	Disposal of property		Project Management Arrangements		

					Operational Asset Management	S	Performance management	S			
					Financial Management						

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23

Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period	1) On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Ahead of target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 85%	3) Ahead of target – 97%
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – on target – 100% Medium – ahead of target 95% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (1=Good and 4=Poor)	1) On target – 1.0 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) No recent surveys undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	0 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

4 November 2022

AUDITED STATEMENT OF ACCOUNTS 2021/2022

Report of the Assistant Director of Finance

1.0 PURPOSE OF REPORT

- 1.1 To provide Members with the Letters of Assurance required by the external auditor as part of the Statement of Accounts process and to present the Letter of Representation for 2021/2022.
- 1.2 To receive the Audit Completion Report from the Council's external auditor, Mazars LLP, concerning the financial statements for 2021/2022, which provides their opinion on both the Council's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).
- 1.3 To provide an audited Statement of Accounts for 2021/2022, revised to take into account the auditor's findings, for approval by the Committee.

2.0 DESCRIPTION OF DECISION

- 2.1 Members are recommended to:
 - 2.1.1 Note the contents of the Letter of Assurance from those charged with governance (Appendix A) and the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix B);
 - 2.1.2 Note the contents of the Letter of Representation (Appendix C);
 - 2.1.3 Note the contents of the Audit Completion Report (Appendix D) provided by Mazars LLP;
 - 2.1.4 Approve the revised Audited Statement of Accounts for the financial year ended 31 March 2022 (Appendix E); and
 - 2.1.5 Agree that, should any amendments to the Statement of Accounts be required after the meeting of the Audit and Governance Committee, these be agreed by the Assistant Director of Finance in conjunction with the Chair. Members of the Audit and Governance Committee will be notified of any agreed changes.

3.0 BACKGROUND

- 3.1 The Accounts and Audit (Amendment) Regulations extended the statutory audit deadlines for local authorities to approve and publish their accounts for 2020/2021 and 2021/2022 financial years. This extension for 2021/2022 gave the Council to the end of July to publish draft accounts and to the end of November to publish audited accounts. The draft accounts were circulated and published online on the 18 July 2022, in line with the extended statutory deadline.
- 3.2 A Letter of Representation has to be prepared by the Section 151 Officer which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation.
- 3.3 Mazars LLP are required to report to Members on the Statement of Accounts and certain others matters to Members prior to an opinion being provided on the Council's accounts.
- 3.4 Mazars LLP has audited the financial statements of the Council in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.5 Once the Audit and Governance Committee has noted the contents of this report, Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31 March 2022.
- 3.6 In line with auditing standards, Mazars LLP produces an Audit Completion Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Council as at 31 March 2022 and the Group's expenditure and income for the year then ended. The Audit Completion Report 2021/2022 is included at Appendix D on the agenda. The Audit Completion Report is in addition to the Annual Audit Letter which will be issued in due course.
- 3.7 The audited Statement of Accounts 2021/2022 is set out at Appendix E on the agenda for approval.

4.0 KEY MESSAGES

- 4.1 The full communication is included in the Audit Completion Report, and in summary concludes that:
 - Audit Opinion – At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion on the financial statements;

- Value for Money - The auditors anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources;
- Whole of Government Accounts - The National Audit Office have not yet issued auditors with their group instructions in relation to the Whole of Government Accounts (WGA). The auditors will complete the required work to the government timetable as soon as possible once these details have been clarified; and
- Wider Powers - No objections or questions have been received by the auditors from local electors during the audit.

5.0 AMENDMENTS TO THE ACCOUNTS

- 5.1 The auditors have identified a small number of misstatements in the accounts which are detailed in section 6 of the auditor's Audit Completion Report at Appendix D. Audit work is on-going, but one area has been highlighted as resulting in material adjustments to the Accounts;
- Net Defined Benefit Liability (Pensions) – amendments are required as a result of an updated assets assessment recently provided by the Actuary which reported an improved fund position beyond that used in the draft accounts. The required amendments have been made in the revised Accounts at appendix E.

None of the misstatements impact on the outturn position reported to Cabinet in June 2022.

- 5.2 Some minor points and presentational changes have also been reflected in the revised accounts. These are also summarised in section 6 of the Audit Completion Report.

6.0 SIGNIFICANT ITEMS OF AUDIT WORK STILL TO BE FINALISED

- 6.1 A national audit issue in relation to infrastructure assets remains unresolved. The issue stems from a number of 2020/2021 audits elsewhere in the country being unable to be finalised due to the inability to assess the accuracy of primarily highways infrastructure assets. The Chartered Institute of Public Finance Accountant (CIPFA) have established a task and finish group to assist with identifying a resolution of this issue, which is now causing delays to local authority accounts audits across the country.
- 6.2 The main areas of audit work which are still being finalised are on the valuation of Property, Plant and Equipment and receipt of the required assurance from the T&W Pension Fund auditors on the 2021/2022 Pension Fund accounts.
- 6.3 The Letter of Representation at Appendix C sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances. Once the outstanding work has been completed, the final

misstatements will be added to the Letter of Representation and circulated to Members.

7.0 FORMAL OPINION

- 7.1 Mazars LLP aim to formally provide an opinion on the Statement of Accounts, on or before 30 November 2022, by which time the Council is required to publish its Audited Statement of Accounts for 2021/2022 and place the audited accounts on its web site appropriately signed by the Chair of this Committee and re-signed by the Section 151 Officer in line with reporting requirements set out in the Accounts and Audit (Amended) Regulations. If this is not possible due to delays in finalising the outstanding audit items, Committee Members will be notified, and the Council will issue the required notice to advise stakeholders of the delay.

Mr C Waddell
 Mazars LLP
 Salvus House
 Aykley Heads
 Durham
 DH1 5TS

Date: 18th July 2022
 Our ref: JR/PD/GC
 Your ref: SCC21/22

Dear Cameron,

Audit of Sunderland City Council's single entity and group financial statements for the year end 31 March 2022 - understanding how those charged with governance gain assurance from management

I am writing with reference to your letter dated 6th April 2022, in relation to understanding how those charged with governance gain assurance over management processes and arrangements. These assurances are provided below, representing Sunderland City Council's formal response from those charged with governance, which, for the purposes of the financial statements, is the Audit and Governance Committee.

As in previous years, the Audit and Governance Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks faced by the Council) and, to the extent that it is necessary, in the production of the financial statements. The process to produce the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter please find responses to your specific questions below and the completed Appendix 1, as requested.

With regard to Joint Venture arrangements, the council relies on the operational partner or appropriate governance structure in place to ensure there is appropriate internal and external operational financial control, and that compliance, fraud or other risks facing these entities which might have had an impact on the financial statements, are adequately addressed. This assurance is obtained consistent with the legal agreement in place.

Specific assurances:

1) How do you exercise oversight of management's processes in relation to:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);***

This responsibility is exercised through the effective functioning of the Audit and Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Executive Director of Corporate Services (EDCS) and the Assistant Director of Assurance and Property Services (ADAPS) attend all meetings of the Audit and Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Audit and Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls as necessary.

The Committee also reviews the Internal Audit Strategy and annual Internal Audit Plan and is able to comment on areas proposed for review. The Council's Strategic and Corporate Risks covers council owned companies as an entity and these are regularly reported and reviewed by the Committee. The Council's Internal Audit Plan ensures that fraud risk or related concerns are escalated through to the appropriate level or to this committee if appropriate. Ad-hoc meetings between the Committee and the ADAPS take place where necessary. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, Anti-Fraud and Corruption Policy (including the Fraud Response Plan) and in the Risk Management Policy and Strategy which also describe the relevant registers, declarations and escalation processes to be complied with.

A risk management assessment is carried out by each company and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The risks are regularly considered by management within each company. The risks identified by the companies are taken into account when formulating the annual plans of internal audit work, the results of which are also reported formally to the Audit and Governance committee.

The Audit and Governance Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the Council in relation to the 2021/2022 financial statements.

- ***identifying and responding to risks of fraud in the Sunderland City Council and group entities, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;***

The Council has an Anti-Fraud and Corruption Policy which is regularly updated and approved by the committee. The committee reviews the Internal Audit Strategy, and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. The Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Internal Audit undertook fraud related work during the year in relation to the award of Covid funds made available by the Government to businesses and other sectors of the Community. Updates are also presented on the implementation of the control improvements.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service based fraud identification activity. Should a fraud risk occur, the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

Council owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. These include arrangements to manage the risks of and respond to the risk of fraud. Internal Audit work for each company is designed to assess the adequacy of these arrangements and includes tests to specifically identify potential fraudulent activity. Any fraud risks which do occur are considered and assessed with management.

- ***communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against Sunderland City Council's code of conduct);***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Policy;
- Corporate Procurement Strategy;
- Treasury Management Strategy;
- Budget management scheme.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy sets out in detail the approach which has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services. This is currently under review; an updated version will be brought back to the Committee during 2022/2023.

The key elements of the Strategy include:

In order to effectively tackle fraud, it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Risk and Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. Risk and Assurance provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met four times to consider the business of 2021/2022 with a Risk and Assurance Map for 2021/2022 being presented to the April 2021 remaining three meetings as part of the Integrated Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Risk and Assurance Map.

Private meetings are held between the ADAPS, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption where appropriate.

Council owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. Internal audit work undertaken within Council owned companies is designed to ensure compliance against these policies and procedures, including the management of fraud risks. The results of this work are considered by management within each company.

The Risk and Assurance Map Update report which is presented to the Audit and Governance Committee includes assurances in relation to each Council owned company. This includes assurances gathered through the integrated Assurance Framework. Internal Audit carry out counter fraud testing in each company which is included within the assurance view from Internal Audit.

During 2021/2022, I was not made aware of any significant breaches of control.

- ***communicating to you the process for identifying and responding to fraud and error.***

The Internal Audit Plan includes proactive work aimed at detecting fraud based on the fraud risk assessment which is updated annually. The details of work undertaken, and the results are included in the Risk and Assurance Map Update report which is presented to the Audit and Governance Committee on a quarterly basis. The Annual Governance Review also provides details of the counter fraud activity undertaken and any significant fraud issues identified. The Anti-Fraud and Corruption Policy sets out the procedures to be followed when potential fraud is identified through the Fraud Response Plan.

This process covers both council and subsidiary companies.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2021/2022?

I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Audit and Governance Committee and discussions with key officers.

I am aware that arrangements are set out in the Council's Fraud Response Plan, part of the Council's Anti-Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do and what the person who receives the concerns should and should not do. The Fraud Investigation Plan sets out how investigations of concerns should be carried out.

During 2021/2022, I was not made aware any significant breaches of internal control.

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2021/2022?

I am not aware of any non-compliance within the council during 2021/2022. The Committee is aware that reports to Cabinet and Council are reviewed for their legality to ensure Council expenditure, services and actions are within the law. A legal representative attends all Cabinet, Council and "quasi-judicial" meetings and other Committee meetings where appropriate. As such the Council has appropriate legal arrangements in place headed by the Monitoring Officer, which gives this Committee reassurance that legal advice is sought where appropriate.

Solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update

service and various legal publications and regularly attend relevant training courses. As a member of the Lawyers in Local Government Group and actively participating in the regional branch of this group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council Directorates.

Regular team meetings are held within Legal Services both at service area level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

In addition I am further reassured by the fact that the Council's Assistant Director of Law and Governance and Monitoring Officer carries out a self assessment of the legal service which covers the Council's corporate legality arrangements that informs the Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore, the Executive Director of Corporate Services has also confirmed in his Controls and Assurance Statement that there were no issues or concerns to raise in this area and as such has given full assurance regarding the Council's arrangements to ensure legality.

I am not aware of any non-compliance within the Council during 2021/2022.

4) Are there any actual or potential litigation or claims that would affect the financial statements?

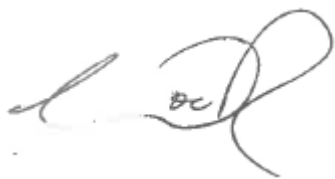
On behalf of the Audit and Governance Committee I declare that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2021/2022 financial statements.

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on Sunderland City Council's ability to continue as a going concern, or that of any of its group entity?

The Council by its very nature is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the Council group shows a net worth of £305m and assets worth over £1,454m, with cash backed reserves of over £216m would support our view. The Council is also well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet position.

The process outlined above in respect of the council, is followed closely by both Together for Children, Sunderland Care and Support and Siglion LLP.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Geoff Cook', with a stylized, cursive script.

Geoff Cook

Chairman of the Audit and Governance Committee

Appendix 1

No.	Questions for those charged with governance	Those charged with governance response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole, or within group entities during the period 1 April 2021 – 31 March 2022?</p>	<p>There was one breach of control during 2021/2022 in one of the Council's maintained schools. The value of this does not impact the Council in relation to the 2021/2022 financial statements.</p>
2	<p>Do you suspect fraud may be occurring within Sunderland City Council or within group entities?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within Sunderland City Council or group entities? ➤ Do you have any concerns that there are areas within Sunderland City Council or group entities that are at risk of fraud? ➤ Are there particular locations within Sunderland City Council or group entities where fraud is more likely to occur? 	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which includes group entities and did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also covers group entities and has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet. Other controls in place include a robust budget management framework which includes detailed support for Financial Management, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors. The majority of payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There continues to be work undertaken across the Council and group entities to raise awareness of Information Governance issues and encourage staff to keep information secure.</p>

4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Group entities also have their own arrangements. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within Sunderland City Council and its group entities?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No</p> <p>The Council and its group entities has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the relevant Statement of Accounts. The Council has an established approach for Partnership arrangements including maintaining a guidance document and check list. Internal processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. Relevant member interests are also documented and held by democratic services for scrutiny and help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>
7	<p>Are you aware of any entries made in the accounting records of Sunderland City Council or group entities that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were 	<p>In relation to the case mentioned in question 1 there are transactions for the school which are false, however the value does not impact on the statement of accounts for 2021/2022.</p>

	<p>improperly included or omitted from the accounts of Sunderland City Council or group entities?</p> <ul style="list-style-type: none"> ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts for both the council and group entities. Where external support is brought in to assist with production of group entity accounts these are suitably qualified and experienced.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council.</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No – The Medium Term Financial Plan, the budget planning process and the annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year. As a consequence, there are no inappropriate pressures or incentives being applied in either the council or its group entities.</p>

9	What arrangements has the Council put in place in response to the Bribery Act 2010?	<p>Arrangements were in place before the introduction of the Bribery Act and continue to be applied, e.g. existence and promotion of the anti - fraud and corruption policy, whistle blowing policy, codes of conduct, financial procedure rules, procurement procedure rules, disciplinary procedures; the existence of effective audit service. In response to the introduction of the Bribery Act 2010 these arrangements were reviewed in light of the Act to ensure they continued to be 'adequate procedures'. The Council's senior management team reaffirmed its commitment its zero tolerance to bribery. An assessment was made of the risk to the Council regarding bribery. Procurement arrangements, i.e. procurement procedure rules, were reviewed to ensure appropriate due diligence is carried out in respect of suppliers seeking to contract with the Council and contract terms and conditions address the subject of bribery.</p>
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Mr C Waddell
 Mazars LLP
 Salvus House
 Aykley Heads
 Durham
 DH1 5TS

Date: 18th July 2022
 Our ref: PD/JR
 Your ref: SCC21/22

Dear Cameron,

Audit of Sunderland City Council's Single Entity and Group Financial Statements for the year end 31 March 2022 - Understanding your management processes and arrangements

I refer to your letter dated 6 April 2022 in respect of the above management arrangements and processes in place within the Council and the wider group. The assurances are provided below, representing Sunderland City Council's formal response from management in this respect.

I, as section 151 officer of the Council and group entities that are council subsidiaries, on behalf of management, have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Council which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers, along with yourselves, have identified and discussed key risks faced by the Council) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also shows that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter please find responses to your specific questions and I have also attached the completed Appendix 1, as requested.

With regard to Joint Venture arrangements, the council relies on the operational partner or appropriate governance structure in place to ensure there is appropriate internal and external operational financial control, and that compliance, fraud or other risks facing these entities which might have had an impact on the financial statements, are adequately addressed. This assurance is obtained consistent with the legal agreement in place.

Specific assurances:

1) What are management processes in relation to:

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);***

Sunderland City Council

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is also reported formally to the Audit and Governance Committee throughout the year.

I, along with the Chief Officers Group, ensure that arrangements are in place within the Council that achieve the effective and efficient use of resources, have policies and procedures in place so that the Council is effectively managed and that internal control mechanisms are put in place and operating effectively within the Council to help mitigate against all identified risks and therefore that the financial statements are not materially misstated each year.

I, as the Executive Director of Corporate Services (EDCS) and Section 151 Officer, along with the Assistant Director of Assurance and Property Services (ADAPS) attend meetings of the Audit and Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The Committee receives and approves the accounts on behalf of the Council and as such is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also considers and informs the Annual Governance Statement and the actions set out in order to further improve governance arrangements, the achievement of value for money in its use of resources and to improve the internal control environment as required.

Management also receives the independent Internal Audit Strategy and annual internal audit plan and is able to comment on areas proposed for review. The Council's Strategic and Corporate Risks are regularly reported and reviewed by the Management and the Council's internal audit plan ensures that fraud risk or related concerns are escalated through to the appropriate level, as required. Internal Audit undertook fraud related work during the year in relation to the award of Covid funds made available by the Government to businesses and other sectors of the Community. This contributed to the Head of Internal Audit Opinion given for the year. Ad-hoc meetings between the Committee and the ADAPS and/or myself can also take place where necessary to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in Codes of Conduct, the Scheme of Delegation, and Anti-Fraud and Corruption Policy (including the Fraud Response Plan) which also describe the relevant registers, declarations and escalation processes to be complied with.

Group Entities (council-owned companies)

I, along with appropriate senior officers and Board of Directors from group entities, ensure that arrangements are in place that achieve the effective and efficient use of resources, have policies and procedures in place so that the group entities are effectively managed and that internal control mechanisms are put in place and operating effectively to help mitigate against all identified risks and therefore that the financial statements are not materially misstated each year.

A risk management assessment is carried out by each company and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The risks are regularly considered by management within each company. The risks identified by the companies are taken into account when formulating the annual plans of internal audit work, the results of which are also reported formally to the council's Audit and Governance Committee throughout the year.

I can confirm on behalf of management that I have no knowledge of any actual, suspected or alleged fraud that could affect the Council or group entities in relation to the 2021/2022 financial statements.

- ***identifying and responding to risks of fraud in the Sunderland City Council and group entities, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;***

Sunderland City Council

The Council has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Audit and Governance Committee. Regular reviews and achievement of the annually reviewed audit plan is reported separately to the Audit and Governance Committee. The Internal Audit Strategy and annual internal audit plan, which includes the Counter Fraud Work Programme for the year is established independently by the ADAPS in accordance with best practice.

The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive regular updates of any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud, through the Risk and Assurance Map Update Reports. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

The system of internal control is a significant part of the Governance framework within the Council and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Council engages in numerous fraud prevention and identification activity including corporate processes such as participating in the National Fraud Initiative as well as specific service-based fraud identification activity. Should a fraud risk occur then the Council's Fraud Response Plan is followed to ensure concerns are raised at the appropriate level and investigated thoroughly.

Group Entities (council-owned companies)

Council-owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. These include arrangements to manage the risks of and respond to the risk of fraud. Internal Audit work for each company is designed to assess the adequacy of these arrangements and includes tests to specifically identify potential fraudulent activity. Any fraud risks which do occur are considered and assessed with management.

- ***communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against Sunderland City Council's code of conduct);***

Sunderland City Council

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Council's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carries out a programme of work which includes assessing the level of compliance against the Council's key policies and procedures. Key procedures include:

- Codes of conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy (including the Fraud Response Plan);
- Corporate Health and Safety Statement of Intent;
- Corporate Procurement Strategy;
- Treasury Management Strategy;
- The Council's budget management scheme.

The Counter Fraud Strategy which supports the delivery of the aims of the Council's Anti Fraud and Corruption Policy sets out in detail the approach that has been adopted by the Council in tackling fraud across the broad spectrum of the Council and Council funded services. This is currently under review, an updated version will be brought back to the Committee during 2022/23.

The key elements of this Strategy include:

In order to effectively tackle fraud it is important that a holistic approach is adopted, focused on preventing fraud occurring in the first place, seeking it out and correcting it where it does exist, and delivering swift and effective punishments to those who attack the Council, whilst deterring others from considering the same course of action.

Under the Integrated Risk and Assurance Framework established within the Council, managers are clearly responsible for establishing appropriate controls and for ensuring they are working in practice. The Framework also aims to co-ordinate all assurance activity, including that in relation to fraud and to ensure arrangements are working effectively across the Council. This includes the co-ordination of fraud prevention, detection and investigation arrangements.

The Audit, Risk and Assurance service has the expertise in relation to the design of control systems that aim to manage the risk of fraud. Risk and Assurance

provides advice and guidance in relation to governance and control matters, including fraud, at the earliest stage to ensure appropriate controls are designed into arrangements as they are being established.

The Internal Audit Team maintains the fraud risk assessment for the Council and undertakes compliance work aimed at detecting fraud and providing assurance on the effectiveness of the controls in place. Internal Audit will also review the effectiveness of management in establishing fraud prevention controls and monitoring compliance with them. This team also undertakes investigations of suspected fraud and corruption.

The service aims to embed a collaborative approach to tackling fraud with an agreed approach to be adopted across the whole Council and its activities and includes counter fraud work undertaken in any service of the Council, schools, partnerships within which the Council is involved, third parties providing services to or on behalf of the Council and other organisations receiving or holding Council funds.

The Audit and Governance Committee met four times to consider the business of 2021/2022 with a Risk and Assurance Map for 2021/2022 being presented to the April 2021 meeting and a Risk and Assurance Update report being submitted to the remaining three meetings as part of the Integrated Risk and Assurance Framework. The Update reports set out the work done to identify fraud and the results of this work and the updated position regarding each risk area identified in the Risk and Assurance Map.

Private meetings are held between the ADBPS, the External Auditor and members of the Audit and Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption where appropriate.

Group Entities (council-owned companies)

Council-owned companies have their own governance arrangements which include appropriate policies and procedures designed to protect the interests of the company in line with those of the Council. Internal audit work undertaken within Council-owned companies is designed to ensure compliance against these policies and procedures, including the management of fraud risks. The results of this work are considered by management within each company.

The Risk and Assurance Map Update report which is presented to the Audit and Governance Committee includes assurances in relation to each Council-owned company. This includes assurances gathered through the Integrated Risk and Assurance Framework. Internal Audit carry out counter fraud testing in each company which is included within the assurance view from Internal Audit.

- ***communicating to those charged with governance the processes for identifying and responding to fraud and error.***

The Internal Audit Plan includes proactive work aimed at detecting fraud based on the fraud risk assessment which is updated annually. The details of work undertaken and the results are included in the Risk and Assurance Map update report which is presented to the Audit and Governance Committee on a quarterly basis. The Annual Governance Review also provides details of the counter fraud activity undertaken and any significant fraud issues identified. The Anti Fraud and Corruption Policy sets out the procedures to be followed when potential fraud is identified through the Fraud Response Plan.

This process covers both council and subsidiary companies.

2) How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2021/2022?

Sunderland City Council

Reports to Cabinet and Council are reviewed for their legality to ensure Council expenditure, services and actions are within the law. A legal representative attends all Cabinet, Council and “quasi-judicial” meetings and also other Committee meetings where appropriate. As such we have, as senior management, appropriate legal arrangements in place headed by the Monitoring Officer, which gives reassurance that legal advice is sought where appropriate.

Solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Lawyers in Local Government Group and actively participating in the regional branch of this group, information is shared with other local authorities both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant Council departments.

Regular team meetings are held within Legal Services both at service area level and senior management team level, at which any concerns regarding the Council's compliance with legal requirements could be raised and addressed.

I am further reassured by the fact that the Council's Assistant Director of Law and Governance and Monitoring Officer has carried out a self assessment of the service which covers the Council's corporate legality arrangements that informs the Annual Governance Statement and has confirmed that there were no issues to raise. This provides me with the assurance that the Council has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. Furthermore I have confirmed in my Controls and Assurance Statement that there were no issues or concerns to raise in this area and this provides full assurance regarding the Council's arrangements to ensure legality.

I am not aware of any non-compliance within the Council during 2021/2022.

Group Entities (council-owned companies)

Council-owned companies work closely with council officers. An SLA is in operation with council-owned companies to ensure that any queries raised by these companies are appropriately responded to. In addition in respect of Together for Children, an in-house legal team deals with child protection and safeguarding cases. There is close liaison between officers of the companies and the Council providing ample opportunity and mechanisms for any areas of concern to be flagged within the Council.

3) Are there any actual or potential litigation or claims that would affect the financial statements?

On behalf of Management, I confirm that I have no knowledge of, and the Council (or its entities) is not on notice of any non-compliance with laws and regulations that could impact on the 2021/2022 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually in order to reflect the known position as at the balance sheet date.

4) What controls do you have in place to identify, authorise, approve; account for and disclose, related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your year end 31 March 2021 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2022.

Sunderland City Council

On behalf of Management, I confirm that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The Council has robust procedures in place to identify and record any related party transactions in respect of its members and chief officers included within the statement of accounts which has taken place during the year and is informed by the robust formal year end process of signed declarations outlining all detailed related party transactions and relationships which apply to all individual Councillors and Chief Officers. Various sources of information held and recorded by the Council also help to inform the procedures in place including; Register of Councillor declared interests; its formal Committee protocols (under which members must declare certain interests in items at meetings and in some cases leave the meeting while that item is discussed and voted upon); the Council's Constitution; and the detailed policies and procedure rules and financial regulations of the Council that are required to be observed which are also in place to ensure any related party transactions are identified, fully disclosed and recorded, properly considered and accounted for as necessary.

Group Entities (council controlled companies)

On behalf of Management, I confirm that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The process outlined above in respect of the council, is followed closely by both Together for Children and Sunderland Care and Support. With regard Siglion LLP all board members must declare at meetings they attend any interests of a personal or prejudicial nature.

Yours sincerely,



Jon Ritchie

Executive Director of Corporate Services

Appendix 1

No.	Questions for management	Management response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, either within Sunderland City Council as a whole or within group entities during the period 1 April 2021 – 31 March 2022?</p>	<p>There was one breach of control during 2021/2022 in one of the Council's maintained schools. The value of this does not impact the Council in relation to the 2021/22 financial statements.</p>
2	<p>Do you suspect fraud may be occurring within Sunderland City Council or within group entities?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within Sunderland City Council or group entities? ➤ Do you have any concerns that there are areas within Sunderland City Council or group entities that are at risk of fraud? ➤ Are there particular locations within Sunderland City Council or group entities where fraud is more likely to occur? 	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Council. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which includes group entities and did not identify any areas of concern.</p> <p>The Council also takes part in the Audit Commission's NFI programme which also covers group entities and has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Audit and Governance Committee for the year. The Council has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Council intranet. Other controls in place include a robust budget management framework which includes detailed support for Financial Management, verification checks in key systems such as payroll, BACS payments, Accounts Payable which are aimed at identifying fraud or errors. The majority of payments are through the Supplier Relationship Management system which ensures authorisation of payments by an approved authorised officer. There continues to be work undertaken across the Council and group entities to raise awareness of Information Governance issues and encourage staff to keep information secure.</p>

No.	Questions for management	Management response
4	<p>How do you encourage staff to report their concerns about fraud?</p> <p>➤ What concerns about fraud are staff expected to report?</p>	<p>This is undertaken by officers of the Council. A Whistle Blowing policy is in place and is on the Council's intranet which gives details of how staff can raise concerns. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within the Council and group entities?</p> <p>➤ How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>The Council and its group entities has robust procedures in place to ensure all related party transactions are identified and then where appropriate are fully disclosed in the relevant Statement of Accounts. The Council has an established approach for Partnership arrangements including maintaining a guidance document and check list. Internal processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. Relevant member interests are also documented and held by democratic services for scrutiny and also help to inform the process. The procedures for the identification and assessment of group accounts process also helps to inform this area in addition to the other processes and policies in place. Reviews by senior management also help inform the control process.</p>

No.	Questions for management	Management response
7	<p>Are you aware of any entries made in the accounting records of Sunderland City Council or group entities that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of Sunderland City Council or group entities? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors which are high risk of fraud? 	<p>In relation to the case mentioned in question 1 there are transactions for the school which are false, however the value does not impact on the statement of accounts for 2021/22.</p> <p>Internal controls and internal check mitigate the risk as does appropriately qualified and experienced staff involved in compiling the accounts for both the council and group entities. Where external support is brought in to assist with production of group entity accounts these are suitably qualified and experienced.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Monthly bank reconciliations are carried out and reviewed by senior management along with balance sheet and suspense account reviews. Strong and robust budgetary control and financial practices are in place across the Council.</p> <p>Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk-based approach to auditing.</p> <p>Legal and financial review is carried out across the whole Council spectrum of activity.</p>

No.	Questions for management	Management response
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <p>➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p>	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget along with agreed cash limits approach is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and executive directors within the Council. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Cabinet quarterly reports during the year. As a consequence, there are no inappropriate pressures or incentives being applied in either the council or its group entities.</p>
9	<p>What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Arrangements were in place before the introduction of the Bribery Act and continue to be applied, e.g. existence and promotion of the anti - fraud and corruption policy, whistle blowing policy, codes of conduct, financial procedure rules, procurement procedure rules, disciplinary procedures; the existence of effective audit service. In response to the introduction of the Bribery Act 2010 these arrangements were reviewed in light of the Act to ensure they continued to be 'adequate procedures'. The Council's senior management team reaffirmed its commitment its zero tolerance to bribery. An assessment was made of the risk to the Council regarding bribery. Procurement arrangements, i.e. procurement procedure rules, were reviewed to ensure appropriate due diligence is carried out in respect of suppliers seeking to contract with the Council and contract terms and conditions address the subject of bribery.</p>

Mr Cameron Waddell
 Partner
 Mazars LLP
 26 Mosely Street
 Newcastle Upon Tyne
 NE1 1DF

Date:

Please note this is a draft management representation letter, containing required representations up to and including 12 October 2022; any changes will be highlighted in our follow-up letter.

Sunderland City Council and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Sunderland City Council (the Council) and Group for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Assistant Director of Finance (s151 officer) that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Executive Director of Corporate Services (s151 officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and

- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is, therefore, not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service concession arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Appendix to be attached to this letter setting out unadjusted disclosures and misstatements once finalised.

Yours faithfully

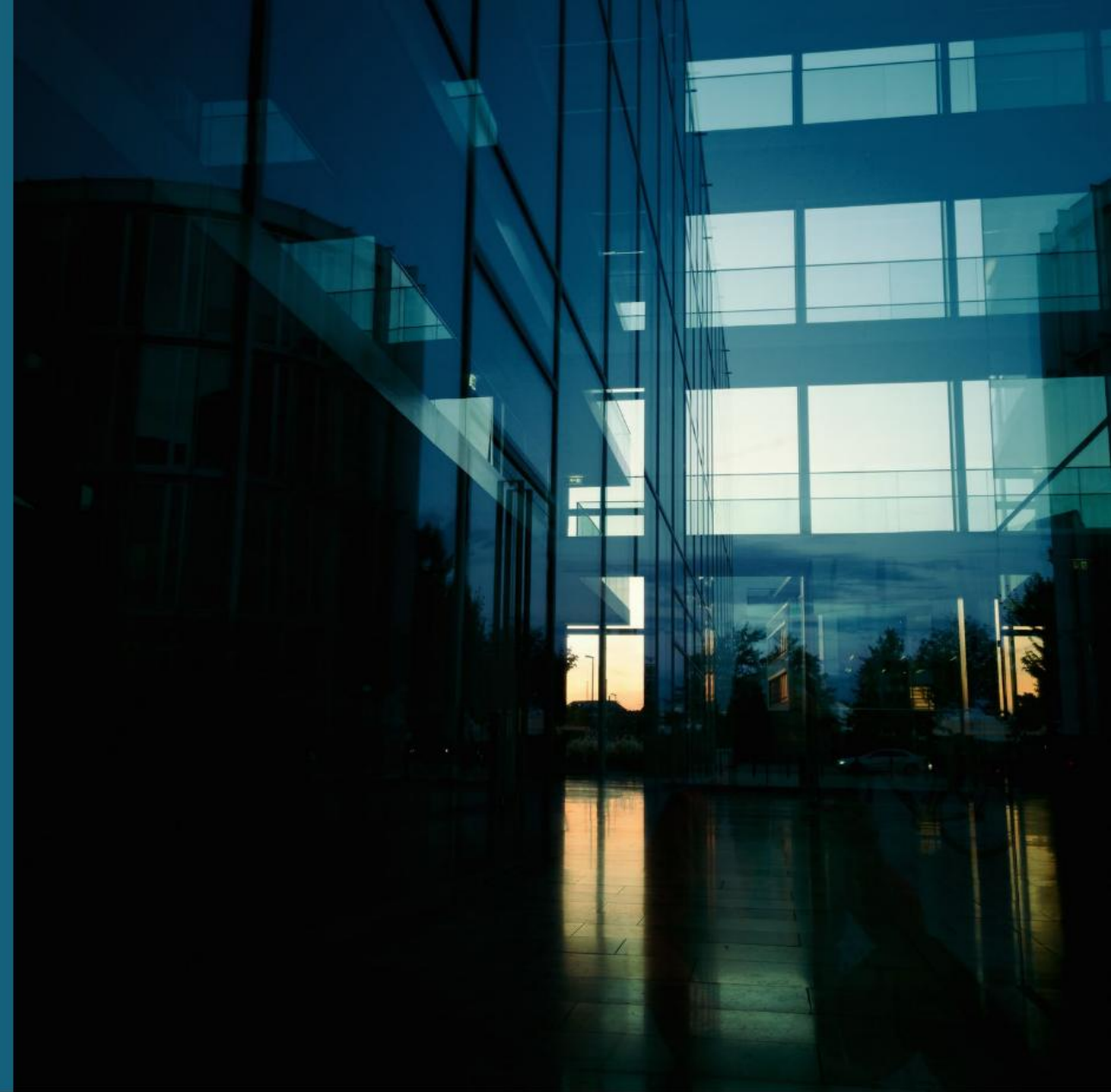
s151 Officer – Assistant Director of Finance

Date:

Audit Completion Report

Sunderland City Council
Year ended 31 March 2022

October 2022



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Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Audit and Governance Committee Members
Sunderland City Council
City Hall
Plater Way
Sunderland
SR1 3AA

12 October 2022

Dear Committee Members

Audit Completion Report – year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 April 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We would also like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07813 752 053.

Yours faithfully



Cameron Waddell
Partner
Mazars LLP

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

01

Section 01: **Executive summary**

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (Council and Group);
- Net defined benefit liability valuation (Council and Group);
- Valuation of property, plant and equipment (Council only); and
- Accounting for Private Finance Initiative (PFI) arrangements (Council only – enhanced risk).

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022, other than some areas of Property, Plant and Equipment and other transaction testing plus also our receipt and consideration of the pension fund auditor assurance.

At the time of preparing this report, matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No questions or objections have been received.










02


Section 02: **Status of the audit**


2. Status of the audit

Our work is on-going; there are currently no matters of which we are aware that would require modification of our audit opinion, other than infrastructure, subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Infrastructure		We have highlighted to this Committee previously outstanding national matters in relation to infrastructure; as a result of these, we have not yet issued our formal certificate for 2020/2021. As of early October 2022, national issues remain unresolved in relation to the material accuracy of infrastructure balances, impacting on all highways authorities, therefore, we cannot complete our work and give our opinion for 2021/2022 until these are resolved. Options being considered include a limitation of scope in our auditor's report.
Net defined benefit liability (pensions)		Receipt and consideration of assurance from the Pension Fund auditor.
Property, Plant and Equipment		Completion of work.
Transaction testing		Various areas of transaction testing remain to be completed.
Other		Completion of various other work including two outstanding direct confirmations for Council investments.
Closing procedures		Review of the revised financial statements and consideration of any post balance sheet events.

 Likely to result in material adjustment or significant change to disclosures within the financial statements.

 Potential to result in material adjustment or significant change to disclosures within the financial statements.

 Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £14.518 million for the Group and £13.506 million for the Council using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements is £16.172 million and £15.324 million for the Group and Council respectively, using the same benchmark.

Use of experts

Changes to our planned approach since issuing our Audit Strategy Memorandum are shown in italics below.







Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	Report commissioned by the National Audit Office from PwC in respect of actuaries nationally.
Property, Plant and Equipment (PPE)	Internal Valuer	We take into account relevant information available from third parties. <i>We have also engaged our own internal valuation expert to review specified Council assets.</i>
<i>Shared Waste Private Finance Initiative (PFI) facility</i>	<i>Hilco Appraisal Ltd</i>	<i>No expert assessed as being required.</i>
Financial instrument disclosures	Link Asset Services	No expert required.





3. Audit approach


Group audit approach


Our group audit approach remains unchanged.


Group component	Approach adopted	Key points or other matters to report
Sunderland City Council (the parent)		The Council has disclosed the financial performance of its interests in other entities in Note 33 Related Party Transactions.
Together for Children (TfC)		Full scope audit – reliance on the component auditor. The component auditor is Robson Laidler LLP, who also audits all the remaining components, bar SLP which is audited by RSM LLP.
Sunderland Lifestyle Partnership (SLP)		Specified audit procedures in respect of the consolidation adjustments for the leisure assets, due to them being valued on a different basis in the component's accounts. Note 33 sets out the additional support provided to SLP in 2021/22.
Sunderland Care and Support Limited (SCAS)		No matters to report.
Siglion Ltd		No matters to report.
IAMP LLP		No matters to report.

 **Full audit**
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality

 **Audit of balances and/or disclosures**
Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality

 **Specific audit procedures**
Performance of specific audit procedures on the component's financial information

 **Review procedures**
Review of the component's financial information prepared for group reporting purposes using the component materiality assigned

 **Desktop analytical review procedures**
Desktop analytical review procedures carried out on non-significant consolidated components

04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risk – management override of controls

Management override of controls	Description of the risk This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: <ul style="list-style-type: none">• accounting estimates impacting amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no significant issues arising from our work that we are required to report to you.

4. Significant findings – significant risk: net defined benefit liability (pensions)

Net defined benefit liability (pensions)	Description of the risk
	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	How we addressed this risk
	<p>We:</p> <ul style="list-style-type: none">critically evaluated the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;challenged the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;critically assessed the competency, objectivity and independence of the Actuary;liaised with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;agreed data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements; andcritically reviewed the component auditor’s work in respect of Together for Children’s pensions liability which is consolidated in the group financial statements.
	Audit conclusion
	<p>We discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary’s report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £27.170m.</p> <p>We critically reviewed the consolidated pensions liabilities for Together for Children and Sunderland Care and Support and challenged management in respect of variances.</p> <p>Our work is on-going, with the following key areas outstanding:</p> <ul style="list-style-type: none">receipt and consideration of the assurance from the Pension Fund auditor; andour work on the revised Actuary’s report is not fully completed. <p>We will provide an update on outstanding matters to the Committee via our formal follow-up letter, which will include an updated summary of misstatements, if required.</p>

4. Significant findings – significant risk: valuation of property, plant and equipment

Valuation of property, plant and equipment (PPE)	Description of the risk
	The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility). The Council employs valuation experts to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment (PPE) due to the significant judgements and number of variables involved.
	How we addressed this risk We: <ul style="list-style-type: none">critically assessed the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility;considered the competence, skills and experience of the Valuers and the instructions issued to the Valuers;substantively tested capital expenditure additions and disposals during the year;substantively tested the Council's property, plant and equipment to gain assurance that they exist and are owned by the Council;substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;carry out procedures to gain assurance over the consolidation adjustments for group accounts which impact on property, plant and equipment and associated financial statement areas; andwhere necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.
	Audit conclusion In addition to our planned work, we critically reviewed the valuation of the new City Hall, which became operational in 2021/22, with input from our internal valuation expert. Our review did not identify any material issues. There have been no significant issues arising from our testing that we are required to report to you; at the time of writing this report, our work is almost complete. We will update this Committee of any updated issues upon conclusion of our work.

4. Significant findings – enhanced risk: PFI arrangements

Enhanced risk

Accounting for PFI arrangements	<p>Description</p> <p>The Council has three private finance initiative (PFI) arrangements, covering:</p> <ul style="list-style-type: none">• Sandhill View (multi-use community facility);• street lighting; and• a shared waste facility. <p>The method of accounting for PFI assets and liabilities is complex, therefore, this increases the risk of misstatement.</p>
	<p>How our audit addressed this area of enhanced risk</p> <p>We:</p> <ul style="list-style-type: none">• reviewed the Council’s adopted approach for accounting for its PFI arrangements;• reviewed any changes from prior years to the long term financial models used;• critically reviewed the assumptions made by management; and• assessed the completeness and accuracy of disclosures.
	<p>Audit conclusion</p> <p>We obtained the assurance sought, with no significant issues arising.</p>

4. Significant findings

Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

Draft financial statements were received from the Council on 18 July 2022, ahead of the revised statutory deadline of 31 July 2022 and were of an excellent quality, supported by comprehensive and clear working papers. The finance team has again worked closely with us and has been very responsive in addressing queries throughout the audit period. The platform used for sharing working papers and logging queries has again facilitated the smooth completion of the audit.

Significant matters discussed with management

Assurance was obtained in respect of the matters detailed below, with issues arising summarised in the referenced sections, subject to completion of outstanding work.

- Infrastructure:** as a reminder, we have highlighted previously to this Committee the national outstanding issue in relation to infrastructure balances held by all highway authorities, including this Council. This is a national issue, impacting on most councils. The issue relates to likely overstatement of infrastructure balances, due to balances not being sufficiently depreciated, in part due to insufficient historic records of infrastructure expenditure being maintained. Due to the above, our certificate on the 2020/21 audit has not yet been issued, with the certificate formally ‘closing’ the audit. We have highlighted previously to this Committee the on-going CIPFA consideration of this issue, as the public sector accountancy body, with consultations earlier this year. As of early October 2022, no firm decisions have been arrived at. Consideration is being given to reporting ‘limitation of scope’ in relation to infrastructure, in order to avoid further delays to audit opinions. Mazars is working with the National Audit Office and liaising with other firms in this respect.
- Pensions:** we discussed with management the material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts. It became apparent that due to the timing of the Actuary’s report production, that it was not based on the latest valuation data used by the Pension Fund, therefore, the Council requested a revised pensions report. This resulted in a reduction to the net pensions liability, due to increased assets, of £27.170m. Further details are set out under the significant risk section 4.

- Newcastle Airport shares £16.508m as at 31/3/2022:** one of the Council’s in the North East acts on behalf of other Councils with Airport shares – South Tyneside MBC. We understand the latter obtained an external valuation of the Airport shares; however, this cannot yet be shared with us. The Council has based its valuation as at 31 March 2022 on updated EBIDTA estimates (earnings before interest, taxes, depreciation and amortisation). We understand that management’s estimate does not differ materially to the range estimated by the external expert.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit. The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.



05

Section 05: **Internal control recommendations**

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal controls we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the categories detailed overleaf.

2021/22 internal control recommendations

We have not raised any recommendations in respect of 2021/22.

2020/21 internal control recommendations – follow-up

We have documented our follow-up of prior year recommendations in this section, namely:

- School bank reconciliations (medium priority)
- Evidencing the year-end Treasury Management reconciliation (medium)
- Access to the asset management system (low)
- Salix loans and issues with accuracy of confirmations (low)

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	0

5. Internal control recommendations

Follow-up of prior year deficiencies in internal control – Level 2

Description of deficiency – school bank reconciliations

Testing identified that the year-end bank reconciliation for one school was not actually done at the year-end; instead, the school did a bank reconciliation during March, which reconciled back to the February bank statement.

Compensating controls are in place, via the Council, however, the year-end bank reconciliation is a key control, therefore, should be done at the year-end for all schools.

Potential effects

Risk of fraud and or material misstatement.

Recommendation

Ensure bank reconciliations are carried out for all schools at the year-end.

Management response

We will ensure appropriate additional controls are put in place for reconciling the 31 March balances.

2021/22 follow-up

Based on our work in 2021/22, the above issue remains, however, the Council has put in place sufficient compensating controls.

Follow-up of prior year deficiencies in internal control – Level 2

Description of deficiency - evidencing the year-end treasury management reconciliation

Formal evidence of the review of the year-end treasury management reconciliation was not retained. This was raised as a recommendation in prior years and had been actioned, however, was overlooked in 20/21 following a change in key officers. Testing did not identify any unusual reconciling items and the reconciliation was carried out; however, evidence of the second person's review of it was not retained.

Potential effects

Risk of fraud and or material misstatement.

Recommendation

Ensure evidence is retained of the second person's review of the year-end Treasury Management reconciliation.

Management response

This has already been actioned.

2021/22 follow-up

Evidence has been retained based on our walkthrough and year-end reconciliation review.

5. Internal control recommendations

Follow-up of prior year deficiencies in internal control – Level 3

Description of deficiency - asset management system access

Our testing of IT general controls identified that there is no formal policy in place for approving new starters' access to the asset management system, Technology Forge, with requests being made via the Application Manager. As the users have expanded considerably during 2020/21 (from 20 users to 88 users), there is a risk that unauthorised users may be able to gain access.

Potential effects

Unauthorised access to the asset management system.
Data manipulation.

Recommendation

The Council should implement a formal policy to ensure authorisation is given and recorded for any new users to the application.

Management response

This is already being actioned, with the Application Manager designing a pro-forma for new starters to capture/document their system requirements and evidence approval of access.

2021/22 follow-up

As set out above, this was actioned last year.

Follow-up of prior year deficiencies in internal control – Level 3

Description of deficiency - Salix loans and issues with accuracy of confirmations

For the third year in a row, the direct confirmation we obtained from Salix differed to the Council's records.

Testing identified that there were loans on the Salix confirmation that had been omitted from the Council's balance sheet, with a trivial balance of £0.265m. Controls should ensure all relevant loans are captured.

The Council should engage with Salix as part of their loan agreements with them, to underline the importance of accurate year-end direct confirmations e.g. ensuring Salix does not provide details of loans that have matured before the year-end, and also the timeliness of providing a direct confirmation to us.

Potential effects

Risk of fraud and or material misstatement.

Recommendation

The Council should engage with Salix, as part of their loan agreements with them, to try and resolve the historic issues with Salix direct confirmations showing incorrect information and also not being timely.

The Council should also revisit controls in place for ensuring all loans are recognised on its balance sheet, where appropriate.

Management response

This will be addressed throughout 2021/22 and further checks introduced at the year-end.

2021/22 follow-up

Trivial differences identified in 2021/22, with no indication of material misstatement. The Council has still followed-up these trivial differences, as part of understanding why they have arisen - as part of ensuring it doesn't ever result in a material difference. We are satisfied there is no indication of material misstatement, whether due to fraud or error.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £0.436 million and £0.405 million for the Group and Council respectively.

The first table overleaf outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements identified during the prior year audit which were not adjusted for and are carried forward misstatements.

The third table outlines the misstatements that have been adjusted by management during the course of the audit.

The table below summarises all errors.

Summary of unadjusted and adjusted misstatements

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Unadjusted misstatements identified during the 2021/22 audit	799	3,340		-4,139
2	Unadjusted misstatements identified during the 2020/21 audit which remain carried forward	1,610		-1,610	
	Sub-total unadjusted misstatements: current year and prior year	2,409	3,340	-1,610	-4,139
3	Adjusted misstatements		27,170		-27,170

6. Summary of misstatements

1. Unadjusted misstatements – current year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Group Property, Plant and Equipment – Assets under Construction Cr: Group Debtors	6,721 -6,721			
	Being the misclassification of Siglion Work In Progress (i.e. developments).				
2	Dr: Debtors Cr: Gross income	799			-799
	Being the extrapolated error from our 'cut-off' testing of transactions.				
3	Dr: Net pensions liability Cr: Remeasurement of net defined benefit liability		1,950		-1,950
	Being the estimated misstatement of Together for Children & Sunderland Care and Support pensions liabilities due to there being a difference between the Actuary's estimate of Pension Fund assets and actual Pension Fund assets per the draft Pension Fund accounts.				
4	Dr: Creditors Cr: Gross expenditure		1,390		-1,390
	Being the extrapolated error from Creditors testing, arising from one item in our residual sample being mainly in relation to 2022/23, so only part of the invoice should have been included in 2021/22.				
Total unadjusted misstatements – current year		799	3,340		-4,139

6. Summary of misstatements

2. Unadjusted misstatements – prior year

		Assets	Liabilities	Reserves	Income Statement
		(£'000)	(£'000)	(£'000)	(£'000)
1	Dr: Property, Plant and Equipment Cr: Revaluation Reserve / Capital Adjustment Account	1,610		-1,610	
	Total unadjusted misstatements – prior year	1,610		-1,610	

Executive summary

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6. Summary of misstatements

3. Adjusted misstatements

	Assets	Liabilities	Reserves	Income Statement
	(£'000)	(£'000)	(£'000)	(£'000)
1				
Dr: Net cost of services				10
Cr: Financing & Investment income & expenditure				-10
Dr: Net pensions liability		27,170		
Cr: Remeasurement of the net defined benefit liability				-27,170
Being the decrease in the net defined benefit liability due to the Actuary's estimate of Pension Fund assets differing to the Pension Fund draft accounts.				
Total adjusted misstatements – current year		27,170		-27,170

6. Summary of misstatements

Disclosures

Disclosure amendments

Audit work identified a small number of amendments to disclosures. The most significant are summarised below, split into adjusted and unadjusted.

Adjusted disclosures

- **Note 13 Property, Plant and Equipment (PPE) revaluations table:** amendment to move £1.429m from Other Land and Buildings to Community Assets; impacting also on the main PPE table.
- **Note 16 financial instrument gains and losses:** amendment to include impairment losses for trade debtors.
- **Note 38 Termination Benefits:** amendment to two exit package bandings to reflect amounts paid (no net impact – disclosure classification only, with corresponding similar amendment to the Group Termination Benefits note).
- **Group Note 4 Pensions:** amendment to disclosure as a result of error (no net impact). N.b. this is over and above the amendment to the Council's net pensions liability which impacts also on the consolidated Group liability.
- **Group Note 7 Exit Packages:** amendment to comparators so that they are consistent with the audited accounts.
- **Group Note 8 Officers' remuneration:** amendment to comparators so that they are consistent with the audited accounts.
- **Group debtors and creditors:** the Council has included Group debtors and creditors disclosure notes in the revised accounts.

Unadjusted disclosures

- **Note 2 accounting standards issued but not yet adopted:** the Council has disclosed IFRS 16 leases in this note, however, it is not technically required given implementation of this standard has been deferred until 2024/25.
- **Note 38 Termination Benefits and Note 29 Officers' Remuneration:** non-material difference between the estimated and actual exit package for one individual.

07

Section 07: **Value for Money**

7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - how the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mr Cameron Waddell
Partner
Mazars LLP

Date:

Please note this is a draft management representation letter, containing required representations up to and including 12 October 2022; any changes will be highlighted in our follow-up letter.

Sunderland City Council and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of Sunderland City Council (the Council) and Group for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Assistant Director of Finance (s151 officer) that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Executive summary	Status of audit	Audit approach	Significant findings	Internal control recommendations	Summary of misstatements	Value for Money	Appendices
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Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council’s financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Assistant Director of Finance(s151 officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council’s assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is, therefore, not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service concession arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council’s PFI schemes that you have not been made aware of.



Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please make sure an appendix is attached to the letter setting out unadjusted disclosures and misstatements.*

Yours faithfully

S151 Officer – Assistant Director of Finance

Signature:

Date:

.



Appendix B: Draft audit report

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

We anticipate issuing an unqualified opinion, without modification, on the financial statements, however, this is subject to the conclusion of matters in relation to infrastructure which remain outstanding at the time of issuing this report; further detail is set out in sections 2 and 4.



Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and, therefore, we remain independent.



Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none">a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; andb. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	<p>We have not identified any evidence to cause us to disagree with the Executive Director of Corporate Services that Sunderland City Council will be a going concern, and, therefore, we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Governance Committee, confirming that</p> <ul style="list-style-type: none">a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:<ul style="list-style-type: none">i. management;ii. employees who have significant roles in internal control; oriii. others where the fraud could have a material effect on the financial statements; andd. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Cameron Waddell, Partner

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

Statement of Accounts 2021/2022

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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.

In line with guidance issued by The Chartered Institute of Public Finance & Accountancy (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.

With regard to corporate governance, the Council considers an annual review of its Corporate Government arrangements, including the Local Code. The 2021/2022 review has been completed and was considered by the Chair and members of the Audit and Governance Committee in April 2022. 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. Although the Council's internal audit service had reduced capacity during 2021/2022, this has not impacted on the effectiveness of the Council's governance arrangements for the year or the head of Internal Audit's ability to provide an opinion on the effectiveness of the Council's control arrangements. A small number of areas for improvement and development have been identified which will be acted upon during 2022/2023.

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

Paul Wilson CPFA
Assistant Director of Finance *

Dated: 4 November 2022

* S151 officer responsibilities for the Council were undertaken by the Executive Director of Corporate Services at 31 March 2022 and have subsequently transferred to the Assistant Director of Finance.

Narrative Statement

Introduction to Narrative Statement

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

- a summary of both the non-financial and financial performance of the Council during 2021/2022 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 2022/2023 and beyond.

Financial Statements presented within the Statement of Accounts 2021/2022

The financial highlights noted in the Narrative Statement are reflected in the Statement of Accounts and Notes to the Accounts for 2021/2022.

The Accounts set out the Council's income and expenditure for the year, and its financial position as at 31 March 2022. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022, 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** - 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 Business Rates. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution between the Council, its precepting bodies and the Government.
8. **Group Accounts** - The Group Accounts present the financial statements and associated notes for the Council together with its subsidiaries and joint ventures.

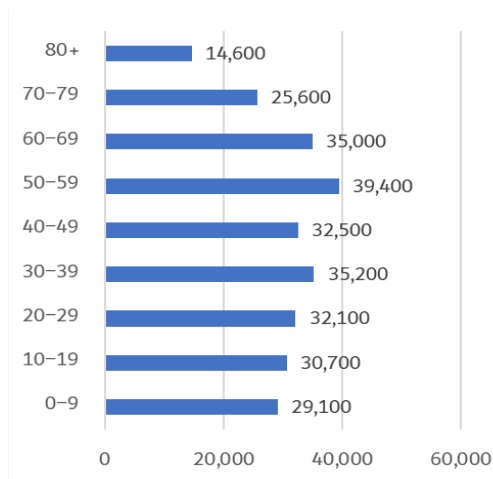
ABOUT SUNDERLAND

5 UNIQUE SUB AREAS,
25 WARDS



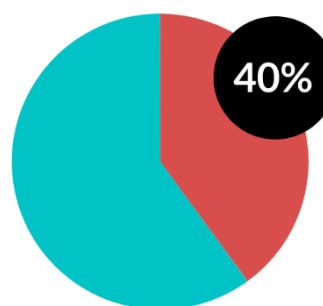
- 53 SQUARE MILES
- RIVER PORT & COASTLINE
- CITY CENTRE WITH AN URBAN CORE OF 180 HECTARES
- 2 MAJOR RETAIL SUB-CENTRES IN WASHINGTON & HOUGHTON, COALFIELD
- MORE THAN 50% GREENFIELD LAND

POPULATION BY AGE



POPULATION

274,200



40% OF LOCAL AREAS
IN SUNDERLAND ARE
AMONGS THE MOST
DEPRIVED IN ENGLAND

Sunderland is a forward-looking city undergoing continued transformation and economic regeneration. Through a range of partnerships, we work with others to deliver our ambitions for the city. These ambitions are set out in the City Plan 2019-2030, focusing on a **dynamic, healthy** and **vibrant** smart city. Key achievements for 2021/2022 are set out in the following section. Figures for 2021/2022 are based on latest available data, taking into consideration the impact of the Covid-19 pandemic.

Narrative Statement



A DYNAMIC SMART CITY

- a lower carbon city with greater digital connectivity for all
- more and better jobs
- more local people with better qualifications and skills
- a stronger city centre with more businesses, housing and cultural opportunities
- more and better housing.



5,973 jobs created through businesses receiving support from the Council's Business Investment Team (2021/2022).

Smart City – 20-year partnership agreed with BAI to deliver next generation communications



36% of all council spend on suppliers and services spent in the local economy and 64% in the regional economy. £33,630,949 of social value secured through procurement (2021/2022).



Digital ambition being realised with digital (self-serve) customer contact at **55%** and instances of access to public Wi-Fi up at **5,325** as at March 2022.

Further progress on the delivery of a million sq. ft of new modern office space on **Riverside Sunderland** with the opening of the new **City Hall**.



CO2 emissions estimates for Sunderland have continued to reduce year on year – down to **4.2** tonnes per resident (2019), below England (at 4.9) and the North East (at 5.5).



More new homes built – **872** new homes built in 2021/2022.



26 major planning applications approved for non-housing and **24** for housing (2021/2022).

Ranked as an **A Grade City** by the **Carbon Disclosure Project** – one of just 11 cities in the UK and in the top 10% in the world.



Narrative Statement



A HEALTHY SMART CITY

- reduced health inequalities enabling more people to live healthier longer lives
- access to equitable opportunities and life chances
- people enjoying independent lives
- great transport links with low carbon and active travel opportunities for all
- a cleaner and more attractive city and neighbourhood.



Local data shows that **96.5%** of new birth visits and **94.6%** of 2-2½ year-old reviews were within timescale at the end of March 2022.



An additional 5 businesses obtained a Health at Work Award taking the total for 2021/2022 to **31**.



98.2% of people aged 18 or over live independently, without social care services (March 2022).



An additional **841** people signed up to the Sunderland Step Up programme in 2021/2022 – promoting increased physical activity.



2,425 homes with assisted technology supporting independent living (March 2022).



100% of schools signed up to the Active School Charter (March 2022).

Active Travel

8,192 metres of new adopted paths / footways.

2,450 metres of new / improved cycleways (2021/2022).



5,123 participants taking part in Active Sunderland Big Events (2021/2022).



A VIBRANT SMART CITY

- more resilient people
- more people feel safe in their homes and neighbourhoods
- more residents participating in their local communities
- more people visiting Sunderland and more residents participating in cultural events, programmes and activities.



1,228 people registered for volunteering activity as at the end of March 2022.



Engagement with Sunderland UK social media increased with **25,023** Facebook and **41,549** Twitter followers (March 2022).



Only children's services to go from inadequate to outstanding and **1 of 17** rated outstanding in England.



7,224 people supported with benefits / debt issues 2021/2022.



People enabled to support 14 local projects / causes financially, through the Crowdfund platform - raising **£111,587**(2021/22).

Families supported to be more resilient through our Children's Services

- **83.4%** of early help cases closed with successful outcomes
- **97%** of all referrals with a decision within 24 hours
- **97%** of children subject to a child protection plan have received a statutory visit within 20 working days (March 2022)



Cared for and care experienced young people supported

- **93%** of Care experienced young people were living in suitable accommodation (2020/2021).
- **99.8%** of Cared for Children with an up-to date Personal Education Plan.
- **91.7%** of Cared for Children have experienced less than 3 placements.
- **87.8%** of care experienced young people in touch with the service within 8 weeks of previous contact. (March 2022)



The return of visitors to our cultural venues including:

- **212,237** visits to the Empire Theatre.
- **83,926** visits to the Arts Centre.
- **184,976** visits to the Museum & Winter Gardens.
- The opening of a new 800 capacity auditorium the Fire Station. (2021/2022)



FUTURE FOCUS

In 2020/2021 we faced the unprecedented challenge of the Covid-19 global pandemic which has continued into 2021/2022. As a result, delivery plans under the City Plan were disrupted and many of the challenges for the city that already existed were intensified. Our City Plan 2019-2030 was recalibrated during 2020/2021 to focus on recovery, with renewed plans set out in the City Plan 2019-2030 Indicative Timeline. During 2021/2022 the annual assurance of the City Plan allowed for the Indicative Timeline to be updated, as we move through recovery, and as our delivery plans further develop through the lifespan of the plan. Our longer-term plans, as set out in the City Plan 2019-2030, recognise some of the key challenges that prevail, as we continue to focus on our core ambitions for a dynamic, healthy, and vibrant smart city.

We will work with our partners to ensure that:

- The city and its residents emerge from the COVID-19 pandemic in a strong and competitive position;
- Health and wellbeing outcomes are significantly improved;
- Residents' skills and qualifications enable them to secure good jobs matching the needs of employers in the city's key sectors;
- Sunderland offers the opportunities that families and individuals need to achieve their ambitions;
- Sunderland City Centre will drive transformational economic growth with Riverside Sunderland demonstrating clearly our investment ambition;
- Families are resilient and resourceful to respond to challenges and achieve the best possible outcomes for their children; and
- Sunderland will play its role in tackling the global challenge of climate change, working together across the city to be carbon neutral by 2040.

Narrative Statement

Financial Performance of the Council 2021/2022

The original estimated net revenue expenditure for 2021/2022 to be met from Government grants and local taxpayers was approved at £204.880m. The Council's Band D Council Tax was set at £1,543.44 for 2021/2022, inclusive of the Adult Social Care Precept. This represented a 1.99% Council Tax increase from the 2020/2021 Band D Council Tax level and a 3% Adult Social Care Precept increase. However, the Council again set the lowest Council Tax level in the North East region for 2021/2022, continuing the trend since Council Tax was introduced in 1993/1994.

Comprehensive budget monitoring is carried out during the year and is scrutinised through monthly challenge sessions with Executive Directors with subsequent reporting to the Chief Executive, and monthly briefing sessions with Portfolio holders. 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 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 £0.037m for the financial year. This surplus has been transferred to the Medium Term Planning Smoothing Reserve. The table below summarises the financial position for the year 2021/2022.

	Final Budget	Outturn	Variance Under / (Over) Spend
	£'000	£'000	£'000
Leader	5,145	4,845	300
Deputy Leader	64,940	69,518	(4,578)
Cabinet Secretary	20,681	19,331	1,350
Children, Learning and Skills	78,219	84,187	(5,968)
Vibrant City	14,156	14,031	125
Healthy City	62,809	53,826	8,983
Dynamic City	9,321	7,078	2,243
Total Service (Delegated) Expenditure	255,271	252,816	2,455
Provision for Contingencies	16,007	0	16,007
Capital Financing Costs	20,431	16,956	3,475
Transfer to/(from) Reserves	(22,126)	(19,838)	(2,288)
Technical Adjustments	(59,897)	(59,897)	0
Levies	15,169	15,169	0
Hetton Town Council Precept	67	67	0
Less Grants	(22,495)	(22,399)	(96)
Total Net Expenditure	202,427	182,874	19,553
Revenue Support Grant	(28,110)	(28,110)	0
Retained Business Rates	(24,640)	(24,640)	0
Top Up Grant	(43,723)	(43,723)	0
Collection Fund Surplus	2,211	2,211	0
Council Tax Requirement	(108,165)	(108,165)	0
Outturn	0	(19,553)	19,553
Establishment of / Transfer to Reserves	0	19,516	(19,516)
Final Outturn Position	0	(37)	37

Narrative Statement

The Council's expenditure and income continued to be impacted by the Covid-19 pandemic and the wider economic climate. The Government provided further un-ringfenced Covid-19 support grant funding to Local Authorities during the year, with the Council receiving payments totalling £12.583m in recognition of the cost pressures arising as a result of the pandemic. Specific grant funding was also received from Government during the year to deliver targeted support to manage the impact of the pandemic. Some elements of this additional grant funding were for the Council to administer, on behalf of the Government including grant support to businesses and care providers on a non-discretionary basis.

The Council maintained a strong usable reserves position, the overall level of reserves being £216.062m at 31 March 2022 (£204.182m at 31 March 2021). Dependent on the future financial impact of the pandemic and the level of Government funding made available to support this, these reserves could come under greater strain in the coming years than planned.

Included within the usable reserves at 31 March 2022 is £9.782m of school balances (£10.742m at 31 March 2021). 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 £12.000m as planned.

Further details can be found in the Council's Revenue Outturn report to Cabinet on 9 June 2022.

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 2021 £m	Balance as at 31 March 2022 £m
Non-current assets	1,133	1,209
Net current assets	101	169
Long term liabilities and provisions	(1,043)	(1,034)
Net Assets	191	344
Represented by:		
Usable reserves	204	216
Unusable reserves	(13)	128
Total reserves	191	344

Financial Indicators

Financial indicators can be calculated to assess the efficiency of the Council and show whether it is delivering value for money.

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 2.1 (1.7 at 31 March 2021) 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

Narrative Statement

ratio is 0.4 (0.3 at 31 March 2021), meaning that the Council has enough long-term assets to cover its long-term liabilities.

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 26% of gross expenditure (28% at 31 March 2021), however, these are largely committed for specific purposes.

Capital Expenditure & Income and Major Acquisitions, Capital Works and Disposals during 2021/2022

The Council's capital expenditure for the year totalled £124.291m. Expenditure on non-current assets was £93.096m, whilst expenditure on intangible assets was £2.122m. The remainder of £29.073m represents loans, grants, and advances to other organisations for capital purposes, equity purchases and expenditure on property not owned by the Council.

Capital expenditure was financed as follows:

Project	Capital Financing £'000
Borrowing	66,353
Capital Receipts	2,691
Government Grants and other Contributions	49,530
Revenue Contributions from Reserves	5,717
Total	124,291

The Council is involved in several major capital projects. The main projects are listed below for information, and shows the amounts of expenditure incurred during 2021/2022, the total estimated gross cost of each project, and the status of the project at the end of this financial year.

Project	Expenditure During 2021/2022 £'000	Total Estimated Gross Cost £'000	Physically Completed / On-going at 31 March 2022
Tower Diversions and Microgrid Development	11,548	14,951	Ongoing
Strategic Acquisitions and Developments *	9,322	9,322	Complete
Sunningdale Primary School – New Build	8,813	13,562	Ongoing
SSTC Phase 3 Road	8,508	70,800	Complete
Housing Delivery Investment Plan	5,599	59,000	Ongoing
Redevelopment of Parsons Depot including Electrical Vehicle Infrastructure	5,169	10,493	Ongoing
Highway Maintenance *	4,655	4,655	Complete
Smart Cities Project	4,641	13,236	Ongoing
Replacement Household Waste and Recycling Centre	3,928	5,000	Ongoing
Vaux Housing	3,906	52,767	Ongoing
Disabled Facilities Grants *	3,738	3,738	Complete
Hetton Primary School – New Build	3,421	6,702	Ongoing
Planned Property Capital Maintenance *	3,362	3,362	Complete
City Way Dualling	3,143	5,951	Ongoing

Narrative Statement

* These projects are a rolling programme of works, therefore, the total cost is the 2021/2022 spend only.

There were four asset sales for more than £0.500m. A sum of £3.132m was received in respect of a headlease premium for Hillthorn Business Park. A sum was received of £1.139m in respect of land at Burdon Lane, £1.000m in respect of land adjacent to Burdon Lane and £1.671m in respect of land at Chapel Garth.

Council's Borrowing and Treasury Management Position

As part of the budget for 2021/2022, agreed at Council on 3 March 2021, borrowing limits were set for the year, with Prudential Indicators set as required by the Prudential Code. The limits for 2021/2022 were as follows:

- Authorised Limit for External Debt of £1,037.108m; and
- Operational Boundary for External Debt of £1,012.108m.

These limits have not been exceeded during 2021/2022.

The performance of the Council's treasury management function continues to make a positive contribution to the financial position of the Council. The average rate of interest payable on the Council's borrowing in 2021/2022 is 2.55%, which is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients. The same applies to the 0.22% rate of return achieved on investments in 2020/2021 (benchmark rate is 0.14%). This represents a good achievement, especially when short-term investment rates in the market continued to remain low as a result of the pandemic and other global economic uncertainties.

Group Accounts

The Council delivers some of its activities through a number of wholly owned subsidiaries and joint ventures. The financial performance of the Council presented earlier includes the outturn position of the Council and all group activities to reflect the full extent of the Council's economic activity and financial position. Group financial statements are produced to consolidate the results and balances of the Council with those organisations considered to be part of the group. The group and single entity accounts should be viewed with equal prominence.

The Group Balance Sheet position is:

	Balance as at 31 March 2021 £m	Balance as at 31 March 2022 £m
Non-current assets	1,167	1,236
Net current assets	135	218
Long term liabilities and provisions	(1,153)	(1,122)
Net Assets	149	332
Represented by:		
Usable reserves	204	216
Unusable reserves	31	168
Profit/(Loss) in subsidiaries and joint ventures*	(86)	(52)
Total Reserves	149	332

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. Future retirement liabilities are taken into account when the pension contribution rate is determined for each organisation. This is undertaken every three years with the latest full valuation of the scheme undertaken at 31 March 2019.

Narrative Statement

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 in real terms, despite increases in Council Tax levels. 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 2021/2022 budget, Council Tax increases (including the Adult Social Care Precept) of 4.99% were necessary.

The budget setting process for 2022/2023 provided for some additional investment in services. However, in order to set a balanced budget further savings of over £5.8m, utilisation of £5.4m of reserves, in addition to a 2.99% increase in Council Tax (including the Adult Social Care Precept) were still required. Significant demand and cost pressures still remain within Adult and Children's Social Care as well as wider pressure on service delivery from increases in inflation. Full details of the budget for 2022/2023 are set out in the Budget Report to Council of 2 March 2022.

The Government has yet to publish indicative funding figures for Councils beyond 2022/2023. Changes to retained Business Rates aligned to a fair funding review of Local Government funding has been awaited for some time, however, this continues to be delayed. The Government has indicated that the new fair funding formula and revised system of business rates for Local Government will be developed and consulted upon in the short to medium term. The economic impact of the pandemic, inflation and uncertainty of future funding arrangements poses a significant risk to the Council's financial position. The Council continues to plan as best it can through its Medium Term Financial Plan covering 2022/2023 to 2025/2026, 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 City Plan but continues to have a focus on economic regeneration. The four-year programme from 2022/2023 to 2025/2026 totals £627m, including £134m of new start schemes. This will support the delivery of the key priorities in the City Plan.

The new starts proposals for 2022/2023 include; the City of Sunderland Arena, further regeneration of the Sunniside area and investment in the City's parks and open spaces. Some schemes included will result in future capital receipts and other income streams to the Council. In addition, the proposals include significant investment in other front-line services to residents across the City including social care and other operational assets.

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

Capital Expenditure and Funding	2022/2023 £m	2023/2024 £m	2024/2025 £m	2025/2026 £m	Total £m
Total Expenditure	295	206	108	18	627
Grants and Contributions	97	23	19	6	145
Capital Receipts	7	5	3	0	15
Reserves and Revenue	7	2	0	0	9
Borrowing	184	176	86	12	458
Total Funding	295	206	108	18	627

Full detail of the approved Capital Programme is set out in the Budget Report to Council of 2 March 2022.

Narrative Statement

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. The MTFP is based on data as known, but this does not reflect any potential impact of the Government Fair Funding review and move to any alternative retained business rates system. 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 are higher than assumed;
- future spending plans underestimated, including through increased social care demand;
- 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 to Council of 2 March 2022.

Conclusion

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

Paul Wilson CPFA
Assistant Director of Finance

4 November 2022

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. For 2021/2022, that officer was 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 18 July 2022 and the audited accounts will be authorised once the external audit has been completed.

* S151 officer responsibilities for the Council were undertaken by the Executive Director of Corporate Services at 31 March 2022 and have subsequently transferred to the Assistant Director of Finance.

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 2021/2022 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Jon Ritchie ACA
Executive Director of Corporate Services

18 July 2022

Certification of Audited Statement of Accounts 2021/2022 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 2021/2022 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 4 November 2022 in accordance with The Accounts and Audit Regulations 2015.

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

4 November 2022

Certification of audited Statement of Accounts by the Assistant Director of Finance

As the Council's Section 151 officer, I hereby re-certify the audited Statement of Accounts for 2021/2022 in accordance with The Accounts and Audit Regulations 2015.

Paul Wilson
Assistant Director of Finance

4 November 2022

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.

Annual Governance Statement

Scope of Responsibility

The Council is responsible for ensuring that its business, and that of its owned companies, 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 updated with minor amendments in relation to the Council's City Plan. This Statement explains how the Council has complied with its Code in 2021/22.

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 31st March 2022 and up to the date of approval of the Statement of Accounts.

The Governance Framework

The City Plan sets out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic, Healthy and Vibrant Smart City. The City Plan sets 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 regular reporting to the Chief Officer's Group and Scrutiny. 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 Council's wholly owned companies have similar arrangements that set out how they will be governed.

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;
- 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 City Plan.

Annual Governance Statement

A range of financial and human resources policies and procedures are in place. Appropriate project management standards and Business Continuity Plans are in place, which have been subject to ongoing review throughout the Covid 19 pandemic. 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 importance of compliance with this statement was also confirmed in Financial Management Code issued by CIPFA in 2019. The Executive Director of Corporate Services is designated Chief Finance Officer and 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 of 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 evaluation of the extent to which employees understand and support the values of the Council.

Annual Governance Statement

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 has arrangements in place for the consistent management of partnerships through a guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.

Contractual arrangements with our subsidiary companies set out challenging targets around use of resources and improved outcomes.

Response to Covid-19

The Council has continued to follow advice from Public Health England and to monitor developments, communicate the latest guidance and take all the precautionary action necessary to protect our residents and staff, and to help safeguard services.

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 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; and
- the external auditors (Mazars) opinion for 2020/21 concludes that the statement of accounts:
 - give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The Assistant Director of Business and Property Services, 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 Officers for their consideration and approval of the Annual Governance Statement.

The findings of the review have been reported to the Chair of the Audit and Governance Committee in April 2022 to ensure that 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.

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.

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 2022/2023

Ref	Action	COG Lead	Timescale
1.	Ensure that management arrangements and delegated authorities are clear when implementing the new senior management restructure.	All Chief Officers	July 2022
2.	Review Business Continuity Arrangements for Critical Services, specifically in the event of a significant loss of IT, in line with the actions agreed in the recent Internal Audit Report.	Executive Director of Corporate Services	October 2022
3.	Continue engagement with employees to support them with new ways of working and the move into City Hall.	Executive Director of Corporate Services	March 2023
4.	Continue to monitor the potential impact on the Council and its residents of global issues and cost of living rises.	Executive Director of Corporate Services	March 2023
5.	Ensure that the staff Appraisal system is effectively implemented across the Council.	Executive Director of Corporate Services	March 2023

Councillor Graeme Miller
Leader of the Council

Patrick Melia CPFA
Chief Executive

Paul Wilson CPFA
Assistant Director of Finance *

Dated: 4 November 2022

* S151 officer responsibilities for the Council were undertaken by the Executive Director of Corporate Services at 31 March 2022 and have subsequently transferred to the Assistant Director of Finance.

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 2020/2021 and 2021/2022.

	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 Council Reserves £'000
Balance at 31 March 2020		19,982	134,649	9,062	4,992	168,685	85,784	254,469
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2021	22i	249	0	0	0	249	(249)	0
Restated balance at 1 April 2020		20,231	134,649	9,062	4,992	168,934	85,535	254,469
Movement in reserves during 2020/2021:								
Total Comprehensive Income and Expenditure		(7,965)	0	0	0	(7,965)	(55,446)	(63,411)
Adjustments between accounting basis & funding basis under regulations	7	43,796	0	324	(907)	43,213	(43,213)	0
Transfers to / (from) Earmarked Reserves		(33,320)	33,320	0	0	0	0	0
Increase / (Decrease) in 2020/2021		2,511	33,320	324	(907)	35,248	(98,659)	(63,411)
Balance at 31 March 2021		22,742	167,969	9,386	4,085	204,182	(13,124)	191,058
Movement in reserves during 2021/2022:								
Total Comprehensive Income and Expenditure		(53,064)	0	0	0	(53,064)	206,688	153,624
Adjustments between accounting basis & funding basis under regulations	7	62,747	0	337	1,860	64,944	(64,944)	0
Transfers to / (from) Earmarked Reserves		(10,643)	10,643	0	0	0	0	0
Increase / (Decrease) in 2021/2022		(960)	10,643	337	1,860	11,880	141,744	153,624
Balance at 31 March 2022		21,782	178,612	9,723	5,945	216,062	128,620	344,682

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, but 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 responsibilities.

The roles and responsibilities of each Portfolio are detailed in the Council's Constitution.

2020/2021				Notes	2021/2022		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
4,316	(116)	4,200	Leader		3,922	(64)	3,858
83,831	(24,528)	59,303	Deputy Leader		89,034	(25,941)	63,093
147,490	(115,807)	31,683	Cabinet Secretary		172,919	(106,236)	66,683
201,798	(121,101)	80,697	Children, Learning and Skills		220,464	(127,099)	93,365
14,540	(1,714)	12,826	Vibrant City		14,091	(2,258)	11,833
164,936	(111,941)	52,995	Healthy City		180,923	(138,824)	42,099
14,999	(9,779)	5,220	Dynamic City		40,803	(25,801)	15,002
631,910	(384,986)	246,924	Cost of Services	8	722,156	(426,223)	295,933
15,288	(3,388)	11,900	Other operating expenditure	10	15,236	(1,047)	14,189
28,126	(3,986)	24,140	Financing and investment income and expenditure	11	28,796	(3,499)	25,297
0	(274,999)	(274,999)	Taxation and non-specific grant income and expenditure	12	0	(282,355)	(282,355)
675,324	(667,359)	7,965	(Surplus) or Deficit on Provision of Services		766,188	(713,124)	53,064
		84	(Surplus) or deficit on revaluation of non-current assets	22a			(6,586)
		(848)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	22b			(4,602)
		56,210	Re-measurements of the net defined benefit liability / (asset)	22e			(195,500)
		55,446	Other Comprehensive Income and Expenditure				(206,688)
		63,411	Total Comprehensive Income and Expenditure				(153,624)

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 2021 £'000		Notes	31 March 2022 £'000
1,033,803	Property, Plant and Equipment	13	1,103,886
12,192	Heritage Assets	14	12,823
0	Investment Property / Land	15	0
4,129	Intangible Assets		3,399
24,894	Long Term Investments	16	29,372
57,853	Long Term Debtors	16	60,005
1,132,871	Long Term Assets		1,209,485
105,064	Short Term Investments	16	210,254
1,342	Inventories		1,401
57,793	Short Term Debtors	16 / 17	72,590
0	Assets Held for Sale	18	0
74,129	Cash and Cash Equivalents	16 / 19	42,175
238,328	Current Assets		326,420
(40,486)	Short Term Borrowing	16	(38,092)
(66,042)	Short Term Creditors	16 / 20	(88,386)
(5,634)	Short Term PFI and Finance Lease Liability	16	(7,364)
(3,894)	Short Term Provisions	21	(912)
(15,032)	Grant Receipts in Advance - Revenue	32	(7,020)
(5,733)	Grant Receipts in Advance - Capital	32	(15,325)
(136,821)	Current Liabilities		(157,099)
(381,790)	Long Term Borrowing	16	(476,524)
(584,840)	Long Term Pensions Liability	16	(423,300)
(68,237)	Long Term PFI and Finance Lease Liability	16	(124,538)
(8,453)	Long Term Provisions	21	(9,762)
(1,043,320)	Long Term Liabilities		(1,034,124)
191,058	Net Assets		344,682
204,182	Usable Reserves	9	216,062
(13,124)	Unusable Reserves	22	128,620
191,058	Total Reserves		344,682

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.

2020/2021 £'000		Notes	2021/2022 £'000
7,965	Net (surplus) or deficit on the provision of services		53,064
(81,953)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements		(118,703)
41,609	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		59,004
(32,379)	Net cash flows from operating activities	23	(6,635)
(9,440)	Investing activities	24	137,879
8,332	Financing activities	25 / 26	(99,290)
(33,487)	Net (increase) or decrease in cash and cash equivalents		31,954
40,642	Cash and cash equivalents at the beginning of the reporting period		74,129
74,129	Cash and cash equivalents at the end of the reporting period	19	42,175

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Notes to the Financial Statements

Note 1 – Significant Accounting Policies

The Council applies the following Accounting Policies:

- 1.1 General Principles
- 1.2 Accrual of Income and Expenditure
- 1.3 Cash and Cash Equivalents
- 1.4 Exceptional Items
- 1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors and Portfolio Restatements
- 1.6 Charges to Revenue for Non-Current Assets
- 1.7 Employee Benefits
- 1.8 Events after the Balance Sheet Date
- 1.9 Financial Instruments
- 1.10 Government Grants and Contributions
- 1.11 Intangible Assets
- 1.12 Interests in Companies and Other Entities
- 1.13 Joint Operations
- 1.14 Inventories
- 1.15 Investment Property
- 1.16 Leases
- 1.17 Overheads and Support Services
- 1.18 Delegated Budgets
- 1.19 Property, Plant and Equipment
- 1.20 Private Finance Initiative (PFI) and Similar Contracts
- 1.21 Fair Value Measurement of Non-Financial Assets
- 1.22 Provisions
- 1.23 Contingent Liabilities
- 1.24 Contingent Assets
- 1.25 Reserves
- 1.26 Revenue Expenditure Funded from Capital under Statute
- 1.27 Value Added Tax (VAT)
- 1.28 Schools
- 1.29 Council Tax and Business Rates

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/2022 financial year and its position at the year end of 31 March 2022. 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 2021/2022 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;

Notes to the Financial Statements

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on 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 months' 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; and
- 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.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed-term investments, the Council does not consider fixed-term investments to be highly liquid. Fixed-term investments are shown on the Balance Sheet as either long or short-term investments depending on the remaining term to maturity of the investment.

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.

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

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.

Where Portfolio responsibilities have changed within the Council's reporting structure, the prior period disclosures relating to Portfolios have been restated to facilitate comparison with the current year.

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:

Notes to the Financial Statements

- 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.

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 accrual 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 Pension 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

Notes to the Financial Statements

payments of benefits is recognised in the Council's Balance Sheet. The Children, Learning and Skills and Healthy City 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:

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 based on cash flows rather than as benefits are earned by employees.

Notes to the Financial Statements

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.

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

Notes to the Financial Statements

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.

A number of exceptions have been made where the Council has provided loans to partners 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 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 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 arise in the Surplus or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

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

Notes to the Financial Statements

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 investment bonds 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.

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.

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 are 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.

Notes to the Financial Statements

1.11 Intangible Assets

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

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

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

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

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

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

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 impairment allowances.

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, apart from inventories held by Highways Services and salt stock. These are valued at latest price, which is a departure from the Code but the values are not material. A de-minimis level of £5,000 is applied to inventories.

Notes to the Financial Statements

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 Council does not currently hold any investment properties.

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 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.

Notes to the Financial Statements

Operating Leases

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

(b) The Council as Lessor

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 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. To ensure there is no impact on the General Fund balance, any deficit relating to school budgets is held in the Dedicated Schools Grant Adjustment Account.

1.19 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 accrual basis, if 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 Senior Manager – Property Services to determine any change the capital scheme has made to an asset's value.

Notes to the Financial Statements

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.

Property, Plant and Equipment assets are carried in the Balance Sheet using the following measurement bases:

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

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.

Assets included in the Balance Sheet at current value 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. To ensure that this takes place a rolling programme of valuations has been put in place by the Senior Manager – Property Services.

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, Senior Manager – Property Services, 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 valuations and 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 or the assessed gross book value is more than the established de-minimis level. For all valuations and capital expenditure the de-minimis level is £20,000.

Notes to the Financial Statements

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
- 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 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 reflects the pattern of consumption of economic benefits of the assets.

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

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

All land and buildings assets are componentised and recorded as separate assets on the Council's asset register. A standard list of components is used by the Council:

- land;
- building structure; and
- mechanical and electrical.

The depreciation applied reflects the remaining life of each element of the asset held.

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

Notes to the Financial Statements

loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Heritage Assets

Heritage assets over £10,000 are classified into the following categories:

- **Museum Collection**
Items are held on the Balance Sheet at insurance valuation which is based on market values and is reviewed periodically. Acquisitions are made by purchase or donation with purchases being recognised at cost and donations at valuation with reference to appropriate commercial markets and auction sale information.
- **Public artwork**
Items are held on the Balance Sheet at historic cost.
- **Other historic assets**
Other items are held on the Balance Sheet at historic cost, or insurance value where this is available.

Heritage assets held on the Balance Sheet are recorded in the Council's Asset Register.

As heritage assets are considered to have indeterminate lives and relatively high residual values, the Council does not consider it appropriate to charge depreciation on these assets.

The carrying amounts for heritage assets are reviewed where there is evidence of impairment such as where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's policies on impairment.

Disposal of heritage assets is rare but would be accounted for in accordance with the Council's policies for disposal of Property, Plant and Equipment.

Notes to the Financial Statements

1.20 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.

1.21 Fair Value Measurement of non-financial assets

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, if market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council considers 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 enough 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:

Notes to the Financial Statements

- 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.

1.22 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case 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, considering 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 the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.23 Contingent Liabilities

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

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

1.24 Contingent Assets

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

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

1.25 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by 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.

Notes to the Financial Statements

1.26 Revenue Expenditure Funded from Capital under Statute

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

1.27 Value Added Tax (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.

1.28 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.

1.29 Council Tax and Business Rates

Billing authorities act as agents, collecting Council Tax and Business Rates on behalf of the major preceptors (including the 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 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.

There are no new standards to be adopted for the 2022/2023 Statement of Accounts however the annual IFRS improvement programme has made some minor changes to a number of standards. These are not expected to have a significant impact on the Statement of Accounts and restatement of 2021/2022's accounts will not be required.

Notes to the Financial Statements

Following consultation, implementation of IFRS 16 Leases has been further deferred and now has a formal implementation date of 1 April 2024. The Government's Financial Reporting Advisory Board (FRAB) has agreed to this deferral. However, FRAB have advised CIPFA/LASAAC that the Code should allow and encourage local authorities to adopt the standard in the preceding reporting periods, but this is at the discretion of each Council.

Once adopted, IFRS 16 will require the Council to recognise leased in assets on their Balance Sheet as 'right of use' assets with corresponding lease liabilities.

This is expected to have some impact on future accounts but this is not expected to be significant as any material leases are already reflected on the Balance Sheet. Some changes may be required to existing reporting arrangements.

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 enough 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 does not indicate any likelihood of Gentoo ceasing to operate. 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 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 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 the State Pension Age (SPA) after that date. The Government introduced an 'interim solution' which made the LGPS responsible for paying the full increases on GMPs for individuals reaching SPA from 5 April 2016

Notes to the Financial Statements

and the Government has indicated that it is committed to continuing to compensate all members of public sector pension schemes reaching SPA after 5 April 2021.

On 7 October 2020 MHCLG consulted on proposed solutions to compensate members reaching SPA after 5 April 2021, which primarily focused on making further extensions to full GMP indexation followed by ultimate conversion, or instead indefinite indexation as a permanent solution for public sector pension schemes.

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 has 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.

Considering this, the accounts include an allowance for full increases on GMP pensions for individuals reaching SPA 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 relating to this amounted to £10.70m and was recognised as a past service cost in 2018/2019 with allowances made in subsequent years to recognise the Government's commitment to compensate affected members.

Until HM Treasury announce scheme changes there is some uncertainty over the final liability that may emerge but the estimates currently reflected in the accounts are considered reasonable.

In October 2020 a second ruling in the Lloyds bank case clarified that compensation would be required to members who transferred benefits out since May 1990. The Government has not yet acknowledged a liability relating to public service schemes nor indicated an approach to rectifying this. It is therefore not yet clear what impact this may have so no allowance has been made for this in the accounts.

- **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.

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.

Given the similarity between all 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, an initial additional liability of £17.21m was accounted for as a past service cost in 2018/2019 and, in subsequent years, an allowance has been made for estimated liabilities relating to potential remedies for age discrimination within the LGPS arrangements.

Notes to the Financial Statements

The Government published its McCloud consultation for the LGPS on 16 July 2020, setting out proposed changes aimed at removing the unlawful age discrimination in the LGPS. In a written ministerial statement on 13 May 2021 the Government confirmed they would be proceeding with the key principles set out in the consultation. The approach adopted by the Council's Actuary is closely aligned with the remedy proposed by the Government.

- **Cost Management in the LGPS**
Legislation required HM Treasury (HMT) and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable.

HM Treasury and the SAB had paused their 2016 reviews following the 'McCloud' judgement in the Court of Appeal. These have now been un-paused and HMT Directions were made during 2021 which allowed the Treasury and SAB reviews to proceed. The outcome of the SAB review has been published and has recommended no changes to the provisions of the Scheme. It is expected that the outcome of HMT's review will also recommend no changes. However, the legality of the Government's decision to include McCloud costs as a member cost within the 2016 HMT process is being challenged by a Judicial Review brought by the trades' unions. If the Judicial Review is successful, this may cause the 2016 HMT process to be re-run and could result in changes in benefits or member contributions backdated to 1 April 2019.

The Council's Actuary has made no allowance for the potential cost of improving members' benefits under these reviews.

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 considering 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 2022 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 – valuations	Assets are valued, in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards and involve the use of a number of estimation techniques including various property indices. See note 13 for more details on Property, Plant and Equipment.	The gross book value (GBV) of the Council's land and buildings and surplus assets is £585.197m at 31 March 2022. A 1% change in asset valuations would equate to a £5.852m change in the GBV.
Arrears	At 31 March 2022, the Council had a balance of debtors of £93.069m. A review of significant balances suggested that an impairment of doubtful debts of 22.3% (£20.748m) was appropriate. However, in the current economic climate and in the light of the Covid-19 pandemic impact it is not certain that such an allowance would be sufficient. Further information regarding the impairment of doubtful debts can be found in note 43.	If collection rates were to deteriorate, an increase in the amount of the impairment of doubtful debts would be required.

Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension net liability - valuation	<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.</p> <p>Details relating to the sensitivity of each assumption can be found in note 40.</p>
Fair Value measurements – surplus assets and equity investments	<p>When the fair values of financial assets cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for <i>similar</i> assets 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 value of the Council's assets.</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 surplus assets, the Council's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets is disclosed in notes 13 and 15.</p>	<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 its surplus assets.</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.</p> <p>As the equity investments relating to the Airport 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 gain on disposal of non-current assets of £1.047m relates mainly to assets held at fair value and sold for regeneration and housing development. The accounting entries require this 'gain' to be credited to Other Operating Expenditure within the Comprehensive Income and Expenditure Account and then this 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 gain during 2021/2022:

	£'000	Date of Disposal
Gain on disposal of land adjacent to Burdon Lane	(970)	27 October 2021
Other net (gains) / losses	(77)	
Total	(1,047)	

Notes to the Financial Statements

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. At the time of publishing the accounts 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 statements and notes are not adjusted but the relevant information is disclosed. At the time of publishing the accounts 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

2020/2021				2021/2022		
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
			Adjustments to Revenue Resources			
			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:			
22,350	0	0	Pensions costs -	33,960	0	0
(200)	0	0	transferred to (or from) the Pensions Reserve			
			Financial instruments -	(303)	0	0
			transferred to the Financial Instruments Adjustment Account			
26,032	0	0	Council Tax and Business Rates -	(19,143)	0	0
(453)	0	0	transfers to or from the Collection Fund Adjustment Account			
			Holiday pay -	142	0	0
			transferred to the Accumulated Absences Reserve			
26,028	0	7,155	Reversal of items included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	72,650	0	9,372
			(these items are charged to the Capital Adjustment Account)			
(1,038)	0	0	Deferred Capital Receipts Reserve -	(4,629)	0	0
			sale proceeds credited to the Comprehensive Income and Expenditure Statement as part of the gain/(loss) on disposal			
1,102	0	0	Transfer of Dedicated Schools Grant overspend / (underspend) to the DSG Adjustment Account	1,683		
73,821	0	7,155	Total adjustments to Revenue Resources	84,360	0	9,372

Notes to the Financial Statements

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

2020/2021				2021/2022		
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
(2,879)	2,879	0	Adjustments between Revenue and Capital Resources			
			Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,077)	3,077	0
18	(18)	0	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	160	(160)	0
1	(1)	0	Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	0	0	0
(12,201)	0	0	Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(13,018)	0	0
(14,964)	0	0	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(5,717)	0	0
(30,025)	2,860	0	Total adjustments between Revenue and Capital Resources	(21,652)	2,917	0
			Adjustments to Capital Resources			
0	(2,644)	0	Use of the Capital Receipts Reserve to finance capital expenditure	0	(2,691)	0
0	0	(8,062)	Application of capital grants to finance capital expenditure	0	0	(7,512)
0	107	0	Writing down of long term debtor to Capital Adjustment Account	0	111	0
0	1	0	Cash payments in relation to deferred capital receipts	39	0	0
0	(2,536)	(8,062)	Total adjustments to Capital Resources	39	(2,580)	(7,512)
43,796	324	(907)	Total Adjustments	62,747	337	1,860

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.

As with the Comprehensive Income and Expenditure Statement, this analysis is presented in line with the Council's Portfolio responsibilities.

2020/2021				2021/2022		
Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance		Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
£'000	£'000	£'000		£'000	£'000	£'000
4,200	(230)	3,970	Leader	3,858	(241)	3,617
59,303	(28,979)	30,324	Deputy Leader	63,093	(29,973)	33,120
31,683	(7,537)	24,146	Cabinet Secretary	66,683	(42,847)	23,836
80,697	(17,787)	62,910	Children, Learning and Skills	93,365	(23,369)	69,996
12,826	(5,171)	7,655	Vibrant City	11,833	(4,229)	7,604
52,995	(5,538)	47,457	Healthy City	42,099	(7,621)	34,478
5,220	(9,133)	(3,913)	Dynamic City	15,002	(32,947)	(17,945)
246,924	(74,375)	172,549	Net Cost of Services	295,933	(141,227)	154,706
(238,959)	30,579	(208,380)	Other Income and Expenditure	(242,869)	78,480	(164,389)
7,965	(43,796)	(35,831)	(Surplus) or Deficit	53,064	(62,747)	(9,683)
		(154,631)	Opening General Fund Balance / Earmarked Reserves			(190,711)
		(249)	Transfer of Dedicated Schools Grant overspend to the DSG Adjustment Account			0
		(35,831)	(Surplus) or deficit in year			(9,683)
		(190,711)	Closing General Fund Balance / Earmarked Reserves			(200,394)

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 and adjustments.

2021/2022	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	67	172	2	241	0	241
Deputy Leader	21,013	7,623	1	28,637	1,336	29,973
Cabinet Secretary	39,355	3,439	4	42,798	49	42,847
Children, Learning and Skills	17,745	4,935	1,814	24,494	(1,125)	23,369
Vibrant City	3,321	910	(2)	4,229	0	4,229
Healthy City	3,911	3,700	5	7,616	5	7,621
Dynamic City	30,552	972	1	31,525	1,422	32,947
Net Cost of Services	115,964	21,751	1,825	139,540	1,687	141,227
Other income and expenditure	(69,595)	12,209	(19,446)	(76,832)	(1,648)	(78,480)
Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services	46,369	33,960	(17,621)	62,708	39	62,747

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 and adjustments.

2020/2021	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	67	161	2	230	0	230
Deputy Leader	23,828	4,225	19	28,072	907	28,979
Cabinet Secretary	6,339	1,156	(5)	7,490	47	7,537
Children, Learning and Skills	14,636	2,657	631	17,924	(137)	17,787
Vibrant City	4,702	472	(3)	5,171	0	5,171
Healthy City	3,961	1,568	4	5,533	5	5,538
Dynamic City	6,986	566	1	7,553	1,580	9,133
Net Cost of Services	60,519	10,805	649	71,973	2,402	74,375
Other income and expenditure	(65,554)	11,545	25,832	(28,177)	(2,402)	(30,579)
Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services	(5,035)	22,350	26,481	43,796	0	43,796

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:

2021/2022	Leader	Deputy Leader	Cabinet Secretary	Children, Learning and Skills	Vibrant City	Healthy City	Dynamic City	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(1)	(15,350)	(6,066)	(5,157)	(805)	(22,113)	(11,362)	(60,854)
Government grants	0	(6,055)	(93,172)	(114,023)	(197)	(79,260)	(14,385)	(307,092)
Other Grants, reimbursements and contributions	(63)	(5,871)	(7,206)	(7,923)	(1,256)	(37,457)	(1,476)	(61,252)
Total Income	(64)	(27,276)	(106,444)	(127,103)	(2,258)	(138,830)	(27,223)	(429,198)
Employee expenses	770	26,104	23,781	64,572	3,362	18,250	3,185	140,024
Other service expenditure	2,911	34,292	106,499	132,526	6,500	155,058	6,094	443,880
Total Expenditure	3,681	60,396	130,280	197,098	9,862	173,308	9,279	583,904
(Surplus) or deficit on Cost of Services	3,617	33,120	23,836	69,995	7,604	34,478	(17,944)	154,706

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:

2020/2021	Leader	Deputy Leader	Cabinet Secretary	Children, Learning and Skills	Vibrant City	Healthy City	Dynamic City	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(111)	(13,056)	(5,303)	(2,786)	(554)	(17,790)	(8,433)	(48,033)
Government grants	0	(5,992)	(103,948)	(112,715)	(597)	(62,017)	(1,667)	(286,936)
Other Grants, reimbursements and contributions	(5)	(6,401)	(6,619)	(5,599)	(563)	(32,139)	(1,258)	(52,584)
Total Income	(116)	(25,449)	(115,870)	(121,100)	(1,714)	(111,946)	(11,358)	(387,553)
Employee expenses	1,425	24,580	22,810	64,191	3,052	16,292	3,203	135,553
Other service expenditure	2,661	31,193	117,206	119,819	6,317	143,111	4,242	424,549
Total Expenditure	4,086	55,773	140,016	184,010	9,369	159,403	7,445	560,102
(Surplus) or deficit on Cost of Services	3,970	30,324	24,146	62,910	7,655	47,457	(3,913)	172,549

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 2021/2022.

	Balance at 31 March 2020 £'000	Transfers Out 2020/2021 £'000	Transfers In 2020/2021 £'000	Balance at 31 March 2021 £'000	Transfers Out 2021/2022 £'000	Transfers In 2021/2022 £'000	Balance at 31 March 2022 £'000
General Fund:							
General Fund Balance	12,000	0	0	12,000	0	0	12,000
Balances held by schools under a scheme of delegation	7,982	(423)	3,183	10,742	(2,169)	1,209	9,782
	19,982	(423)	3,183	22,742	(2,169)	1,209	21,782
Earmarked General Fund Reserves - Capital:							
Section 106 Reserves	7,280	(2,448)	3,163	7,995	(2,879)	4,246	9,362
Riverside Transfer	9,188	(147)	0	9,041	(4)	0	9,037
Capital Priorities Reserve	9,254	(1,062)	0	8,192	(334)	0	7,858
Culture House Reserve	0	0	0	0	0	3,000	3,000
Strategic Investment Reserve (Capital)	4,545	(763)	0	3,782	(1,321)	0	2,461
Commercial and Economic Development Activity	1,153	(146)	0	1,007	(123)	0	884
Other Earmarked Capital Reserves	2,931	(1,411)	0	1,520	(436)	726	1,810
	34,351	(5,977)	3,163	31,537	(5,097)	7,972	34,412
Earmarked General Fund Reserves - Revenue:							
Medium Term Planning Smoothing Reserve	6,528	(278)	11,609	17,859	(284)	17,026	34,601
Strategic Regeneration Reserve	10,000	(3)	0	9,997	0	750	10,747
Health and Social Care Reserve	0	0	0	0	0	9,336	9,336
NNDR Covid Retail, Hospitality and Leisure Relief Grant Reserve	0	0	19,874	19,874	(19,838)	8,166	8,202
Energy and General Inflation Reserve	0	0	0	0	0	5,750	5,750
Strategic Investment Reserve (Revenue)	11,769	(6,354)	334	5,749	(165)	57	5,641
Insurance Reserve	5,677	(377)	300	5,600	(426)	296	5,470
Strategic Initiatives Budget Reserve	3,303	0	876	4,179	0	319	4,498
Low Level Family Support	0	0	2,000	2,000	(64)	2,450	4,386
Street Lighting PFI Smoothing Reserve	4,280	0	0	4,280	0	0	4,280
Streetscene and Open Space	0	0	3,500	3,500	(302)	1,000	4,198

Notes to the Financial Statements

Note 9 – Transfers to/from Earmarked Reserves

	Balance at 31 March 2020 £'000	Transfers Out 2020/2021 £'000	Transfers In 2020/2021 £'000	Balance at 31 March 2021 £'000	Transfers Out 2021/2022 £'000	Transfers In 2021/2022 £'000	Balance at 31 March 2022 £'000
Public Health Grant	633	0	2,354	2,987	0	1,045	4,032
Smart Cities	0	0	4,000	4,000	0	0	4,000
HCA Stadium Transfer	3,109	0	0	3,109	0	0	3,109
Transformation Reserve	0	0	3,000	3,000	(59)	0	2,941
Sandhill Centre PFI Smoothing Reserve	2,151	0	0	2,151	0	0	2,151
Education Redundancies Reserve	1,916	0	209	2,125	(46)	0	2,079
Collection Fund Surplus Reserve	1,198	0	335	1,533	0	0	1,533
Carbon Reduction Project Reserve	0	0	801	801	0	723	1,524
Housing Benefit Smoothing Reserve	1,577	(279)	0	1,298	0	161	1,459
Airport Smoothing Reserve	1,253	0	0	1,253	0	0	1,253
Triathlon	0	0	1,200	1,200	0	0	1,200
Riverside Transfer	1,334	(137)	0	1,197	(105)	0	1,092
Member Recovery Fund	0	0	0	0	0	1,000	1,000
Other Earmarked Revenue Reserves	19,832	(7,145)	7,695	20,382	(5,670)	5,006	19,718
Service Reduction Reserve	12,146	0	0	12,146	(12,146)	0	0
Children's Social Care Reserve	3,000	0	0	3,000	(3,000)	0	0
Children and Young People Recovery	0	0	1,700	1,700	(1,700)	0	0
Covid-19 Reserve	10,592	(10,592)	1,512	1,512	(1,512)	0	0
	100,298	(25,165)	61,299	136,432	(45,317)	53,085	144,200
Total General Fund Reserves	154,631	(31,565)	67,645	190,711	(52,583)	62,266	200,394
Capital Receipts Reserve	9,062	(2,664)	2,988	9,386	(2,774)	3,111	9,723
Capital Grants Unapplied	4,992	(8,062)	7,155	4,085	(7,512)	9,372	5,945
Total Usable Reserves	168,685	(42,291)	77,788	204,182	(62,869)	74,749	216,062

Notes to the Financial Statements

Purpose of Earmarked Reserves

Capital Reserves:	Purpose of the Reserve
Section 106 Reserve	Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.
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.
Culture House	A reserve has been set aside to provide funding for a range of immersive technologies in the new Culture House.
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.
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	Funding set aside to fund future capital projects previously approved.

Revenue Reserves:	Purpose of the Reserve
Medium Term Planning Smoothing Reserve	This reserve has been 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 funding uncertainties.
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.
Health and Social Care Reserve	Additional external income from in-year Health funding to support health and social care services in Sunderland in the short to medium term.
NNDR Covid-19 Retail, Hospitality and Leisure Relief Grant Reserve	Reserve established to manage the requirement to fund Collection Fund deficits in the proceeding financial year. Section 31 Retail, Hospitality and Leisure Relief Grant held to offset deficit in 2022/2023.
Energy and General Inflation	Reserve established in response to significant inflationary and trading pressures expected to impact council services in the short to medium term.
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
Strategic Initiatives Budget Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.
Street Lighting PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.
Streetscene and Open Space	A reserve to enhance the city's recovery from the Covid-19 pandemic and ensure that the full benefit can be made of the regeneration activities across the City. This reserve will fund a range of streetscene and open space projects.

Notes to the Financial Statements

Revenue Reserves:	Purpose of the Reserve
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.
Smart Cities	This reserve was established to set aside revenue funding to cover 8-10 years, to support the best value for money solution for 5G and Wireless within the City.
Homes and Communities Agency Stadium Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures as the City emerges from the pandemic and MTFP challenges.
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the Collection Fund surplus benefit into future years.
Carbon Reduction Project Reserve	This reserve has been established to deliver a range of activities that will support carbon reduction project work.
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.
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.
Triathlon	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.
Member Recovery Fund	Members Covid Response fund.
Other Earmarked Revenue Reserves	Numerous revenue reserves under £1m set up for specific purposes.
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.
Children's Social Care Reserve	A reserve to fund any one-off Children's Social Care costs that may arise in the future.
Children and Young People Recovery	The reserve was established for TfC to deliver a range of activities that will support Covid-19 recovery activities.
Covid-19 Reserve	A reserve established from the Government grant to fund the immediate costs and lost income associated with the Covid-19 pandemic.

Notes to the Financial Statements

Note 10 – Other operating expenditure

2020/2021 £'000		2021/2022 £'000
68	Parish Council Precept	67
15,219	Levies	15,169
1	Payments to the Government Housing Capital Receipts Pool	0
(3,388)	(Gain) / losses on the disposal of non current assets	(1,047)
11,900	Total	14,189

Note 11 – Financing and investment income and expenditure

2020/2021 £'000		2021/2022 £'000
15,440	Interest payable and similar charges	15,393
11,440	Net interest on the net defined benefit liability	12,070
(3,286)	Interest receivable and similar income	(2,799)
(700)	Other Investment Income	(700)
107	(Surplus)/deficit on Trading Undertakings	482
933	Net income and expenditure in relation to investment properties and changes in their fair value	0
(39)	Net income and expenditure in relation to financial instruments and changes in their fair value	(53)
245	Disposals and impairments	904
24,140	Total	25,297

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

2020/2021 £'000		2021/2022 £'000
(101,345)	Council tax income	(110,674)
(24,159)	Business rates income and expenditure	(39,064)
(121,973)	Non-ringfenced government grants *	(102,925)
(27,522)	Capital grants and contributions *	(29,692)
(274,999)	Total	(282,355)

* Further analysis of grants is shown within Note 32.

Notes to the Financial Statements

Note 13 – Property, Plant and Equipment

Movement on Balances 2021/2022	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation:								
At 1 April 2021	497,012	58,520	541,209	0	99,493	37,783	1,234,017	89,976
Additions	35,403	3,995	30,192	762	24,238	349	94,939	0
Recognition of PFI assets and Embedded Leases	62,737	1,119	213	0	0	0	64,069	213
Donated Assets	78	0	0	0	0	0	78	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(7,188)	0	0	0	0	1,120	(6,068)	3,125
Revaluation increases / (decreases) recognised in the Provision of Services	(48,676)	0	0	0	0	(3,801)	(52,477)	0
Derecognition recognised in the Provision of Services	0	(10,945)	(2,326)	0	0	0	(13,271)	0
Disposals	(1,200)	(109)	0	0	0	(5,356)	(6,665)	0
Assets reclassified as Heritage Assets	0	0	(260)	0	0	0	(260)	0
Other movements in Cost or Valuation	14,513	70	72,952	667	(89,196)	994	0	0
At 31 March 2022	552,679	52,650	641,980	1,429	34,535	31,089	1,314,362	93,314
Accumulated Depreciation:								
At 1 April 2021	10,443	27,590	162,119	0	0	62	200,214	21,636
Depreciation Charge	18,927	6,020	13,970	0	0	193	39,110	3,911
Depreciation written out to the Revaluation Reserve	(12,623)	0	0	0	0	(31)	(12,654)	(4,775)
Depreciation written out to the Provision of Services	(2,756)	0	0	0	0	(2)	(2,758)	0
Derecognition recognised in the Provision of Services	0	(10,945)	(2,325)	0	0	0	(13,270)	0
Disposals	0	(73)	0	0	0	(93)	(166)	0
At 31 March 2022	13,991	22,592	173,764	0	0	129	210,476	20,772
Net Book Value								
At 31 March 2021	486,569	30,930	379,090	0	99,493	37,721	1,033,803	68,340
At 31 March 2022	538,688	30,058	468,216	1,429	34,535	30,960	1,103,886	72,542

Notes to the Financial Statements

Note 13 – Property, Plant and Equipment

Movement on Balances 2020/2021	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation:							
At 1 April 2020	522,788	56,394	528,395	52,404	5,318	1,165,299	93,893
Additions	15,412	3,191	7,918	53,098	0	79,619	0
Recognition of PFI assets and Embedded Leases	0	1,302	484	0	0	1,786	484
Donated Assets	181	0	0	0	0	181	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(32,886)	0	0	0	(1,952)	(34,838)	(4,251)
Revaluation increases / (decreases) recognised in the Provision of Services	(5,968)	0	0	0	1,866	(4,102)	(150)
Impairment recognised in the Provision of Services	(3,670)	0	(1,082)	0	0	(4,752)	0
Derecognition recognised in the Provision of Services	0	(2,597)	0	0	0	(2,597)	0
Disposals	(466)	0	0	0	(85)	(551)	0
Assets reclassified from Investment Assets	1,945	0	0	0	31,633	33,578	0
Assets reclassified from Assets Held for Sale	94	0	0	0	300	394	0
Other movements in Cost or Valuation	(418)	230	5,494	(6,009)	703	0	0
At 31 March 2021	497,012	58,520	541,209	99,493	37,783	1,234,017	89,976
Accumulated Depreciation:							
At 1 April 2020	27,210	25,025	148,607	0	110	200,952	17,786
Depreciation Charge	18,098	5,162	13,512	0	84	36,856	3,897
Depreciation written out to the Revaluation Reserve	(32,166)	0	0	0	(130)	(32,296)	(47)
Depreciation written out to the Provision of Services	(2,697)	0	0	0	0	(2,697)	0
Derecognition recognised in the Provision of Services	0	(2,597)	0	0	0	(2,597)	0
Disposals	(2)	0	0	0	(2)	(4)	0
At 31 March 2021	10,443	27,590	162,119	0	62	200,214	21,636
Net Book Value							
At 31 March 2020	495,578	31,369	379,788	52,404	5,208	964,347	76,107
At 31 March 2021	486,569	30,930	379,090	99,493	37,721	1,033,803	68,340

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 60 years;
- Vehicles, plant and equipment – 3 to 40 years; and
- Infrastructure – 10 to 60 years

Capital Commitments

At 31 March 2022, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/2023 and future years budgeted to cost £50.909m (similar commitments at 31 March 2021 were £14.439m). The commitments are:

- Vaux Multi-Storey Car Park - £10.701m;
- Housing Delivery Investment Plan - £5.883m;
- Refuse Collection Replacement Programme - £4.686m;
- Sunningdale Primary School New Build - £4.545m;
- Redevelopment of Parsons Depot - £4.136m;
- Barnes Junior School Refurbishment - £3.844m;
- SSGA Ryhope Doxford Link Road - £3.782m;
- Hetton Primary School New Build - £3.060m;
- Riverside Sunderland Infrastructure - £2.233m;
- Microgrid Development - £1.364m; and
- Various other schemes - £6.675m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment is revalued with enough 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 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;
- Existing Use Value – Social Housing has been used to measure the value of Council Dwellings
- 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 principal market, or in the absence of the principal 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 Executive Director of Corporate Services on a regular basis regarding all valuation matters.

	Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historic cost		52,650	641,980	1,429	34,535		730,594
Valued at:							
31 March 2022	224,751					9,524	234,275
31 March 2021	169,551					21,000	190,551
31 March 2020	158,377					565	158,942
Total Cost or Valuation	552,679	52,650	641,980	1,429	34,535	31,089	1,314,362

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 – Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1 April 2020	9,975	556	1,661	12,192
Additions	0	0	0	0
Donations	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
31 March 2021	9,975	556	1,661	12,192
Cost or Valuation				
1 April 2021	9,975	556	1,661	12,192
Additions	0	341	0	341
Reclassified from PPE	0	260	0	260
Donations	30	0	0	30
Disposals	0	0	0	0
Revaluations	0	0	0	0
31 March 2022	10,005	1,157	1,661	12,823

Collections maintained by Tyne & Wear Museums

These assets are managed on the Council's behalf by the Tyne & Wear Archives & Museums Joint Committee 'principally for their contribution to knowledge or culture'. A full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.

There has been one acquisition during 2021/2022.

Statues, Monuments and Public Art

Where their value can be separately identified statues, monuments and public art have been classified as heritage assets.

A number of public art pieces have been commissioned during 2021/2022 as part of the ongoing regeneration of the City.

Other Historic Assets

Other historic objects held by the Council include the Book of Remembrance, a copy of the Lindisfarne Gospels and miners' banners.

Notes to the Financial Statements

Note 15 – Investment Properties / Land

Where property generates rental income, these are recognised as Property, Plant and Equipment as they fulfil the economic development aims of the Council. The Council currently holds no properties classified as Investment Properties.

The following table summarises the historic movement in the fair value of investment assets:

31 March 2021 £'000	Land held for capital appreciation valued at level 2 (other significant observable inputs) in fair value hierarchy	31 March 2022 £'000
34,511	Balance at the start of the year	0
(933)	Disposals	0
0	Net gain / (losses) from fair value adjustments	0
(33,578)	Transfers to Property, Plant and Equipment	0
0	Balance at the end of the year	0

Notes to the Financial Statements

Note 16 – 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 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through profit or loss	138	14	0	0	0	0	0	0	138	14
Amortised Cost - Soft Loans	0	0	5,661	6,069	0	0	0	0	5,661	6,069
Amortised Cost - Other	0	0	52,192	53,936	179,193	252,429	30,326	36,142	261,711	342,507
Fair Value through other comprehensive income - designated equity instruments	11,906	16,508	0	0	0	0	0	0	11,906	16,508
Unquoted Equity Instruments in subsidiaries and joint ventures at cost	12,850	12,850	0	0	0	0	0	0	12,850	12,850
Total Financial Assets	24,894	29,372	57,853	60,005	179,193	252,429	30,326	36,142	292,266	377,948
Non Financial Instruments	0	0	0	0	0	0	27,467	36,448	27,467	36,448
Total	24,894	29,372	57,853	60,005	179,193	252,429	57,793	72,590	319,733	414,396

Notes to the Financial Statements

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

Financial Liabilities	Non Current				Current				Total	
	Borrowings and Other Long Term Liabilities		Creditors		Borrowings and Short Term PFI Liabilities		Creditors			
	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000
Amortised Cost	(381,790)	(476,524)	0	0	(40,486)	(38,092)	(33,750)	(56,529)	(456,026)	(571,145)
Amortised Cost - PFI and finance lease liabilities	(68,237)	(124,538)	0	0	(5,634)	(7,364)	0	0	(73,871)	(131,902)
Total Financial Liabilities	(450,027)	(601,062)	0	0	(46,120)	(45,456)	(33,750)	(56,529)	(529,897)	(703,047)
Non Financial Instruments	(584,840)	(423,300)	0	0	0	0	(32,292)	(31,857)	(617,132)	(455,157)
Total	(1,034,867)	(1,024,362)	0	0	(46,120)	(45,456)	(66,042)	(88,386)	(1,147,029)	(1,158,204)

Notes to the Financial Statements

Investments in Equity Instruments designated at 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 valued at £16.508m at 31 March 2022 (£11.906m at 31 March 2021). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of the Covid-19 pandemic across the world towards the end of 2019/2020 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/2021 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

The fair value for the shareholding is 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 and other observable and unobservable factors.

To factor in the impact of Covid-19 a weighted average of forecast earnings before interest, depreciation and tax (EBIDTA) has been derived and compared against existing EBIDTA prior to the pandemic in order to generate a revaluation in the share value. To ensure reasonableness this percentage has been compared against the movement in shareholdings in other world airports where the shares are actively traded.

Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares next year.

The Council has chosen to designate its Newcastle Airport equity instrument at fair value through other comprehensive income under IFRS9 classifications. This decision protects council tax payers from any future movements in the value of these shareholdings until such time as the shares are sold or released. Valuation changes in respect of the Council's investment in Newcastle Airport are therefore reflected in 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 subsidiary, 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 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 a Long-Term Investment valued at cost of £12.350m.

Notes to the Financial Statements

The draft accounts for Siglion LLP for the period 1 April 2021 to 31 March 2022, show a net profit before taxation of £8.253m (£3.398m for 2020/2021). The overall current net worth of the group is £31.713m (£23.460m at 31 March 2021).

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

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 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.

The Council has exercised its right to hold equity shares in joint ventures at cost. Investment in Sunderland Lifestyle Partnership Ltd is presented on the Balance Sheet as a Long-Term Investment valued at cost of £0.500m.

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 2021	Financial assets measured at fair value			31 March 2022
£'000	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	£'000
11,906	Equity Shareholding in Newcastle International Airport Limited	Level 3	The fair value for Newcastle Airport has been assessed at 31 March 2022 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. An adjustment, based on historic and forecast EBITA values, has subsequently been made to reflect the likely impact of the Covid-19 pandemic on the fair value.	16,508
138	Other financial instruments classified as fair value through profit and loss	Level 1	Unadjusted quoted prices in active markets for identical shares	14
12,044	Total			16,522

Transfers between Levels of the Fair Value Hierarchy

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

Notes to the Financial Statements

Changes in the Valuation Technique

The fair value for Newcastle Airport is 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 and other observable and unobservable factors.

To factor in the impact of Covid-19 a weighted average of forecast earnings before interest, depreciation and tax (EBIDTA) has been derived and compared against existing EBIDTA prior to the pandemic in order to generate a revaluation in the share value. To ensure reasonableness this percentage has been compared against the movement in shareholdings in other world airports where the shares are actively traded.

Other Financial Instruments Classified at Fair Value through Profit and Loss

The Council holds a small number of investment bonds. The market value of these holdings as at 31 March 2022 was £0.014m (£0.138m at 31 March 2021). Several bonds held at £0.124m have been sold during 2021/2022 at a profit of £0.053m. These financial instruments have been classified at fair value through profit and loss and therefore the gain has been credited to Provision of Services on the Comprehensive Income and Expenditure Account.

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:

2020/2021			2021/2022	
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
21	0	Net gains / losses on:	53	0
1,634	0	Financial assets measured at fair value through profit and loss	2,446	0
0	848	Financial assets measured at amortised costs	0	4,602
		Investments in equity instruments designated at fair value through other comprehensive income		
1,655	848	Total net gains / (losses)	2,499	4,602
		Interest Revenue		
3,286	0	Financial assets measured at amortised costs	2,799	0
3,286	0	Total interest revenue	2,799	0
		Interest expense		
(15,440)	0		(15,393)	0
(10,499)	848	Total	(10,095)	4,602

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:

Notes to the Financial Statements

- 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 126/22;
- 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 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 2021		Financial Liabilities	31 March 2022	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£'000	Restated £'000		£'000	£'000
40,486	40,484	Short Term Borrowing	38,092	37,962
33,750	33,750	Short Term Creditors	56,529	56,529
68,237	68,237	Long Term PFI and Finance Lease Liability	124,538	124,538
5,634	5,634	Short Term PFI and Finance Lease Liability	7,364	7,364
47,173	72,576	Non PWLB Debt	46,941	66,108
334,617	407,807	PWLB Debt	429,583	434,563
529,897	628,488	Financial Liabilities	703,047	727,064

Short-term creditors are carried at cost as this is a fair approximation of their value.

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 non PWLB debt 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 2022) arising from a commitment to pay interest to lenders above current market rates.

As with non PWLB debt, the fair value of PWLB debt of £434.563m includes the notional future loss arising from a commitment to pay interest above current market rates. However, if the Council were to seek to avoid this 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 existing PWLB loans, including the penalty charge, would be £560.830m.

Notes to the Financial Statements

31 March 2021		Financial Assets	31 March 2022	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
179,015	179,015	Deposits with Money Market Funds, Banks & Building Societies	299,050	299,050
178	178	Cash in Hand	(46,621)	(46,621)
30,326	30,326	Short Term Debtors	36,142	36,142
57,853	57,853	Long Term Debtors	60,005	60,005
11,906	11,906	Financial assets at fair value through other comprehensive income - designated equity instruments	16,508	16,508
138	138	Financial assets at fair value through profit and loss	14	14
12,850	12,850	Unquoted equity investment at cost	12,850	12,850
292,266	292,266	Financial Assets	377,948	377,948

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

Long Term Debtors

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

31 March 2021 £'000	Long Term Debtors	31 March 2022 £'000
13,047	Long Term Loan Note to Newcastle Airport	13,270
17,933	Long Term Loan Notes to Siglion LLP	17,933
5,470	Long Term Loan Note to IAMP LLP	5,883
5,685	Property Lease Debtors	5,671
10,781	Advances to Tyne and Wear Fire and Rescue Authority	10,350
1,400	Loan to Leisure Joint Venture	1,300
3,537	Other Long Term Debtors	5,598
57,853	Total	60,005

Soft Loans Made by the Council

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

2020/2021 £'000		2021/2022 £'000
5,218	Balance at start of year	5,470
122	Nominal value of new loans granted in the year	344
(26)	Fair Value adjustment on initial recognition	(94)
156	Increase in Discounted Amount	163
5,470	Balance at end of year	5,883

Valuation Assumptions

The Council has issued a number of soft loans to partners and community organisations which have been made at less than market rates.

The loan notes in respect of IAMP LLP for £7.474m (£0.344m in 2021/2022, £0.122m in 2020/2021, £0.655 in 2019/2020, £2.262m in 2018/2019 and £4.091m in 2017/2018) have been made interest

Notes to the Financial Statements

free and the interest rate at which the fair value of these soft loans have been made (3.25% for £0.344m in 2021/2022, 2.42% for £0.122m in 2020/2021, 2.98% for £0.655m in 2019/2020, 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 (2.65% in 2021/2022, 1.82% in 2020/2021, 2.38% in 2019/2020, 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 £5.883m.

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

Note 17 – Short Term Debtors

31 March 2021		31 March 2022
£'000		£'000
1,066	Payments in Advance	1,085
8,176	Central government bodies	6,479
4,078	Other local authorities and public bodies	13,385
7,186	NHS bodies	8,106
3,401	Council subsidiaries	4,646
33,886	Other entities and individuals	38,889
57,793	Total	72,590

Note 18 – Assets Held for Sale

Where Council assets are available for immediate sale, there is a commitment to sell the asset and where the asset has been actively marketed and a sale is expected within one year, they are transferred from Property, Plant and Equipment to Assets Held for Sale. The carrying value of these assets is measured at fair value less costs to sell.

There were no assets Held for Sale at 31 March 2022.

2020/2021		2021/2022
£'000		£'000
394	Balance outstanding at start of year	0
0	Assets Sold	0
(394)	Assets transferred to Property, Plant and Equipment	0
0	Balance outstanding at year-end	0

Note 19 – Cash and cash equivalents

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

31 March 2021		31 March 2022
£'000		£'000
(39,115)	Cash held by the Council	(46,621)
108,242	Bank current accounts and Money Market Funds	88,796
5,002	Short-term deposits with banks and building societies *	0
74,129	Total Cash and Cash Equivalents	42,175

*Classified as short term investments in 2021/2022

Notes to the Financial Statements

Note 20 – Short-Term Creditors

31 March 2021		31 March 2022
£'000		£'000
(5,762)	Receipts in Advance	(4,667)
(18,506)	Central government bodies	(26,938)
(6,025)	Other local authorities and public bodies	(5,319)
(1,145)	NHS bodies	(1,226)
(6,977)	Council subsidiaries	(11,982)
(27,627)	Other entities and individuals	(38,254)
(66,042)	Total	(88,386)

Note 21 – 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 2022 is detailed in the table below:

31 March 2021 £'000	Nature of provision	Additional provisions £'000	Amounts used £'000	Amounts reversed £'000	31 March 2022 £'000
(2,946)	Potential costs of successful business rates appeals	0	452	2,377	(117)
(78)	Unequal back pay	0	78	0	0
(870)	Insurance	(697)	542	230	(795)
(3,894)	Short Term Provisions	(697)	1,072	2,607	(912)
(6,294)	Potential costs of successful business rates appeals	(2,009)	1,142	0	(7,161)
(2,030)	Insurance	(2,090)	1,625	109	(2,386)
(129)	Other provisions	(91)	5	0	(215)
(8,453)	Long Term Provisions	(4,190)	2,772	109	(9,762)
(12,347)	Total Provisions	(4,887)	3,844	2,716	(10,674)

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 2021/2022 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. A large number of cases relating to the 2010 Appeals list were settled or withdrawn during the year.

Notes to the Financial Statements

Unequal back pay

All claims have now been settled.

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 2022/2023 with others likely to take several years before they are concluded.

Other provisions

Other provisions relate to guarantee bonds held by the Council which will be held for several years.

Note 22 – Unusable Reserves

31 March 2021 £'000		Note	31 March 2022 £'000
182,862	Revaluation Reserve	22a	181,293
11,539	Financial Instruments Revaluation Reserve	22b	16,141
382,781	Capital Adjustment Account	22c	337,741
(2,631)	Financial Instruments Adjustment Account	22d	(2,328)
(584,840)	Pensions Reserve	22e	(423,300)
24,766	Deferred Capital Receipts Reserve	22f	29,356
(24,791)	Collection Fund Adjustment Account	22g	(5,648)
(1,459)	Accumulated Absences Account	22h	(1,601)
(1,351)	Dedicated Schools Grant Adjustment Account	22i	(3,034)
(13,124)	Total Unusable Reserves		128,620

22a) Revaluation Reserve

The Revaluation Reserve holds 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 only holds 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.

2020/2021 £'000		2021/2022 £'000
192,758	Balance at 1 April	182,862
52,524	Upward revaluation of assets	22,377
(55,065)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(15,791)
190,217	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	189,448
7,269	Difference between fair value depreciation and historical cost depreciation	6,934
86	Accumulated gains on assets sold or scrapped	1,221
7,355	Amount written off to the Capital Adjustment Account	8,155
182,862	Balance at 31 March	181,293

Notes to the Financial Statements

22b) 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.

2020/2021 £'000		2021/2022 £'000
10,691	Balance at 1 April	11,539
848	Upward revaluation of investments	4,602
0	Downwards revaluation of investments	0
11,539	Balance at 31 March	16,141

22c) 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.

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.

Notes to the Financial Statements

2020/2021 £'000		2021/2022 £'000
368,387	Balance at 1 April	382,781
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(41,758)	Charges for depreciation and impairment of non-current assets	(39,111)
(1,256)	Revaluation losses and reversal of prior year revaluation losses on Property, Plant and Equipment	(49,720)
(494)	Amortisation of intangible assets	(2,852)
(15,475)	Revenue expenditure funded from capital under statute	(25,889)
40	Donated Assets	108
(547)	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	(6,499)
(59,490)		(123,963)
7,355	Adjusting amounts written out of the Revaluation Reserve	8,155
(52,135)	Net written out amount of the cost of non current assets consumed in the year	(115,808)
	Capital financing applied in the year:	
2,644	Use of Capital Receipts to finance new capital expenditure	2,691
29,698	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	41,941
8,062	Application of grants to capital financing from the Capital Grants Unapplied Account	7,512
12,201	Statutory provision for the financing of capital investment charged against the General Fund balance	13,018
14,964	Capital expenditure charged against the General Fund balance	5,717
67,569		70,879
(107)	Writing down of Long Term Debtor	(111)
(933)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0
382,781	Balance at 31 March	337,741

22d) 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 2022 will be charged to the General Fund over the next 33 years.

Notes to the Financial Statements

2020/2021 £'000		2021/2022 £'000
(2,831)	Balance at 1 April	(2,631)
(65)	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	(94)
265	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	397
200	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	303
(2,631)	Balance at 31 March	(2,328)

22e) 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.

2020/2021 £'000		2021/2022 £'000
(506,280)	Balance at 1 April	(584,840)
(56,210)	Remeasurement of the net defined benefit liability	195,500
(41,370)	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	(54,040)
19,020	Employer's pensions contributions and direct payments to pensioners payable in the year	20,080
(584,840)	Balance at 31 March	(423,300)

22f) 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.

2020/2021 £'000		2021/2022 £'000
23,730	Balance at 1 April	24,766
1,037	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	4,629
(1)	Transfer to the Capital Receipts Reserve upon receipt of cash	(39)
24,766	Balance at 31 March	29,356

Notes to the Financial Statements

22g) 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.

The Collection Fund deficit for 2021/2022 is larger than anticipated, particularly in relation to Business Rates. This is primarily as a result of businesses being awarded further Expanded Retail and Nursery business rates reliefs in 2021/2022. These reliefs have been funded by DLUHC through Section 31 Grants, which will contribute towards the funding of the position in 2022/2023. Further details are provided in Collection Fund Statement and associated notes.

2020/2021 £'000		2021/2022 £'000
1,241	Balance at 1 April	(24,791)
(26,032)	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	19,143
(24,791)	Balance at 31 March	(5,648)

22h) 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.

2020/2021 £'000		2021/2022 £'000	£'000
(1,912)	Balance at 1 April	1,459	(1,459)
1,912	Settlement or cancellation of accrual made at the end of the preceding year		
(1,459)	Amounts accrued at the end of the current year	(1,601)	
453	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		(142)
(1,459)	Balance at 31 March		(1,601)

22i) Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant Adjustment Account was established 1 April 2020 and absorbs the differences that would otherwise arise on the General Fund Balance from a deficit position on school budgets. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2020/2021 £'000		2021/2022 £'000
(249)	Balance at 1 April	(1,351)
(1,102)	DSG Deficit	(1,683)
(1,351)	Balance at 31 March	(3,034)

Notes to the Financial Statements

Note 23 – Cash Flow Statement – Operating Activities

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

2020/2021 £'000		2021/2022 £'000
2,661	Interest received	1,115
(15,318)	Interest paid	(14,903)
700	Dividends received	700

Note 24 – Cash Flow Statement – Investing Activities

2020/2021 £'000		2021/2022 £'000
(78,822)	Purchase of property, plant and equipment, investment property and intangible assets	(97,227)
(105,000)	Purchase of short-term and long-term investments	(210,010)
(943)	Other payments for investing activities	(2,128)
1,980	Net Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,111
150,802	Proceeds from short-term and long-term investments	105,064
41,423	Other receipts from investing activities	62,311
9,440	Net cash flows from investing activities	(137,879)

Note 25 – Cash Flow Statement – Financing Activities

2020/2021 £'000		2021/2022 £'000
4,995	Cash receipts of short and long-term borrowing	102,102
(5,460)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(5,825)
(6,145)	Repayments of short and long term borrowing	(10,157)
(1,722)	Other payments for/receipts from financing activities	13,170
(8,332)	Net cash flows from financing activities	99,290

Note 26 – Reconciliation of Liabilities arising from Financing Activities

2021/2022	1 April 2021 £'000	Financing cash flows £'000	Non-cash changes		31 March 2022 £'000
			Acquisition £'000	Other non- cash changes £'000	
Long-term borrowings	(381,790)	(102,101)	7,358	9	(476,524)
Short-term borrowings	(40,486)	10,157	(7,358)	(405)	(38,092)
Lease liabilities	(8,652)	1,102	(63,856)	0	(71,406)
On balance sheet PFI liabilities	(65,219)	4,723	0	0	(60,496)
Total liabilities from financing activities	(496,147)	(86,119)	(63,856)	(396)	(646,518)

Notes to the Financial Statements

2020/2021	1 April 200	Financing cash flows	Non-cash changes		31 March 2021
			Acquisition	Other non- cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	(386,885)	(4,995)	10,081	9	(381,790)
Short-term borrowings	(36,582)	6,131	(10,081)	46	(40,486)
Lease liabilities	(8,263)	913	(1,302)	0	(8,652)
On balance sheet PFI liabilities	(69,781)	4,562	0	0	(65,219)
Total liabilities from financing activities	(501,511)	6,611	(1,302)	55	(496,147)

Note 27 – Partnership Arrangements with National Health Service Bodies

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. The aim of such arrangements is to provide a service to a target client group and allow organisations to work in a more unified way.

Better Care Fund

The Council has entered into a Pooled Budget arrangement with Sunderland Clinical Commissioning Group under which each partner organisation makes an agreed contribution.

The Sunderland vision for integration through the Better Care Fund (BCF) 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 deliver 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 carers;
- 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 at an area or neighbourhood level to better meet local needs (both formally and informally) and developing local responsive services.

The BCF plan has continued to support our local integration particularly during a period where integration and the maturity of that integration was key. There have been further developments and enhancement in health and social care integration not least through the Integrated Discharge Team

Notes to the Financial Statements

(IDT), shared care records and delivery of funding arrangements. In addition, the continued alignment of the BCF with the wider development of the All Together Better Alliance model in the City for Out of Hospital care and subsequent Covid-19 hospital discharge guidance has impacted positively.

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.

From July 2022, Integrated Care Boards (ICBs) will replace existing CCGs. The CCGs' statutory functions will be conferred on ICBs, including commissioning responsibilities. Relevant CCG duties will also be transferred to ICBs, including those regarding health inequalities, quality, safeguarding, children and young people with special education needs or disability. The ICBs will be directly accountable for NHS spend and performance. Draft legislation and interim NHS England/Improvement policy guidance require each ICB to set out its governance and leadership arrangements in a constitution following an engagement process with CCG, local authorities and other partners. Sunderland is part of the North East and North Cumbria Integrated Care System (NENC ICS), a regional partnership of 13 local authorities, 8 CCGs, 12 NHS Foundation Trusts and wider partners. A formal place-based partnership is in place in Sunderland from July 2022 to work with the NENC ICB. The Council and its NHS partners are already working together informally to integrate health and care and to develop plans collectively to enable the organisations to achieve more than they can individually to improve health and care outcomes and reduce health inequalities in Sunderland.

2020/2021 £'000		2021/2022 £'000
	Funding Provided to the Pooled Budget	
0	Sunderland City Council DFG b/f from Prior Year	(477)
(97,518)	Sunderland City Council	(89,869)
(168,633)	Sunderland Clinical Commissioning Group	(168,680)
(266,151)	Total Funding	(259,026)
	Expenditure met from the Pooled Budget	
0	Sunderland City Council DFG b/f from Prior Year	477
160,434	Sunderland City Council	150,501
104,324	Sunderland Clinical Commissioning Group	108,157
264,758	Total Expenditure	259,135
(1,393)	Net (Surplus)/Deficit arising on the Pooled Budget	109
(477)	Sunderland City Council Share of (Surplus)/Deficit	(894)

The Council's 2021/2022 surplus of £0.894m relates to underspend from Disabled Facilities Grant (DFG) which will be re-profiled into 2022/2023 to pay for essential housing adaptations to help disabled people stay in their own homes.

Children's Services Agreement

The Council has also entered into a smaller Section 75 Agreement with Sunderland Clinical Commissioning Group to jointly fund key services for its children.

Under this Agreement Sunderland Clinical Commissioning Group has provided funds of £3.039m to the Council (£1.623m in 2020/2021) and the Council has provided funds of £0.482m to Sunderland Clinical Commissioning Group (£0.490m in 2020/2021).

The services will be delivered largely by Together for Children Sunderland Ltd, the Council's wholly owned subsidiary created to focus specifically on Children's Services across the City.

Notes to the Financial Statements

A key initiative for Together for Children Sunderland Ltd is the development of an Integrated Children's Commissioning programme wherein partnership working, co-commissioning and co-production is central. As this work matures, the Section 75 Agreement will also develop to reflect the new and holistic approach which aligns with Together for Children Sunderland Ltd's strategy – Putting the Child First!

Note 28 – Members' Allowances and Expenses

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

2020/2021 £'000		2021/2022 £'000
1,011	Allowances	1,004
1	Expenses	1
1,012	Total	1,005

Notes to the Financial Statements

Note 29 – Officers' Remuneration

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

Post Holder Information 2021/2022	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 £
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Patrick Melia	194,474	0	0	0	0	194,474	38,700	233,174
Executive Director of City Development - Peter McIntyre *	229,611	0	0	0	1,570	231,181	28,673	259,854
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Executive Director of Corporate Services	142,785	0	0	0	651	143,436	26,778	170,214
Executive Director of Neighbourhoods **	178,402	0	0	32,787	0	211,189	362,361	573,550
Executive Director of Children's Services ***	142,785	0	0	0	741	143,526	26,408	169,934
Executive Director of Public Health and Integrated Commissioning	130,408	0	0	0	0	130,408	18,753	149,161

* The salary figure for Executive Director of City Development includes a backdated pay settlement

** Post holder left the Council at end of April 2022 but exit costs have been reflected in the table above

*** £151,421 has been recharged to Together for Children in respect of this position

Notes to the Financial Statements

Note 29 – Officers' Remuneration

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

Post Holder Information 2020/2021	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 £
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Patrick Melia	191,600	0	0	0	0	191,600	38,128	229,728
Executive Director of City Development - Peter McIntyre	150,552	0	0	0	0	150,552	29,333	179,885
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Executive Director of Corporate Services	140,044	0	0	0	0	140,044	27,050	167,094
Executive Director of Neighbourhoods	140,044	0	0	0	0	140,044	27,869	167,913
Executive Director of Children's Services *	140,044	0	0	0	0	140,044	27,367	167,411
Executive Director of Public Health and Integrated Commissioning **	53,534	0	0	0	0	53,534	7,698	61,232
Director of People, Communications and Partnerships ***	72,173	0	0	71,709	0	143,882	14,362	158,244

* £134,269 has been recharged to Together for Children Ltd in respect of this position

** New position which was appointed to on 1 November 2020

*** Postholder left post 30 November 2020 and this position has subsequently been deleted

Notes to the Financial Statements

Note 29 – Officers' Remuneration

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:

2020/2021		Remuneration	2021/2022	
Non-Teaching Staff	Teaching Staff		Non-Teaching Staff	Teaching Staff
44	39	£50,000 - £54,999 (#1)	63	35
26	26	£55,000 - £59,999	33	29
9	17	£60,000 - £64,999 (#2)	11	10
6	14	£65,000 - £69,999 (#3)	6	11
6	8	£70,000 - £74,999	7	13
1	8	£75,000 - £79,999	4	3
3	3	£80,000 - £84,999	1	3
6	1	£85,000 - £89,999	3	3
3	2	£90,000 - £94,999 (#4)	6	2
8	0	£95,000 - £99,999 (#5)	7	0
4	0	£100,000 - £104,999	0	1
0	0	£105,000 - £109,999 (#6)	3	0
1	0	£110,000 - £114,999	1	0
1	0	£135,000 - £139,999	1	0
0	0	£150,000 - £154,999	1	0
0	0	£165,000 - £169,999	1	0

#1 One officer in this band has been seconded to an external organisation in 2020/2021 and their cost has been fully recovered

#2 One officer in this band has been seconded to an external organisation in 2021/2022 and their cost has been fully recovered

#2 One officer in this band has been seconded to an external organisation in 2021/2022 and 30% of their cost has been recovered

#3 Two officers in this band have been seconded to an external organisation in both 2020/2021 and 2021/2022 and 50% of their cost has been recovered

#4 One officer in this band has been seconded to an external organisation in 2020/2021 and their cost has been fully recovered

#5 One officer in this band has been seconded to an external organisation in 2020/2021 and 50% of their cost has been recovered

#6 One officer in this band has been seconded to an external organisation in 2021/2022 and 50% of their cost has been recovered

Notes to the Financial Statements

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.

2020/2021 £'000		2021/2022 £'000
105	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	105
14	Fees payable in respect of other services provided by Mazars LLP during the year	15
119	Total Costs	120

The table above represents fees agreed between the Council and their external auditor however, additional work on specific issues can subsequently be required.

Since the 2020/2021 Statement of Accounts were audited, an additional £0.055m has been incurred relating to 2020/2021. Similarly, it is possible that additional costs will be incurred relating to 2021/2022.

Note 31 – Dedicated Schools' Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2021. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/2022 are as follows (reference to the former MHCLG has been retained for historical context):

Notes to the Financial Statements

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2021/2022 before Academy and High Needs recoupment			238,716
Academy and High Needs figure recouped for 2021/2022			142,358
Total DSG after Academy and High Needs recoupment for 2021/2022			96,358
Plus: brought forward from 2020/2021			0
Less: carry forward to 2022/2023 agreed in advance			0
Agreed initial budgeted distribution in 2021/2022	45,703	50,655	96,358
In year adjustments	3	0	3
Final budgeted distribution in 2021/2022	45,706	50,655	96,361
Less: Actual central expenditure	47,389	0	47,389
Less: Actual ISB deployed to schools	0	50,655	50,655
Plus: Local authority contribution for 2021/2022	0	0	0
In year carry forward to 2022/2023	(1,683)	0	(1,683)
Plus/Minus: Carry-forward to 2022/2023 agreed in advance			0
Carry-forward to 2022/2023			0
DSG unusable reserve at the end of 2020/2021			(1,351)
Addition to DSG unusable reserve at the end of 2021/2022			(1,683)
Total of DSG unusable reserve at the end of 2021/2022			(3,034)
Net DSG position at the end of 2021/2022			(3,034)

Notes to the Financial Statements

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2020/2021 before Academy and High Needs recoupment			222,194
Academy and High Needs figure recouped for 2020/2021			129,185
Total DSG after Academy and High Needs recoupment for 2020/2021			93,009
Plus: brought forward from 2019/2020			0
Less: carry forward to 2021/2022 agreed in advance			0
Agreed initial budgeted distribution in 2020/2021	43,435	49,574	93,009
In year adjustments	(300)	0	(300)
Final budgeted distribution in 2020/2021	43,135	49,574	92,709
Less: Actual central expenditure	44,237		44,237
Less: Actual ISB deployed to schools		49,574	49,574
Plus: Local authority contribution for 2020/2021	0	0	0
In year carry forward to 2021/2022	(1,102)	0	(1,102)
Plus/Minus: Carry-forward to 2021/2022 agreed in advance			0
Carry-forward to 2021/2022			0
DSG unusable reserve at the end of 2019/2020			(249)
Addition to DSG unusable reserve at the end of 2020/2021			(1,102)
Total of DSG unusable reserve at the end of 2020/2021			(1,351)
Net DSG position at the end of 2020/2021			(1,351)

Note: Actual Individual Schools Budgets 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 capital grants and contributions 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 Council received specific grants during 2021/2022 to support Covid-19 response activity. A number of these grants had conditions attached. Where grant balances remained at the end of the financial year to support on-going activity, and grant conditions are yet to be met these are held as receipts in advance.

The balances at the year-end are as follows:

Notes to the Financial Statements

31 March 2021 £'000		31 March 2022 £'000
	Revenue Grant Receipts in Advance	
(10,604)	Department of Health and Social Care	(4,808)
(3,105)	Department for Business, Energy and Industrial Strategy	(2)
(509)	England Sports Council	0
(551)	Education Skills Funding Agency	(76)
(85)	Department for Levelling Up, Housing and Communities	(2,113)
0	Department for Work and Pensions	(11)
(178)	Other Revenue Grants and Contributions	(10)
(15,032)		(7,020)
	Capital Grant Receipts in Advance	
(451)	Department for Levelling Up, Housing and Communities	(9,793)
(906)	Department for Business, Energy and Industrial Strategy	(3,303)
(477)	Department of Health and Social Care	(894)
(548)	Department for Education	(766)
0	Environment Agency	(323)
(752)	Department for Transport	(127)
(383)	Other Capital Grants and Contributions	(119)
(2,216)	Salix	0
(5,733)		(15,325)

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

2020/2021 £'000		2021/2022 £'000
	Credited to Taxation and Non Specific Grant Income and Expenditure	
	Revenue Grants:	
(43,724)	Top Up Grant	(43,724)
(27,956)	Revenue Support Grant	(28,110)
(27,481)	Section 31 Business Rates Grant	(16,047)
(15,566)	Covid-19 General Grant	(8,915)
0	Covid-19 Local Council Tax Support Grant	(3,670)
(3,506)	Sales, Fees and Charges Compensation Grant	(428)
(2,070)	New Homes Bonus	(1,518)
0	Lower Tier Services Grant	(499)
(1,656)	Local Tax Income Guarantee Compensation Grant	0
(14)	Local Services Support Grant	(14)
(121,973)		(102,925)
	Capital Grants, Contributions and Donations:	
(13,937)	Department for Transport	(7,315)
(5,805)	Homes England	(8,045)
(3,237)	Department for Levelling Up, Housing and Communities	(6,337)
(2,174)	Department for Education	(5,073)
(937)	NHS	(1,532)
(1,432)	Other Capital Grants and Contributions	(1,390)
(27,522)		(29,692)
(149,495)	Total	(132,617)

Notes to the Financial Statements

2020/2021 £'000		2021/2022 £'000
	Credited to Services	
	Revenue Grants:	
	Department for Levelling Up, Housing and Communities	
(18,134)	Improved Better Care Fund	(18,134)
(10,249)	Social Care Support Grant	(13,861)
(5,538)	PFI	(5,538)
0	Rough Sleeper Initiative	(1,055)
(994)	Strengthening Families Grant	(1,008)
(815)	Independent Living Fund	(817)
0	Domestic Abuse Support Grant	(667)
(652)	European Grants	(627)
0	Homelessness Prevention Grant	(607)
(667)	New Burdens (various)	(583)
(306)	Coastal Communities Fund	0
(131)	Rapid Rehousing Pathway	0
(330)	Other grants	(308)
	Department for Work and Pensions:	
(88,301)	Housing Benefit	(80,544)
0	Household Support Fund	(2,674)
(63)	European Grants	(364)
(149)	Welfare Reform Additional Burdens	(121)
	Department of Health and Social Care:	
(24,275)	Public Health Grant	(25,266)
0	Workforce Recruitment & Retention-ASC	(3,021)
0	Practical Support Payments	(268)
0	Community Discharge Grant	(249)
(225)	Local Reform & Community Voices	(225)
0	Other grants	(6)
	Education Skills Funding Agency:	
(92,709)	Dedicated Schools Grant	(96,361)
(6,130)	Pupil Premium	(6,143)
(1,197)	Adult Education Apprenticeships	(1,504)
(137)	Holiday Activities & Food	(1,202)
(1,837)	Universal Free School Meals	(1,083)
(828)	PE & Sport Grant	(793)
0	Recovery Premium	(320)
0	School Led Tutoring	(306)
(2,500)	Teachers Pension Grant	(272)
0	Data Accelerator Fund	(202)
(179)	Adoption Support Fund	(180)
(185)	School Improvement Monitoring and Brokering Grant	(162)
(59)	Virtual Head for Previously Looked After Children	(159)
(158)	Staying Put	(158)
(91)	Extended Rights to Free Travel	(114)
(826)	Teachers Pay Grant	(96)
(259)	Other grants	(417)
(625)	Youth Justice Board	(677)
0	Department for Transport	(318)
(180)	Home Office	(276)
(101)	Heritage Lottery Fund	(147)
(163)	Other Grants	(127)
(258,993)	Total Revenue Grants	(266,960)

Notes to the Financial Statements

2020/2021 £'000		2021/2022 £'000
	Credited to Services	
	Grants applied to revenue expenditure funded from capital under statute:	
0	Department for Business, Energy and Industrial Strategy:	(11,673)
(3,676)	Department of Health and Social Care	(3,638)
0	Department for Levelling Up, Housing and Communities	(3,469)
(102)	Homes England	(1,352)
(4,578)	Department for Education	(721)
(976)	Other Capital Grants	(845)
(9,332)		(21,698)
(268,325)	Total	(288,658)

Central Government provided a number of specific grants to the Council during 2020/2021 and 2021/2022 to support the response to the Covid-19 pandemic. The following grants were credited to the Comprehensive Income and Expenditure Statement:

2020/2021 £'000		2021/2022 £'000
	Covid-19 Revenue Grants Credited to Services	
	Department for Levelling Up, Housing and Communities	
(383)	Support to Clinically Extremely Vulnerable Individuals	(554)
(139)	Reopening High Street Safely Fund	(415)
0	Protect and Vaccinate Grant	(104)
(4,196)	Council Tax Hardship Grant	0
(510)	Covid-19 Community Champions Grant	0
	Department for Work and Pensions:	
(1,006)	Covid-19 Winter Grant	(1,289)
	Department of Health and Social Care:	
(381)	Contain Outbreak Management Fund	(7,129)
(1,392)	Covid-19 Infection Control	(1,137)
(158)	Covid-19 Rapid Testing	(803)
(144)	Covid-19 Test and Trace Support Payment Scheme	(1,076)
0	Adult Social Care Omicron Support Fund	(392)
(143)	LA Compliance and Enforcement	(354)
0	Test and Trace Grant (ASC Care Homes)	(325)
(784)	Workforce Capacity Grant	0
(72)	Other Grants	(64)
	Education Skills Funding Agency:	
(587)	Covid-19 Catch Up Premium	(417)
(28)	Covid-19 Mass testing Funding for Schools and Colleges	(24)
(76)	Covid-19 Schools Fund	0
(53)	Covid-19 Adoption Support Fund	0
	Department for Business, Energy and Industrial Strategy:	
(8,664)	Covid-19 Business Support Grants	(4,526)
(293)	New Burdens Covid-19 Business Support Grants Scheme	(497)
(311)	Department for Environment, Food and Rural Affairs	(87)
(7)	Her Majesty's Revenue and Customs	0
(19,327)	Total	(19,193)

Notes to the Financial Statements

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 and 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 2021/2022 is shown in Note 28. During 2021/2022, works and services to the value of £0.934m (£1.573m for 2020/2021) were commissioned from companies in which members had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, grants and contributions totalling £0.788m (£0.929m for 2020/2021) were paid 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 2021/2022.

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 2021/2022 there were no Chief Officers who had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Council (£0.000m in 2020/2021).

The figures stated above do not include transactions with Sunderland Care and Support Ltd, Together for Children Sunderland 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 2021/2022.

Other Public Bodies

The Council has entered into partnership arrangements with Sunderland Clinical Commissioning Group for the provision of services to support reduced hospital admissions and length of stay and also to deliver key children's services. Transactions and balances outstanding are detailed in Note 27.

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.

Notes to the Financial Statements

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

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

The value of the contract for the period was £45.864m (£42.963m in 2020/2021) which included £0.680m COVID-19 costs, £1.985m of this was funded by Sunderland CCG's Hospital Discharges (£1.342m in 2020/2021), this included agency costs which were reimbursed to the Council by health partners of £9.298m (£8.107m in 2020/2021).

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

- Equipment and services were bought from Sunderland Care and Support Ltd of £0.133m (£0.072m in 2020/2021);
- Sunderland Care and Support Ltd bought back support services from the Council, totalling £1.453m (£1.468m in 2020/2021);
- Sunderland Care and Support Ltd also managed home improvement agency and disabled facilities grants on behalf of the Council. Fees for this were £0.264m in 2021/2022 (£0.247m in 2020/2021);
- Sunderland Care and Support Ltd also bought back other services including rent, other services and equipment purchases of £2.776m (£2.075m in 2020/2021);
- No redundancy related costs were incurred by Sunderland Care and Support Ltd and funded by the Council in 2021/2022 (£0.028m in 2020/2021);
- Covid-19 grants for Infection Control, Rapid Testing, Workforce Capacity and Omicron Support of £0.962m were passed on to Sunderland Care and Support (£0.429m in 2020/2021); and
- Sunderland CCG funding to support providers to pay their staff National Living Wage of £0.477m was passed to Sunderland Care and Support (£0.000m in 2020/2021).

At the year end, Sunderland Care and Support Ltd owed the Council £0.647m (£0.590m in 2020/2021) and the Council owed Sunderland Care and Support Ltd £4.524m (£2.982m in 2020/2021).

The operational profit attributable to this subsidiary for 2021/2022 was £12.985m (£9.852m operational loss in 2020/2021).

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

Notes to the Financial Statements

Sunderland Care and Support's registered office is: City Hall, Plater Way, Sunderland, SR1 3AA.

Together for Children Sunderland Ltd (subsidiary)

Operational from 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 an effective and responsive service that make a difference for children and families in Sunderland.

Whilst Together for Children Sunderland Ltd is a 100% council-owned company, the board of directors has 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 Scheme of Governance. A 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 £71.695m, with the final contract value being £79.930m which includes £8.235m of grants received by the Council that have been included within the contract sum (£75.953m in 2020/2021).

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 £0.000m (£0.026m in 2020/2021);
- grants received by the Council of £26.908m, which are not part of the contract, have been passed on to Together for Children Sunderland Ltd (£23.454m in 2020/2021). This excludes £16.421m which has been received by the Council and passed on to maintained schools via Together for Children Sunderland Ltd (£16.770m in 2020/2021);
- partnership agreement funding received by the Council of £2.919m has been passed on to Together for Children Sunderland Ltd (£1.623m in 2020/2021). Together for Children Sunderland Ltd has paid partnership agreement funding to the Council of £0.482m (£0.490m in 2020/2021);
- Together for Children Sunderland Ltd bought back support, rent and other services from the Council, totalling £5.184m (£4.849m in 2020/2021), including agency costs of £0.351m relating to utility, telephone charges and purchase cards; and
- Other service costs incurred by the Council, including schools, total £2.469m (£2.027m in 2020/2021).

At the year end, Together for Children Sunderland Ltd owed the Council £0.388m (£1.143m in 2020/2021) and the Council owed Together for Children Sunderland Ltd £4.926m (£3.026m in 2020/2021).

The operational profit attributable to this subsidiary for 2021/2022 was £13.995m (£22.548m operational loss in 2020/2021).

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: City Hall, Plater Way, Sunderland, SR1 3AA.

Siglion LLP (subsidiary)

The Council owns 100% of Siglion LLP it has a wholly owned subsidiary (Siglion Nominee Limited). Siglion LLP and Siglion Nominee Limited 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

Notes to the Financial Statements

consideration of this transaction, the Council received loan notes totalling £23.500m. These are split between Loan Note A (£5.000m) which is non-interest bearing and Loan Note B (£18.500m), which is interest bearing, with interest payable quarterly. The Council acquired Carillion (Maple Oak) Limited's member interest in March 2019 thus increasing its Loan Note A to £10.000m. 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.

A £0.700m distribution was received for the year ended 31 December 2021 (£0.700m for the year ended 31 December 2020).

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

- 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 2022 to March 2022).

At the year end, Siglion LLP owed the Council £3.616m (£1.736m in 2020/2021) and the Council owed Siglion LLP £2.532m (£0.783m in 2020/2021).

The operational profit attributable to this subsidiary for 2021/2022 was £8.253m (£3.398m operational profit in 2020/2021).

Siglion's registered office is: City Hall, Plater Way, Sunderland, SR1 3AA.

Sunderland Lifestyle Partnership Ltd (joint venture)

In June 2015 the Council entered into a joint venture partnership, known as Sunderland Lifestyle Partnership (SLP), 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 Ltd 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

Notes to the Financial Statements

- to identify and develop additional commercial opportunities which contribute to the achievement of any of the above objectives.

In recognition of the significant adverse impact of the Covid-19 pandemic on the trading and operating performance of the contractor, additional payments by the Council were made in 2021/2022 of £1.855m (£1.546m in 2020/2021). Additional financial support arrangements are also in place for 2022/2023 to deal with the financial implications arising during this year, thus ensuring that SLP has adequate resources to continue to trade, operate and meet its obligations. Support of £0.727m has been received from the National Leisure Recovery Fund to offset the additional costs incurred in 2020/21 and 2021/22 (£0.218m and £0.509m respectively).

The total operational loss attributable to this joint venture for 2021/2022 was £0.178m (£0.498m operational loss in 2020/2021).

In order to help the joint venture to fund initial capital works, both the Council and SLM have provided interest bearing 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. £1.400m is outstanding at the end of 2021/2022 (£1.500m in 2020/2021).

The draft accounts for Sunderland Lifestyle Partnership Ltd for the period 1 April 2021 to 31 March 2022, show a net loss before taxation of £0.253m and indicates that no dividend is proposed.

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

IAMP LLP (Joint Venture)

IAMP LLP was 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 total operational loss attributable to this joint venture for 2021/2022 was £0.013m (£0.405m operational loss in 2020/2021).

IAMP's registered office is: Town Hall And Civic Offices, Westoe Road, South Shields, NE33 2RL.

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 the 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. 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 £16.508m (£11.906m in 2020/2021). These shares are not held for trading outside of the LA7.

Notes to the Financial Statements

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of Covid-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/2021 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

The fair value for Newcastle Airport is 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 and other observable and unobservable factors. The last full valuation took place at 31 March 2019.

To factor in the impact of Covid-19 a weighted average of forecast earnings before interest, depreciation and tax (EBIDTA) has been derived and compared against existing EBIDTA prior to the pandemic in order to generate a revaluation in the share value. To ensure reasonableness this percentage has been compared against the movement in shareholdings in other world airports where the shares are actively traded.

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 2021 (nil for the year ended 31 December 2020).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/2013, issuing £67.665m shareholder loan notes of which £13.270m is held by the Council at 31 March 2022. (£13.047m at 31 March 2021). The loan notes will be repayable in 2032 with interest normally being received up to that date on a 6-monthly basis.

Due to major curtailments in the Airport's operations as a result of the Covid-19 pandemic, the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the Airport can defer interest repayments for the following four years (three and a half years in 2020/21) with catch up payments to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments and this has been factored into the repayments the Airport will make once the catch-up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £1.063m (£1.249m in 2020/2021) being recognised. The decrease in loss recognised is credited to the Financing and Investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the Airport's operations going forward resulting in a reduction to the expected lifetime loss provision of £0.037m (an increase of £0.096m was made at 31 March 2021) in the event all repayments are not made or are further delayed at some point in the future.

Other than these loan notes there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a loss before tax of £31.306m and a loss after tax of £32.755m for the year ended 31 December 2021. In the previous year, the Group made a loss before tax of £34.025m and a loss after tax of £31.835m.

Other Relevant Information

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

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

Notes to the Financial Statements

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.

2020/2021 £'000		2021/2022 £'000
470,255	Opening Capital Financing Requirement	501,093
1,302	Recognition and Derecognition of Leased Assets	63,856
484	Recognition of PFI Assets	213
	<i>Capital Investment</i>	
79,619	Property, Plant and Equipment	95,017
258	Long Term Debtors	923
1,269	Intangible Assets	2,122
0	Heritage Assets	370
15,475	Revenue Expenditure Funded from Capital under Statute	25,889
	<i>Sources of Finance</i>	
(2,644)	Capital Receipts	(2,691)
(37,760)	Government grants and other contributions	(49,561)
	Sums set aside from revenue:	
(14,964)	Direct revenue contributions	(5,717)
(12,201)	MRP	(13,018)
501,093	Closing Capital Financing Requirement	618,496
	<i>Explanation of movements in year</i>	
(545)	(Decrease) in underlying need to borrow (supported by government financial assistance)	(632)
35,469	Increase / (decrease) in underlying need to borrow (unsupported by government financial assistance)	60,209
404	Increase / (decrease) in underlying need to borrow (finance leases)	62,767
(4,490)	Increase / (decrease) in underlying need to borrow (PFI contracts)	(4,941)
30,838	Increase / (decrease) in Capital Financing Requirement	117,403

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:

Notes to the Financial Statements

31 March 2021 £'000		31 March 2022 £'000
4,514	Other Land & Buildings	45,221
2,968	Vehicles, Plant and Equipment	2,999
7,482		48,220

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 2021 £'000		31 March 2022 £'000
	Finance Lease Liabilities (net present value of minimum lease payments)	
912	Current	2,871
7,740	Non-current	68,535
0	Finance costs payable in future years	22,775
8,652	Minimum lease payments	94,181

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

31 March 2021			31 March 2022	
Minimum Lease Payments £'000	Finance Lease Liabilities £'000		Minimum Lease Payments £'000	Finance Lease Liabilities £'000
912	912	Not later than one year	2,871	2,871
2,127	2,127	Later than one year and not later than five years	9,154	9,154
5,613	5,613	Later than five years	59,381	59,381
8,652	8,652		71,406	71,406

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 2020/2021 was £0.480m (£0.753m in 2020/2021). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

31 March 2021 £'000		31 March 2022 £'000
363	Not later than one year	54
170	Later than one year but not later than five years	199
220	Later than five years	227
753		480

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.

Notes to the Financial Statements

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

31 March 2021 £'000		31 March 2022 £'000
6,138	Not later than one year	8,227
14,579	Later than one year but not later than five years	21,458
81,858	Later than five years	125,354
102,575		155,039

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 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.

Notes to the Financial Statements

Property, Plant and Equipment Assets

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

2020/2021 Sandhill View £'000	2020/2021 Street Lighting £'000	2020/2021 Waste Partnership £'000		2021/2022 Sandhill View £'000	2021/2022 Street Lighting £'000	2021/2022 Waste Partnership £'000
1,712	36,511	51,753	Cost / Valuation	1,712	36,724	54,878
0	19,248	2,388	Accumulated Depreciation	47	20,725	0
1,712	17,263	49,365	Net Book Value	1,665	15,999	54,878

Service Concession Liabilities

The following transactions were processed during 2020/2021 and 2021/2022:

2020/2021 Sandhill View £'000	2020/2021 Street Lighting £'000	2020/2021 Waste Partnership £'000		2021/2022 Sandhill View £'000	2021/2022 Street Lighting £'000	2021/2022 Waste Partnership £'000
1,444	2,815	6,151	Provision of Services	1,691	3,040	5,906
0	411	1,241	Lifecycle costs	0	431	1,186
709	1,349	2,504	Repayment of Capital	654	1,437	2,632
578	1,217	957	Interest	514	1,105	907
441	109	425	Contingent rent	382	74	440
3,172	5,901	11,278	Total payment	3,241	6,087	11,071
(1,549)	(2,185)	(1,805)	PFI grant receivable	(1,549)	(2,185)	(1,805)
1,623	3,716	9,473	Net payment	1,692	3,902	9,266

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 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:

2020/2021 £'000		2021/2022 £'000
69,781	Balance outstanding at the start of the year	65,219
0	Additions	0
(4,562)	Repayment of capital	(4,723)
65,219	Balance outstanding at the year end	60,496

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 2022 (excluding any estimation of inflation and availability / performance deductions) are as follows:

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	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2022/2023	10,147	4,493	2,170	2,708	19,518
Payable within 2 to 5 years	41,035	20,224	10,187	8,389	79,835
Payable within 6 to 10 years	35,427	16,084	12,203	3,190	66,904
Payable within 11 to 15 years	33,313	13,145	14,172	1,458	62,088
Payable within 16 to 20 years	14,818	6,550	5,007	203	26,578
Total	134,740	60,496	43,739	15,948	254,923

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.

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.

Notes to the Financial Statements

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.

- 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).

Notes to the Financial Statements

- Waste Management Partnership

The contract expires in April 2039. The Council can exercise 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

An impairment is the amount by which the carrying amount of an asset exceeds its recoverable amount. Examples of events or circumstances that indicate an impairment may have incurred include:

- A significant decline in an asset's carrying amount during the period
- Evidence of obsolescence or physical damage of an asset.

During 2021/2022 the Council recognised no impairment losses (£4.399m in 2020/2021).

Notes to the Financial Statements

Note 38 – Termination Benefits

All costs relating to workforce planning 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 2021/2022, incurring liabilities of £2.672m (£1.087m in 2020/2021). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

2021/2022 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	2	12	9	21	9	47	0	47	59	9	68
£60 - £80	1	64	0	64	0	0	0	0	64	0	64
£80 - £100	1	16	81	97	0	0	0	0	16	81	97
£150 - £200	1	30	131	161	0	0	0	0	30	131	161
	5	122	221	343	9	47	0	47	169	221	390
<u>Voluntary</u>											
£0 - £20	27	144	12	156	14	104	0	104	248	12	260
£20 - £40	7	174	43	217	2	54	0	54	228	43	271
£40 - £60	2	48	36	84	0	0	0	0	48	36	84
£60 - £80	10	167	479	646	1	62	0	62	229	479	708
£80 - £100	3	74	194	268	0	0	0	0	74	194	268
£100 - £150	1	24	110	134	0	0	0	0	24	110	134
£150 - £200	1	0	155	155	0	0	0	0	0	155	155
£400 - £450	1	68	334	402	0	0	0	0	68	334	402
	52	699	1,363	2,062	17	220	0	220	919	1,363	2,282
Total	57	821	1,584	2,405	26	267	0	267	1,088	1,584	2,672

Exit costs payable to the employee are treated as remuneration and are included in Note 29 Officers' Remuneration for those staff whose remuneration exceeds £50,000.

Notes to the Financial Statements

Note 38 – Termination Benefits

2020/2021 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	1	12	0	12	1	5	0	5	17	0	17
£100-£150	1	22	103	125	0	0	0	0	22	103	125
	2	34	103	137	1	5	0	5	39	103	142
<u>Voluntary</u>											
£0 - £20	16	82	3	85	13	87	12	99	169	15	184
£20 - £40	1	18	14	32	0	0	0	0	18	14	32
£40 - £60	1	50	0	50	1	19	30	49	69	30	99
£60 - £80	2	67	67	134	0	0	0	0	67	67	134
£100 - £150	1	18	120	138	0	0	0	0	18	120	138
£150 - £200	2	110	248	358	0	0	0	0	110	248	358
	23	345	452	797	14	106	42	148	451	494	945
Total	25	379	555	934	15	111	42	153	490	597	1,087

Exit costs payable to the employee are treated as remuneration and are included in Note 29 Officers' Remuneration for those staff whose remuneration exceeds £50,000.

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 enough 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 71.4% for 2021/2022 (71.5% for 2020/2021).

In 2021/2022, the Council paid £6.357m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay. The figures for 2020/2021 were £6.396m and 23.7%. 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 £6.005m.

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, a number of Public Health functions transferred from the NHS to the Council. The staff who transferred to the Council 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 enough 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 58.8% for 2021/2022 (58.9% for 2020/2021).

In 2021/2022, the Council paid £0.137m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 16.9% of pensionable pay. The figures for 2020/2021 were £0.126m and 16.9%. 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 £0.124m.

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 types of 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 – these are unfunded defined benefit arrangements, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash must be generated to meet actual pension payments as they eventually fall due. These arrangements apply to both the Local Government Pension Scheme and the Teacher's 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 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 legal rulings relating to GMP payments, the accounts include an allowance for full increases on Guaranteed Minimum Payment (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 relating to this amounted to £10.70m and was recognised as a past service cost in 2018/2019. 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 schemes, and the 'Sargeant' case, which affects firefighters' pension schemes. The initial additional liability relating to this amounted to £17.21m and was accounted for as a past service cost in 2018/2019. In subsequent years an allowance has been made for estimated liabilities relating to potential remedies for age discrimination within the LGPS arrangements.

Notes to the Financial Statements

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:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2020/2021 £m	2021/2022 £m	2020/2021 £m	2021/2022 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	29.33	40.37	0.00	0.00
Past service costs	0.60	1.60	0.00	0.00
Past service costs relating to GMP indexation and equalisation	0.00	0.00	0.00	0.00
Past service costs relating to pension scheme transition arrangements	0.00	0.00	0.00	0.00
(Gain)/loss from settlements	0.00	0.00	0.00	0.00
Financing and Investment Income and Expenditure:				
Net interest expense	10.73	11.43	0.71	0.64
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	40.66	53.40	0.71	0.64
Other Post Employment Benefits Charged to the 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)	(234.09)	(65.85)	0.00	0.00
Actuarial (gains) and losses arising on changes in demographic assumptions	0.00	(18.40)	0.00	(0.33)
Actuarial (gains) and losses arising on changes in financial assumptions	307.98	(115.24)	2.56	(0.61)
Actuarial (gains) and losses arising from liability experience	(19.40)	5.97	(0.84)	(1.04)
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure	95.15	(140.12)	2.43	(1.34)
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	24.23	35.84	(1.88)	(1.88)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	16.43	17.56	2.59	2.52
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	40.66	53.40	0.71	0.64

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 2021 £m	31 March 2022 £m	31 March 2021 £m	31 March 2022 £m
Present value of the defined benefit obligation	1,912.06	1,822.83	31.68	27.82
Fair value of plan assets	1,358.90	1,427.35	0.00	0.00
Net liability arising from defined benefit obligation	(553.16)	(395.48)	(31.68)	(27.82)

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefit Arrangements	
	2020/2021 £m	2021/2022 £m	2020/2021 £m	2021/2022 £m
Opening balance at 1 April	1,598.11	1,912.06	31.84	31.68
Current service cost	29.33	40.37	0.00	0.00
Interest cost	36.30	39.70	0.71	0.64
Contributions from scheme participants	5.27	5.15	0.00	0.00
Remeasurement (gains) and losses:				
Actuarial (gains)/losses arising from changes in demographic assumptions	0.00	(18.40)	0.00	(0.33)
Actuarial (gains)/losses arising from changes in financial assumptions	307.98	(115.24)	2.56	(0.61)
Actuarial (gains)/losses arising from liability experience	(19.40)	5.97	(0.84)	(1.04)
Net increase in liabilities arising from disposals	0.00	0.00	0.00	0.00
Past service costs (including curtailments)	0.60	1.60	0.00	0.00
Benefits paid	(46.13)	(48.38)	(2.59)	(2.52)
Closing balance at 31 March	1,912.06	1,822.83	31.68	27.82

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2020/2021 £m	2021/2022 £m	2020/2021 £m	2021/2022 £m
Opening fair value of scheme assets	1,123.67	1,358.90	0.00	0.00
Interest income	25.57	28.27	0.00	0.00
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	234.09	65.85	0.00	0.00
Net increase in liabilities arising from disposals	0.00	0.00	0.00	0.00
Contributions from employer	16.43	17.56	2.59	2.52
Contributions from employees into the scheme	5.27	5.15	0.00	0.00
Benefits paid	(46.13)	(48.38)	(2.59)	(2.52)
Closing balance at 31 March	1,358.90	1,427.35	0.00	0.00

Notes to the Financial Statements

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	2020/2021			2021/2022		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	48.4	7.1	55.5	47.8	9.2	57.0
Property	0.0	7.9	7.9	0.0	8.4	8.4
Government Bonds	2.2	0.0	2.2	2.0	0.0	2.0
Corporate Bonds	19.8	0.0	19.8	18.8	0.0	18.8
Cash	4.0	0.0	4.0	1.8	0.0	1.8
Other	4.7	5.9	10.6	4.8	7.2	12.0
Total assets	79.1	20.9	100.0	75.2	24.8	100.0

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 have been based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2020/2021	2021/2022	2020/2021	2021/2022
Mortality assumptions:				
Longevity at 65 for current pensioners				
Males	21.9 years	21.8 years	21.9 years	21.8 years
Females	25.1 years	25.0 years	25.1 years	25.0 years
Longevity at 65 for future pensioners				
Males	23.6 years	23.5 years	n/a	n/a
Females	26.9 years	26.7 years	n/a	n/a
CPI	2.7%	2.7%	2.7%	2.7%
Rate of increase in salaries	4.2%	4.5%	n/a	n/a
Pension account revaluation rate	2.7%	3.0%	n/a	n/a
Rate of increase in pensions	2.7%	3.0%	2.7%	3.0%
Rate for discounting scheme liabilities	2.1%	2.7%	2.1%	2.7%
Long-term expected rate of return on assets in the scheme	2.1%	2.7%	2.1%	2.7%

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 analyses 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 analyses below did not change from those used in the previous period.

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	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	61.94	63.76
Rate of increase in salaries (increase or decrease by 0.1%)	3.64	3.64
Rate of increase in pensions (increase or decrease by 0.1%)	30.97	30.97
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	34.61	36.43

Impact on the Council's Cash Flows

The Council anticipates making £16.69m of contributions to the scheme in 2022/2023.

The weighted average duration of the defined benefit obligation for scheme members is 19.4 years in 2021/2022 (19.4 years in 2020/2021).

Note 41 – Contingent Liabilities

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 (RDC) and Sunderland County Borough, with the 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. Considering 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.

In November 2021 a diesel fuel tank at the South Hylton Depot failed and approx. 10,000L of Diesel escaped. Close liaison has been undertaken with the Environment Agency with regard to remedial action. Whilst no proceedings have been issued against the Council there remains the risk, until the remediation work is complete, that the Environment Agency may impose a fine. At this current stage the total cost and timing of any potential payments is uncertain.

Note 42 – Contingent Assets

Section 106 Agreements

Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.

The Council has several high value agreements in place with probable future contributions of £12.554m 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.

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

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

Notes to the Financial Statements

- 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;
- refinancing risk – the possibility that the Council might be requiring to renew a financial instrument on 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 is available on the Council's website at: [Annual Investment Strategy](#).

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 Council's policy to only place deposits 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 for the financial year are set out in the table below, taking account of the credit ratings issued by all three credit rating agencies:

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+	A-1+	Aaa	P-1	120	2 Years
AA+	F1+	A-1+	Aa1	P-1	100	2 Years
AA	F1+	A-1+	Aa2	P-1	80	2 Years
AA-	F1+	A-1+	Aa3	P-1	75	2 Years
A+	F1+	A-1	A1	P-1	70	365 days
A+	F1	A-1	A1	P-1	70	365 days
A	F1	A-1	A2	P-1	65	365 days

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A-	F1	A-1	A3	P-1	50	365 days
A-	F2	A-2	A3	P-2	50	365 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund					120	Liquid Deposits
Local Authority controlled companies					40	20 years
Strategic Partners					Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

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, considering 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 £299.050m 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 the Council's deposits, but there was no evidence at 31 March 2022 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 local taxation (Council Tax and Business Rates). The amount due but not impaired for local taxation can be analysed by age as follows:

31 March 2021 £'000		31 March 2022 £'000
3,938	Less than 3 months	3,282
1,525	Three to 6 months	2,069
6,698	Six months to one year	6,726
13,311	More than one year	17,162
25,472		29,239

The Council however does allow credit for customers of up to 28 days. Unpaid invoices at 31st March 2022 total £23.508m, which includes £12.448m which is not yet overdue. The amount relating to customers can be analysed by age as follows:

Notes to the Financial Statements

31 March 2021 £'000		31 March 2022 £'000
15,788	Less than three months	19,461
988	Three to six months	1,561
865	Six months to one year	1,236
997	More than one year	1,250
18,638		23,508

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, due to current economic conditions, the Council has also provided an additional small impairment allowance for all debt raised but not yet due.

The impairment relating to customers in 2021/2022 was £2.223m (£1.742m in 2020/2021).

In addition, the Council has also impaired the non-contractual debt which it holds relating to Housing Benefits, Council Tax and Business Rates.

The Council's overall impairment of doubtful debt is shown below:

	Amount at 31 March 2022 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2022 %	Estimated maximum exposure to default and uncollectability at 31 March 2022 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2021 £'000
Customers	23,508	5.54	3.91	2,223	1,742
Housing Benefits	6,984	78.82	0.00	5,505	6,265
Adult Social Care House Sales	816	5.98	3.95	81	61
Council Tax	24,271	26.83	13.47	9,782	8,513
Business Rates	4,968	63.41	0.14	3,157	2,889
Financial Assets	60,547	27.28	6.98	20,748	19,470

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. The potential economic impact of the Covid-19 pandemic has also been considered. An assessment of the likelihood of default within the next twelve months has subsequently been determined for each loan.

Amounts Arising from Expected Credit Losses

Except for the loans detailed below, the Council's financial assets have all been assessed as Stage 1 at both 31 March 2021 and 31 March 2022 which means there has been no significant increase in their credit risk. No expected credit loss has been recognised for these assets.

At 31 March 2019, one community loan with an amortised cost gross value of £0.050m was assessed as at Stage 2 and a lifetime expected credit loss of £0.025m was recognised in the 2018/2019 accounts. No further credit loss adjustments have been required to this loan.

Notes to the Financial Statements

A number of community loans were assessed as Stage 2 at 31 March 2020 and lifetime expected credit losses of £0.005m were recognised in respect of these loans in the 2019/2020 accounts. The majority of these loans have now been repaid and the expected credit loss has therefore been removed from the accounts.

Due to major curtailments in Newcastle Airport's operations as a result of the Covid-19 pandemic, the Council had previously recognised an expected credit loss against commercial loan notes issued to the Airport. Having reviewed several observable factors regarding the robustness of the Airport's operations going forward, the position has improved resulting in a reduction to the lifetime expected credit loss of £0.037m at 31 March 2022 (this increased by £0.096m at 31 March 2021) on loan notes with an amortised gross value of £13.513m at 31 March 2022.

Loss allowances made for all financial investments are as follows:

	12 month expected credit loss £'000	Lifetime expected credit loss - not credit impaired £'000	Total £'000
Balance at 31 March 2020	0	(213)	(213)
Commercial Loan Notes transferred to lifetime expected credit losses Increase 2020/2021	0	(96)	(96)
Balance at 31 March 2021	0	(309)	(309)
Community related loans transferred from lifetime expected credit losses	0	5	5
Commercial Loan Notes transferred from lifetime expected credit losses Decrease 2021/2022	0	37	37
	0	42	42
Balance at 31 March 2022	0	(267)	(267)

As a consequence of the improved expected credit loss allowances, no financial assets have been written off during 2021/2022 (£0.096m was written off during 2020/2021).

Liquidity Risk

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

Notes to the Financial Statements

31 March 2021 £'000	Loans Outstanding	31 March 2022 £'000
40,486	Less than 1 year	38,092
7,292	Maturing in 1-2 years	1,874
4,853	Maturing in 2-5 years	5,013
15,000	Maturing in 5-10 years	15,002
0	Maturing in 10-20 years	0
15,000	Maturing in 20-30 years	15,000
74,500	Maturing in 30-40 years	74,500
265,145	Maturing in 40-50 years	365,135
422,276	Total	514,616

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's 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 enough 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
- 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

Notes to the Financial Statements

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 2022, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2021 £'000		31 March 2022 £'000
(476)	Increase in interest payable on variable rate borrowings	(376)
2,334	Increase in interest received on variable rate borrowings	2,582
1,858	Impact on Surplus or Deficit on the Provision of Services	2,206
0	Decrease in fair value of fixed rate investment assets	0
0	Impact on Other Comprehensive Income and Expenditure	0
99,795	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)	104,548

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 £16.508m (£11.906m in 2020/2021) in Newcastle Airport which is not listed on the stock exchange, a £12.350m (£12.350m in 2020/2021) equity share in its subsidiary, Siglion, and a £0.500m (£0.500m in 2019/2020) 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 able 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.

The fair value for Newcastle Airport is 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 and other observable and unobservable factors. The last full valuation took place at 31 March 2019.

To factor in the impact of Covid-19 a weighted average of forecast earnings before interest, depreciation and tax (EBIDTA) has been derived and compared against existing EBIDTA prior to the pandemic in order to generate a revaluation in the share value. To ensure reasonableness this percentage has been compared against the movement in shareholdings in other world airports where the shares are actively traded.

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 2022 show the value of Siglion's assets as exceeding the value of the investment held within the Council's Balance Sheet.

Notes to the Financial Statements

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 investment bonds with a value at cost of £0.014m (£0.138m in 2020/2021) 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.

Collection Fund Statement

Collection Fund Statement for Year Ended 31 March 2022

2020/2021				2021/2022		
Council Tax £'000	Business Rates £'000	Total £'000		Council Tax £'000	Business Rates £'000	Total £'000
(117,630)	0	(117,630)	Income	(126,199)	0	(126,199)
(2,823)	0	(2,823)	Council Tax Payers	(2,704)	0	(2,704)
0	(53,124)	(53,124)	Transfer for Transitional Relief, S13A(1)(C) Reliefs and discount for Business Ratepayers	0	(75,878)	(75,878)
0	0	0	Contributions to Previous Years' Deficit	(2,211)	(20,096)	(22,307)
0	0	0	Sunderland City Council	(126)	(410)	(536)
0	0	0	Tyne and Wear Fire and Rescue	(206)	0	(206)
0	0	0	Police and Crime Commissioner for Northumbria	0	(20,506)	(20,506)
0	0	0	Central Government	(131,446)	(116,890)	(248,336)
(120,453)	(53,124)	(173,577)	Expenditure			
836	0	836	Apportionment of Previous Years' Surplus	0	0	0
48	0	48	Sunderland City Council	0	0	0
79	0	79	Tyne and Wear Fire and Rescue	0	0	0
963	0	963	Police and Crime Commissioner for Northumbria	0	0	0
104,926	44,348	149,274	Precepts, Demands and Shares:	108,165	43,140	151,305
5,990	906	6,896	Sunderland City Council	5,998	880	6,878
9,773	0	9,773	Tyne and Wear Fire and Rescue	10,075	0	10,075
0	1,372	1,372	Police and Crime Commissioner for Northumbria	0	1,035	1,035
0	45,254	45,254	Central Government - Transitional Protection Payable	0	44,020	44,020
120,689	91,880	212,569	Central Government - Share	124,238	89,075	213,313
0	1,096	1,096	Charges to Collection Fund:	0	1,267	1,267
0	330	330	Disregarded Amounts - Enterprize Zone'	0	330	330
241	380	621	Cost of Collection - Business Rates	294	239	533
3,640	1,906	5,546	Write Offs	1,488	548	2,036
0	1,644	1,644	Impairment of Debtors Allowance	0	(4,004)	(4,004)
3,881	5,356	9,237	Provision for Business Rate Appeals	1,782	(1,620)	162
5,080	44,112	49,192	Deficit / (Surplus) for the Year	(5,426)	(29,435)	(34,861)
147	(2,792)	(2,645)	Balance brought forward as at 1 April	5,227	41,320	46,547
5,227	41,320	46,547	Fund Balance Carried Forward as at 31 March	(199)	11,885	11,686
4,544	20,247	24,791	Fund allocated to	(176)	5,824	5,648
260	413	673	Sunderland City Council	(6)	119	113
423	0	423	Tyne and Wear Fire and Rescue	(17)	0	(17)
0	20,660	20,660	Police and Crime Commissioner for Northumbria	0	5,942	5,942
5,227	41,320	46,547	Central Government	(199)	11,885	11,686

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 or deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial 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 or deficits declared by the billing authority in relation to the Collection Fund are also apportioned to the relevant bodies in the subsequent financial year in their respective proportions.

The Collection Fund deficit for 2021/2022 is larger than anticipated, particularly in relation to Business Rates. This is primarily as a result of businesses being awarded Expanded Retail and Nursery business rates reliefs in 2021/2022, as part of the Government's response to the Covid-19 pandemic.

The reliefs effectively reduce the net amount the Council can collect from businesses, and as the precept amounts cannot be changed the result is a considerable deficit. However, these reliefs are funded by DLUHC through Section 31 Grants. These grants have been received in 2021/2022 and have been transferred to the Council's earmarked reserve. This reserve, which totals £8.202m will be used to offset the Collection Fund deficit when it is charged to the Council's General Fund in 2022/2023.

A Collection Fund accounting change took place in 2020/2021 relating to the phasing of Collection Fund deficits. The intention to implement the three-year local tax Collection Fund deficit phasing was announced by the Secretary of State on 2 July 2020. The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 were laid before Parliament on 5 November 2020 and came into force on 1 December 2020. The regulations amend the rules governing the apportionment of Collection Fund surpluses and deficits for Council Tax and Business Rates set out in the Local Authorities (Funds) (England) Regulations 1992 and the Non-Domestic Rating (Rates Retention) Regulations 2013. The three-year phasing of deficits does not include any amount brought forward into the Collection Fund, relating to previous years surpluses or deficits.

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 £1,772.92 for 2021/2022 (£1,691.06 for 2020/2021), is multiplied by the proportion specified for the particular band to give an individual amount due.

The Council Tax Base for 2021/2022 was 70,045 (71,336 in 2020/2021). It was approved by Cabinet on 12 January 2021 and was calculated as follows:

Collection Fund Statement

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	206	5/9	114
A	77,628	6/9	51,752
B	18,632	7/9	14,492
C	16,938	8/9	15,056
D	9,006	1	9,006
E	3,296	11/9	4,028
F	1,105	13/9	1,596
G	637	15/9	1,062
H	20	18/9	40
Net effect of Premiums and Discounts			(25,672)
Total			71,474
Anticipated Collection Rate			98.0%
Tax Base for the Calculation of Council Tax			70,045

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 2021/2022, the total Business Rates rateable value at the year-end is £228.402m (£232.203m in 2020/2021). The national multipliers for 2021/2022 were 49.9p (49.9p for 2020/2021) for qualifying small businesses, and the standard multiplier was 51.2p (51.2p for 2020/2021) for all other businesses.

Note 3 – Council Tax/Business Rates Impairment of Debtors Allowance

The Collection Fund provides for impairment of 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. The level of arrears for both Council Tax and Business Rates has increased during 2021/2022, largely due to the impact on the economy of the Covid-19 pandemic, the impairment of debtors allowance has been increased accordingly. It should be noted that the amounts written off were already included in the accounts as an impairment of debtors allowance and as such have already been accounted for in a previous period.

In respect of Council Tax, as at 31 March 2022, the impairment of debtors allowance was estimated at £11.266m (£9.778m at 31 March 2021).

In respect of Business Rates, as at 31 March 2022, the impairment of debtors allowance was estimated at £6.443m (£5.895m at 31 March 2021).

The impairment of debtors allowance 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 2022.

Collection Fund Statement

A large number of cases relating to the 2010 Appeals list were settled or withdrawn during the year. As at 31 March 2022, the provision for appeals was estimated at £14.854m (£18.858m at 31 March 2021). 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 several 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;
 - Siglion LLP; 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 2021/2022' (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 transactions and 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 2020/2021 and 2021/2022.

Group Financial Statements - Movement in Reserves Statement

	Council						Council's share of Subsidiaries and Joint Venture Reserves £'000	Total Group Reserves £'000
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000		
Balance at 31 March 2020	19,982	134,649	9,062	4,992	168,685	85,784	(11,161)	243,308
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2021	249	0	0	0	249	(249)	0	0
Restated balance at 1 April 2020	20,231	134,649	9,062	4,992	168,934	85,535	(11,161)	243,308
Movement in reserves during 2020/2021:								
Total Comprehensive Income and Expenditure	(7,965)	0	0	0	(7,965)	(55,446)	(29,426)	(92,837)
Adjustments between accounting basis & funding basis under regulations	43,796	0	324	(907)	43,213	(43,213)	0	0
Transfers to / (from) Earmarked Reserves	(33,320)	33,320	0	0	0	0	0	0
Adjustment between group accounts and Council's single entity accounts	0	0	0	0	0	0	(1,761)	(1,761)
(Increase) / Decrease in 2020/2021	2,511	33,320	324	(907)	35,248	(98,659)	(31,187)	(94,598)
Balance at 31 March 2021	22,742	167,969	9,386	4,085	204,182	(13,124)	(42,348)	148,710
Movement in reserves during 2021/2022:								
Total Comprehensive Income and Expenditure	(53,064)	0	0	0	(53,064)	206,688	35,113	188,737
Adjustments between accounting basis & funding basis under regulations	62,747	0	337	1,860	64,944	(64,944)	0	0
Transfers to / (from) Earmarked Reserves	(10,643)	10,643	0	0	0	0	0	0
Adjustment between group accounts and Council's single entity accounts *	0	0	0	0	0	0	(5,382)	(5,382)
(Increase) / Decrease in 2021/2022	(960)	10,643	337	1,860	11,880	141,744	29,731	183,355
Balance at 31 March 2022	21,782	178,612	9,723	5,945	216,062	128,620	(12,617)	332,065

* Please see Note 3, Group Property, Plant and Equipment for further information

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, but 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 responsibilities.

The roles and responsibilities of each Portfolio are detailed in the Council's Constitution.

2020/2021				2021/2022		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
4,316	(116)	4,200	Leader	3,922	(22)	3,900
83,801	(22,794)	61,007	Deputy Leader	89,005	(24,280)	64,725
147,453	(111,688)	35,765	Cabinet Secretary	172,876	(102,070)	70,806
204,731	(123,211)	81,520	Children, Learning and Skills	226,034	(127,719)	98,315
14,537	(1,711)	12,826	Vibrant City	14,087	(2,180)	11,907
173,044	(121,772)	51,272	Healthy City	189,108	(148,752)	40,356
53,099	(52,709)	390	Dynamic City	67,283	(60,843)	6,440
680,981	(434,001)	246,980	Cost of Services	762,315	(465,866)	296,449
15,288	(3,388)	11,900	Other operating expenditure	15,236	(1,047)	14,189
29,647	(2,260)	27,387	Financing and investment income and expenditure	31,037	(969)	30,068
0	(274,999)	(274,999)	Taxation and non-specific grant income and expenditure	0	(282,355)	(282,355)
725,916	(714,648)	11,268	(Surplus) or Deficit on Provision of Services	808,588	(750,237)	58,351
0	446	446	Joint ventures accounted for on an equity basis	0	3,742	3,742
0	(8,165)	(8,165)	Tax expenses of subsidiaries	0	(4,424)	(4,424)
725,916	(722,367)	3,549	Group (Surplus) / Deficit	808,588	(750,919)	57,669
		(641)	(Surplus) or deficit on revaluation of non current assets			(8,304)
		(848)	(Surplus) or deficit from investments in equity instruments designated at fair value through comprehensive income			(4,602)
		90,777	Re-measurements of the defined benefit liability			(229,878)
		89,288	Other Comprehensive Income and Expenditure			(242,784)
		92,837	Total Comprehensive Income and Expenditure			(185,115)

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 2021 £'000		Notes	31st March 2022 £'000
1,098,902	Property, Plant and Equipment	3	1,161,209
12,192	Heritage Assets		12,823
0	Investment Property / Land		0
4,129	Intangible Assets		3,399
12,044	Long Term Investments		16,522
163	Investments in Joint Ventures		43
39,920	Long Term Debtors		42,072
1,167,350	Long Term Assets		1,236,068
105,064	Short Term Investments		210,254
1,342	Inventories		1,401
86,511	Short Term Debtors	12	105,168
0	Assets Held for Sale		0
85,790	Cash and Cash Equivalents	2	61,259
278,707	Current Assets		378,082
(40,486)	Short Term Borrowing		(38,092)
(73,156)	Short Term Creditors	13	(91,330)
(5,634)	Short Term PFI and Finance Lease Liability		(7,364)
(3,894)	Short Term Provisions		(912)
(15,032)	Grant Receipts in Advance - Revenue		(7,020)
(5,733)	Grant Receipts in Advance - Capital		(15,325)
(143,935)	Current Liabilities		(160,043)
(381,790)	Long Term Borrowing	4	(476,524)
(694,932)	Long Term Pensions Liability		(511,218)
(68,237)	Long Term PFI and Finance Lease Liability		(124,538)
(8,453)	Long Term Provisions		(9,762)
(1,153,412)	Long Term Liabilities		(1,122,042)
148,710	Net Assets		332,065
22,742	General Fund		21,782
167,969	Earmarked General Fund Reserves		178,612
9,386	Capital Receipts Reserve		9,723
4,085	Capital Grants Unapplied		5,945
204,182	Usable Reserves relating to Sunderland City Council		216,062
(337)	Investments in Joint Ventures		(457)
(32,294)	Sunderland Care and Support Ltd		(19,309)
(59,646)	Together for Children Sunderland Ltd		(45,651)
6,107	Siglion LLP / Siglion Holdings Ltd		12,977
(86,170)	Profit and Loss relating to subsidiaries and Joint Ventures		(52,440)
(13,124)	Unusable Reserves relating to Sunderland City Council	3	128,620
38,819	Revaluation Reserve relating to Sunderland Lifestyle Partnership Ltd		33,437
5,003	Revaluation Reserve relating to Siglion LLP / Siglion Holdings Ltd		6,386
30,698	Unusable Reserves		168,443
148,710	Total Reserves		332,065

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.

2020/2021 £'000		Notes	2021/2022 £'000
11,268	Net (surplus) or deficit on the provision of services		58,351
(85,627)	Adjust net (surplus) or deficit on the provision of services for non cash movement		(130,713)
41,609	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		59,004
(32,750)	Net cash flows from operating activities		(13,358)
(10,140)	Investing activities		137,179
8,332	Financing activities		(99,290)
(34,558)	Net (increase) or decrease in cash and cash equivalents		24,531
51,232	Cash and cash equivalents at the beginning of the reporting period		85,790
85,790	Cash and cash equivalents at the end of the reporting period	2	61,259

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 statements, 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 2022 to March 2022).
- **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 2021 £'000		31 March 2022 £'000
(27,454)	Cash held by the Council	(27,537)
108,242	Bank current accounts and Money Market Funds	88,796
5,002	Short-term deposits with banks and building societies	0
85,790	Total Cash and Cash Equivalents	61,259

Note 3 – Group Property, Plant and Equipment

The Property, Plant and Equipment balance is made up of the following elements:

31 March 2021 £'000		31 March 2022 £'000
1,033,803	Sunderland City Council	1,103,886
38,819	Sunderland Lifestyle Partnership Ltd	33,437
26,280	Siglion LLP	23,886
1,098,902	Total	1,161,209

Sunderland Lifestyle Partnership Ltd

On 1 June 2015 the Council transferred several leisure assets to Sunderland Lifestyle Partnership, its leisure joint venture 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 Group Statements, the Council's share of these assets (50%) has been re-instated onto the Group Balance Sheet at £33.437m at 31 March 2022 (£38.819m at 31 March 2021).

Reflecting these assets within the Group Statements is a departure from the Code of Practice for joint venture consolidation which should normally be on an equity accounting basis i.e. the Group Statements should simply reflect 50% of Sunderland Lifestyle Partnership's profit or loss for the year. As the assets are not held on Sunderland Lifestyle Partnership's Balance Sheet, standard equity accounting would understate the Group Balance Sheet.

The reduction of £5.382m during 2021/2022 related to depreciation charges for 2021/2022 as well as revaluation losses and is reflected on the Movement in Reserves Statement as an adjustment between the group accounts and the Council's single entity accounts.

Siglion LLP

The following property, plant and equipment owned by Siglion LLP is included within the Group Balance Sheet:

Notes to the Group Financial Statements

31 March 2021 £'000		31 March 2022 £'000
18,612	Property, Plant and Equipment	23,886
7,668	Assets under Construction	0
26,280	Total	23,886

Revaluation of Group assets is reflected in the Unusable Reserves - Revaluation Reserve lines on the Group Balance Sheet.

Capital Commitments

At 31 March 2022, in addition to the Council's capital commitments, other members of the Group had entered into capital contracts budgeted to cost £0.089m (£11.324m at 31 March 2021). These commitments relate to:

- City Hall - £0.00m (£11.213m at 31 March 2021);
- IAMP site infrastructure works - £0.089m (£0.111m at 31 March 2021).

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 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.

Notes to the Group Financial Statements

2020/2021					2021/2022			
Council	SCAS	Together for Children	Total Group		Council	SCAS	Together for Children	Total Group
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
(506,280)	(26,580)	(42,576)	(575,436)	Balance at 1 April	(584,840)	(40,680)	(69,412)	(694,932)
(56,210)	(12,000)	(22,567)	(90,777)	Remeasurement of the net defined benefit liability/(asset)	195,500	17,070	17,308	229,878
(41,370)	(4,030)	(8,528)	(53,928)	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	(54,040)	(5,460)	(13,393)	(72,893)
19,020	1,930	4,259	25,209	Employer's pensions contributions and direct payments to pensioners payable in the year	20,080	2,020	4,629	26,729
(584,840)	(40,680)	(69,412)	(694,932)	Balance at 31 March	(423,300)	(27,050)	(60,868)	(511,218)

Share Capital Reserve

Two ordinary shares of £1 have been allotted and fully paid for in Sunderland Care and Support (Holding Company) Ltd and Siglion Holdings 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
- 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 must 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.

Notes to the Group Financial Statements

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

All costs relating to workforce planning 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 Group terminated the contracts of a number of employees in 2021/2022, incurring liabilities of £2.867m (£0.943m in 2020/2021). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

2021/2022 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	14	50	9	59	9	47	0	47	97	9	106
£20 - £40	0	0	0	0	0	0	0	0	0	0	0
£40 - £60	0	0	0	0	0	0	0	0	0	0	0
£60 - £80	1	64	0	64	0	0	0	0	64	0	64
£80 - £100	1	16	81	97	0	0	0	0	16	81	97
£150 - £200	1	30	131	161	0	0	0	0	30	131	161
	17	160	221	381	9	47	0	47	207	221	428
<u>Voluntary</u>											
£0 - £20	31	157	12	169	14	104	0	104	261	12	273
£20 - £40	10	212	96	308	2	54	0	54	266	96	362
£40 - £60	3	57	80	137	0	0	0	0	57	80	137
£60 - £80	10	167	479	646	1	62	0	62	229	479	708
£80 - £100	3	74	194	268	0	0	0	0	74	194	268
£100 - £150	1	24	110	134	0	0	0	0	24	110	134
£150 - £200	1	0	155	155	0	0	0	0	0	155	155
£400 - £450	1	68	334	402	0	0	0	0	68	334	402
	60	759	1,460	2,219	17	220	0	220	979	1,460	2,439
Total	77	919	1,681	2,600	26	267	0	267	1,186	1,681	2,867

Notes to the Group Financial Statements

Note 7 – Group Termination Benefits

2020/2021 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	6	33	0	33	1	5	0	5	38	0	38
£20 - £40	0	0	0	0	0	0	0	0	0	0	0
£40 - £60	0	0	0	0	0	0	0	0	0	0	0
£60 - £80	0	0	0	0	0	0	0	0	0	0	0
£80 - £100	0	0	0	0	0	0	0	0	0	0	0
£100 - £150	1	22	103	125	0	0	0	0	22	103	125
	7	55	103	158	1	5	0	5	60	103	163
<u>Voluntary</u>											
£0 - £20	23	100	3	103	8	87	12	99	187	15	202
£20 - £40	1	18	14	32	0	0	0	0	18	14	32
£40 - £60	1	50	0	50	1	19	30	49	69	30	99
£60 - £80	2	67	67	134	0	0	0	0	67	67	134
£80 - £100	0	0	0	0	0	0	0	0	0	0	0
£100 - £150	1	18	120	138	0	0	0	0	18	120	138
£150 - £200	2	110	248	358	0	0	0	0	451	494	358
	30	363	452	815	9	106	42	148	810	740	963
Total	37	418	555	973	10	111	42	153	870	843	1,126

In addition to the costs analysed above, the Group has incurred a further £0.028m in 2020/2021 relating to pension costs for employees whose contracts were terminated in 2019/2020 and who were disclosed in the 2019/2020 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:

2020/2021		2021/2022
Non-Teaching Staff	Remuneration	Non-Teaching Staff
63	£50,000 - £54,999	90
38	£55,000 - £59,999	46
19	£60,000 - £64,999	25
9	£65,000 - £69,999	10
10	£70,000 - £74,999	12
1	£75,000 - £79,999	5
3	£80,000 - £84,999	1
6	£85,000 - £89,999	3
4	£90,000 - £94,999	6
8	£95,000 - £99,999	7
5	£100,000 - £104,999	0
4	£105,000 - £109,999	8
1	£110,000 - £114,999	1
1	£135,000 - £139,999	1
0	£150,000 - £154,999	1
0	£165,000 - £169,999	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.

Notes to the Group Financial Statements

Note 9 – 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:

2020/2021 £'000		2021/2022 £'000
63,411	Total comprehensive income on the Council's Comprehensive Income and Expenditure Statement	(153,624)
	Add operational (profit) / loss attributable to subsidiaries:	
9,852	Sunderland Care and Support Ltd (reflected on the Healthy City Portfolio)	(12,985)
22,548	Together for Children Ltd (reflected on the Children, Learning and Skills Portfolio)	(13,995)
(22)	Sunderland Homes Ltd - now wound up (reflected on the Dynamic City Portfolio)	0
(3,398)	Siglion LLP / Siglion Holding Ltd (reflected on the Dynamic City Portfolio)	(8,253)
	Add operational (profit) / loss attributable to joint ventures:	
243	Sunderland Lifestyle Partnership Ltd	113
203	IAMP LLP	7
	Add revaluation loss attributable to joint venture:	
0	Sunderland Lifestyle Partnership Ltd *	3,622
92,837	Total	(185,115)

Note 10 - Assumptions made about the future and other major sources of estimation uncertainty

The Group Statement of Accounts contains estimated figures that are based on assumptions about the future or that are otherwise uncertain. Estimates are made considering 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 Council's position is shown in Note 4 of the single entity accounts. In addition, there are the following risks of material adjustment relating to subsidiaries and joint ventures:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment – valuations	Assets are valued, in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards and involve the use of a number of estimation techniques including various property indices.	<p>The gross book value (GBV) of the subsidiaries and joint ventures' land and buildings portfolio is £57.535m at 31 March 2022.</p> <p>A 1% change in asset valuations would equate to a £0.575m change in the GBV.</p>

Notes to the Group Financial Statements

Note 11 – 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. At the time of publishing the accounts 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 statements and notes are not adjusted but the relevant information is disclosed. At the time of publishing the accounts no such events have taken place.

Note 12 – Group Short Term Debtors

31 March 2021 £'000		31 March 2022 £'000
54,392	City of Sunderland	67,944
10,249	Sunderland Care and Support Ltd	8,528
11,255	Together for Children Sunderland Ltd	19,092
10,615	Siglion LLP	9,604
86,511	Total	105,168

The analysis is after inter-group activity has been removed in accordance with Group Accounting Policies

Note 13 – Group Short Term Creditors

31 March 2021 £'000		31 March 2022 £'000
(59,251)	City of Sunderland	(76,404)
(4,982)	Sunderland Care and Support Ltd	(6,320)
(7,101)	Together for Children Sunderland Ltd	(11,012)
(1,822)	Siglion LLP	2,406
(73,156)	Total	(91,330)

The Group creditors note shows balances after inter-group activity has been removed in accordance with the Group's Accounting Policies

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 capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements. Additional flexibility allows capital receipts to be used to fund transformational costs.

Cash

Comprises cash in hand and on 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 the 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 Council'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 enough reliability.

Contingent Rents

Are lease payments that change 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 domestic 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 impairment of debtors allowance), 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 enough 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 financial year.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council'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.

International Accounting Standards (IAS)

Are accounting pronouncements issued by the International Accounting Standards Board (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.

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, the Council is 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 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 the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease.

Levies

Like 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 the lease term that the 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 - considering 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 pension 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 Initiative (PFI)

PFI's are methods of funding / acquiring assets such as schools where the supplier of the asset is an appointed contractor, usually over a 25-year term, who also provides services to the Council in relation to that asset. 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 its use. Government grant is available to assist authorities who enter into these arrangements.

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 if 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 can 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 always be inhibited from pursuing 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 funds.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be 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 the costs will 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.

Glossary of Terms

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:

- 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 their expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and Business Rates income and the Council's revenue expenditure.

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 affect 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 enough 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.

Glossary of Terms

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.

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.

AUDIT AND GOVERNANCE COMMITTEE

4 November 2022

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2022/2023

Report of the Assistant Director of Finance

1. Purpose of Report

- 1.1 To report on the Treasury Management performance to date for the second quarter of 2022/2023.

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:
- Note the Treasury Management performance during Quarter 2 of 2022/2023 (Appendix A).
 - Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2022/2023 – Quarter 2

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLb) rates have gradually risen since the start of the financial year but continue to be extremely volatile. In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing during August to support the financing requirements of the Council's Capital Programme at an interest rate of 2.79% for a 48 year term. These rates were considered opportune at the time and will benefit the revenue budget over the longer term when compared with the current equivalent long term rate of 4.27%.
- 4.2 No refinancing of debt has been carried out in 2022/2023 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.52%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed, and the Council is within the limits set for all of its Treasury Management Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £1,082.658m for 2022/2023. The Council's maximum external debt during the financial year to 30th September 2022 was £618.704m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.
- 4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 30th September 2022, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.88% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 1.22%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management performance for the second quarter of 2022/2023.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2022/2023

1 Borrowing Strategy and Performance – 2022/2023

- 1.1 The Borrowing Strategy for 2022/2023 was reported to Cabinet on 8th February 2022 and approved by full Council on 2nd March 2022.
- 1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to levels of volatility.
- 1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a seventh consecutive meeting on 22nd September 2022, taking it to 2.25%, the highest level since December 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe.
- 1.4 Year on year CPI inflation eased from 10.1% in July to 9.9% in August but increased back to 10.1% in September. Domestic price pressures show little sign of abating in the short term and inflation has not yet peaked, although the energy price guarantee scheme will mitigate some of the inflationary pressure in the coming months.
- 1.5 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years with returns in excess of 5% now available. However long term borrowing rates are also currently high, and above our benchmark borrowing rate, therefore investment balances will be temporarily used where necessary pending borrowing rates reducing.
- 1.6 Link Asset Services, the Council's treasury advisors, reviewed their interest rate forecasts in September 2022 in light of continued volatility in the financial markets and now expect the Base Rate to rise faster and further than previously forecast. They forecast the BoE Base Rate will rise to 3.25% in November 2022, 4.00% in December 2022 and peak at 5.00% in March 2023, before gradually falling to 2.50% by the end of the forecast timeframe in September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets. The current turbulence in economic markets linked to government policy announcements is unprecedented, meaning forecasts are changing on a regular basis.
- 1.7 The following table shows the average PWLB rates for Quarter 1 and 2 compared to the SONIA Overnight Rate used to benchmark investment returns.

2022/2023	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %
SONIA Overnight Rate	0.89	1.55
PWLB 1 year	2.32*	3.27*
PWLB 5 years	2.58*	3.25*
PWLB 10 years	2.84*	3.41*
PWLB 25 years	3.08*	3.79*
PWLB 50 years	2.81*	3.52*
PWLB Current 50 years		4.27%

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (including the Council).

- 4.3 In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing to meet its capital financing requirement. These rates were considered opportune and will benefit the revenue budget over the longer term when compared with the current equivalent long term rate of 4.27%. The Treasury Management team continues to closely monitor PWLB rates in line with future capital programme financing requirements. The new borrowing is summarised in the following table.

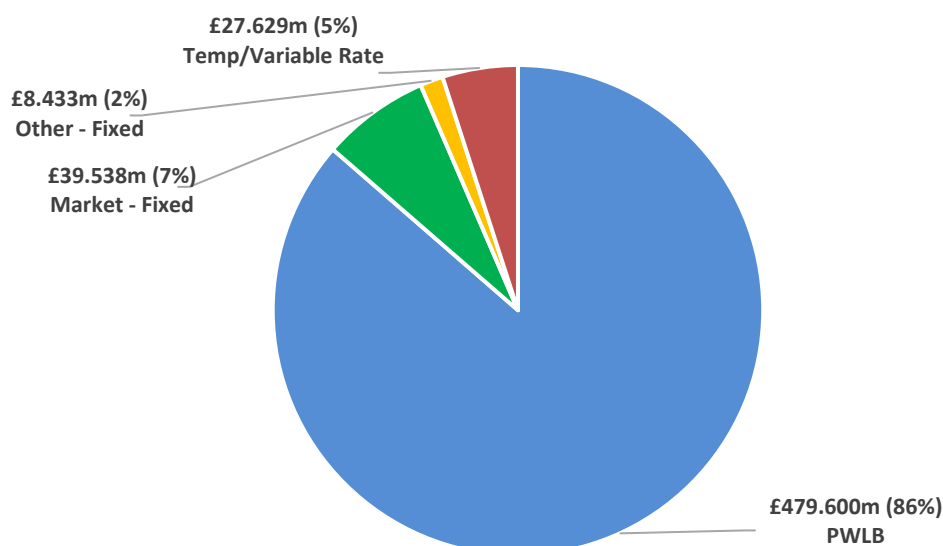
Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
48 years	02/08/2022	09/08/2022	09/08/2070	2.79*	50.0

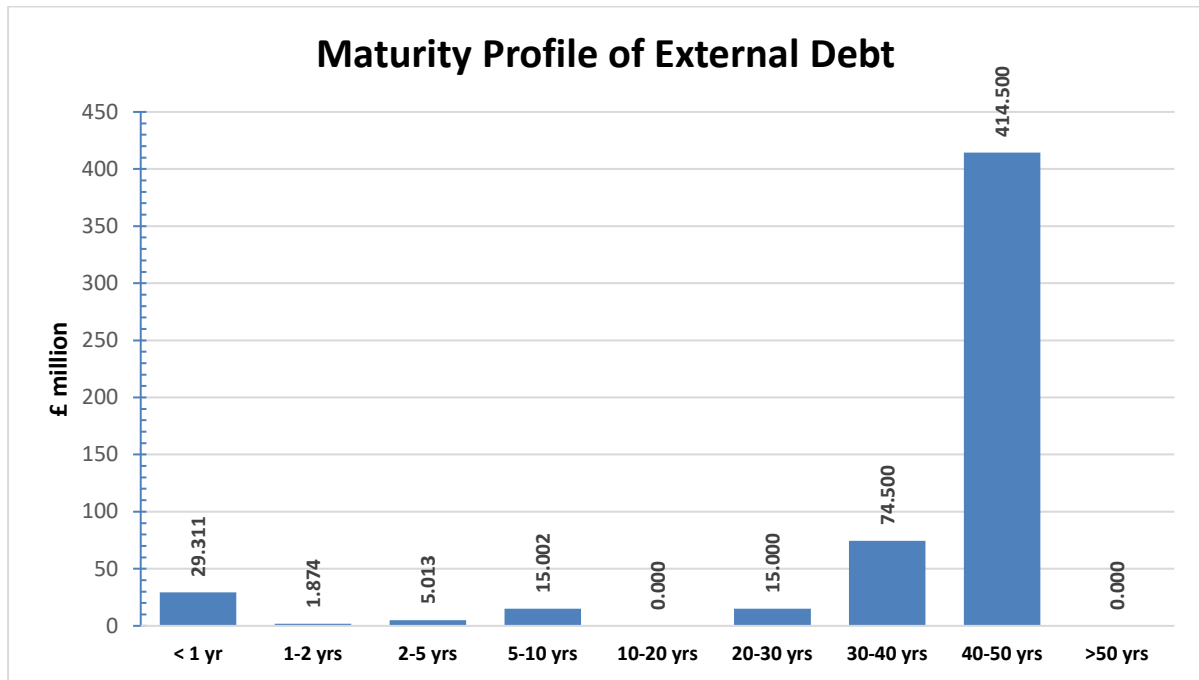
*rate takes account of the 0.20% discount to PWLB rates available to the Council.

- 1.8 High levels of volatility in the financial markets previous caused by Covid have been added to in 2022/2023 by the on-going conflict between Russia and Ukraine and uncertainty over how the West will respond through additional sanctions or even military intervention. This was exacerbated by the government's huge fiscal loosening plans announced by the Chancellor in September. The lack of independent scrutiny of the various projections, by the Office for Budget Responsibility (OBR), and the increase in borrowing to fund the significant cost of the proposals unsettled the markets and forced the BoE to step in to buy long-term gilts to restore financial stability. On 17th October, the newly appointed Chancellor, Jeremy Hunt, announced a significant number of amendments to the Government's fiscal plan in an attempt to stabilise the financial markets effectively reversing the majority of the measures announced on 23rd September. A further announcement on tax and spending plans is to be made by the Chancellor on 31st October 2022.
- 1.9 There is expected to be a gradual upward movement in PWLB rates to the end of 2022, after which rates are anticipated to gradually fall through to March 2025. Link Asset Services predict PWLB rates standing at 4.90%, 4.70%, 4.90% and 4.60% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 before falling to around 3.3% for all durations by March 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

- 1.10 The strategy for 2022/2023 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.
- 1.11 The Council's treasury portfolio position at 30th September is set out below:

Borrowing Summary at: 30 September 2022			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	479,600,000	11,777,205	2.46
Market – Fixed	39,538,123	1,741,445	4.40
Other – Fixed	8,432,690	306	0.00
	<u>527,570,813</u>	<u>13,518,956</u>	<u>2.56</u>
<u>Variable</u>			
Temporary/Other – Variable	<u>27,628,762</u>	<u>471,119</u>	<u>1.71</u>
	<u>27,629,762</u>	<u>471,119</u>	<u>1.71</u>
TOTAL:	555,199,575	13,990,075	2.52





2 Prudential Indicators – 2022/2023

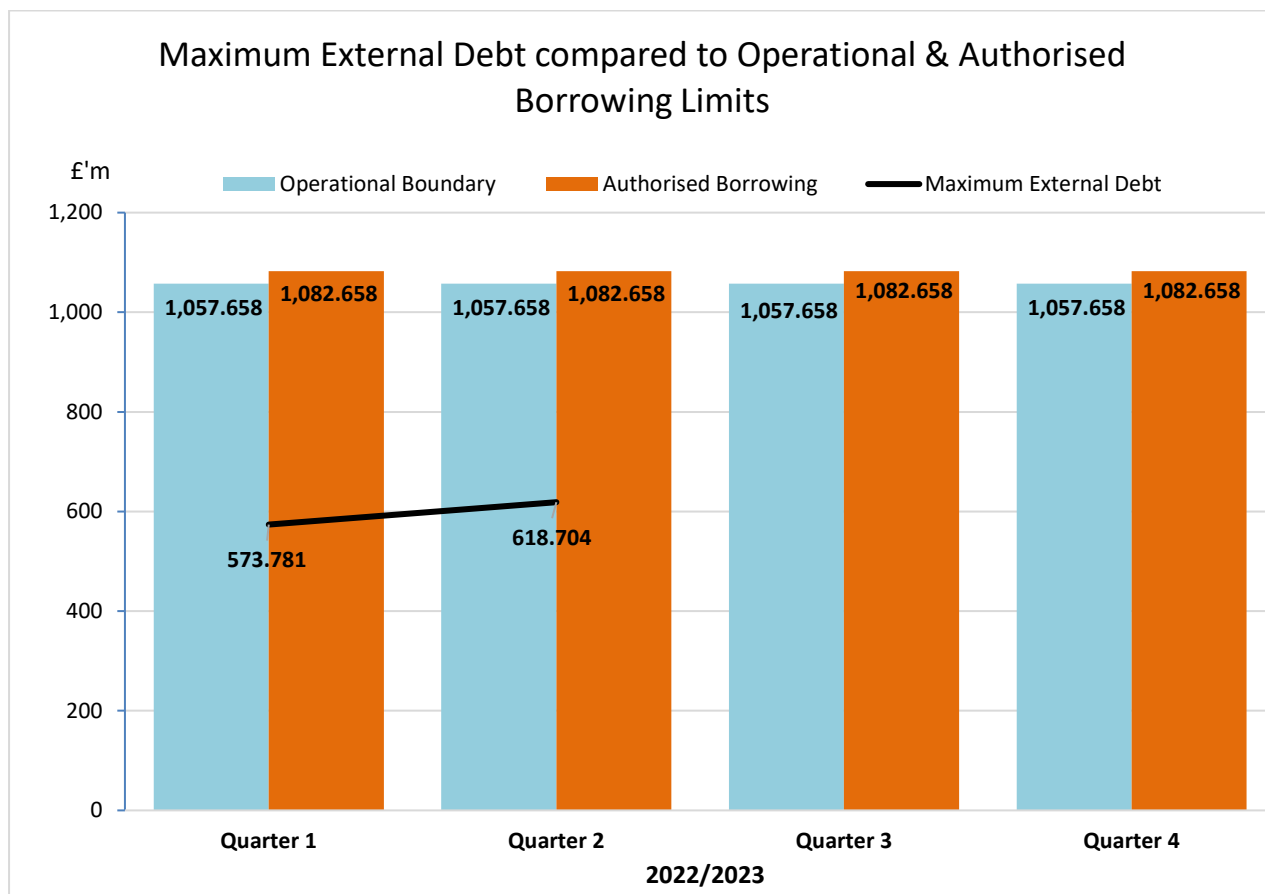
- 2.1 All external borrowing and investments undertaken in 2022/2023 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Treasury Management Prudential Indicators.
- 2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2022/2023 as follows:

	£m
Borrowing	939.926
Other Long-Term Liabilities	142.732
Total	<u>1,082.658</u>

The Operational Boundary for External Debt was set as shown below: -

	£m
Borrowing	914.926
Other Long-Term Liabilities	142.732
Total	<u>1,057.658</u>

The Council's maximum external debt in respect of 2022/2023 (to 30th September 2022) was £618.704m and is within the limits set by both these key indicators.



2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		2022/2023 (at 30/09/22)	
		Limit	Actual
P9	Maturity Pattern	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.37%
	24 months and within 5 years	80%	0.99%
	5 years plus	100%	93.48%
(A lower limit of 0% for all periods)			
P10	Upper limit for total principal sums invested for over 365 days	75m	0

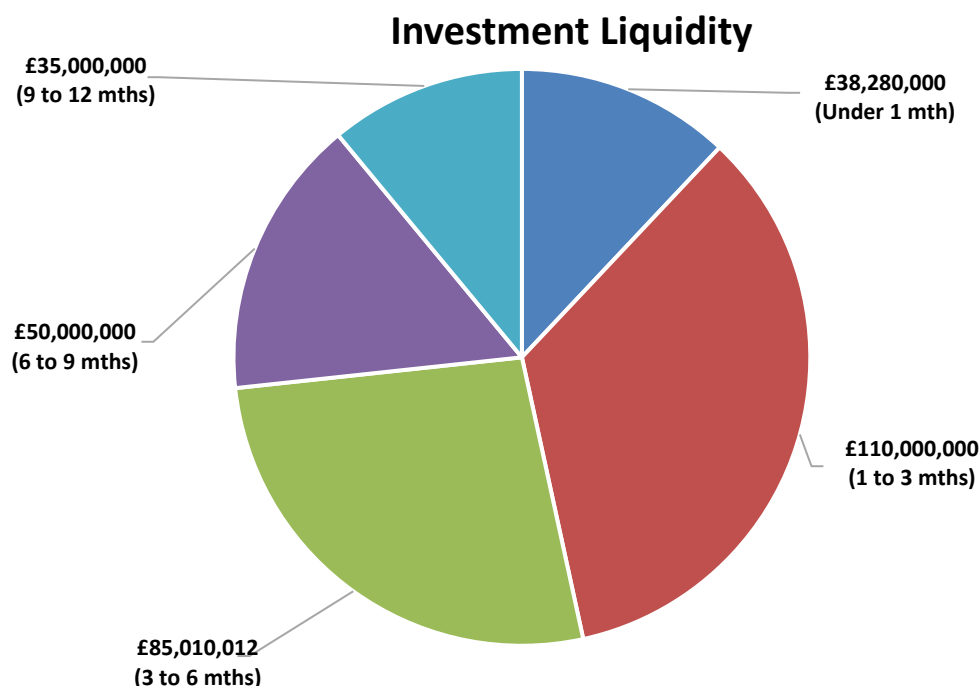
3 Investment Strategy – 2022/2023

3.1 The Investment Strategy for 2022/2023 was approved by Council on 2nd March 2022. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

- 3.2 As at 30th September 2022, the funds managed by the Council's in-house team amounted to £318.290 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 30 September 2022					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
NatWest SIBA	Overnight	1,500,000	0.300		Call
Prime MMF	Overnight	36,780,000	2.080		Call
Aberdeen Liquidity Fund	Overnight	0	2.138		Call
Lloyds Banking Group Ltd	95d Notice	10,012	0.700		95 Day Notice
Sub-total:		38,290,012			
Fixed Term Deposits:					
Yorkshire Building Society	273 days	15,000,000	1.230	07-Feb-22	07-Nov-22
SMBC	92 days	25,000,000	2.140	09-Aug-22	09-Nov-22
Standard Chartered Bank	183 days	30,000,000	1.820	07-Jun-22	07-Dec-22
Goldman Sachs	183 days	10,000,000	1.890	07-Jun-22	07-Dec-22
Goldman Sachs	364 days	30,000,000	0.770	10-Dec-21	09-Dec-22
Yorkshire Building Society	186 days	20,000,000	2.080	07-Jul-22	09-Jan-23
Standard Chartered Bank	122 days	5,000,000	3.700	27-Sep-22	27-Jan-23
Goldman Sachs Int Bank	358 days	10,000,000	1.505	08-Feb-22	01-Feb-23
Goldman Sachs Int Bank	364 days	20,000,000	1.525	08-Feb-22	07-Feb-23
Yorkshire Building Society	184 days	15,000,000	2.410	09-Aug-22	09-Feb-23
Santander UK Plc	184 days	15,000,000	2.900	24-Aug-22	24-Feb-23
Standard Chartered Bank	273 days	20,000,000	2.470	07-Jul-22	06-Apr-23
Santander UK Plc	273 days	30,000,000	3.310	24-Aug-22	24-May-23
Close Brothers	365 days	5,000,000	2.800	13-Jul-22	13-Jul-23
Standard Chartered Bank	303 days	10,000,000	5.180	27-Sep-22	27-Jul-23
Santander UK Plc	365 days	20,000,000	4.100	15-Sep-22	15-Sep-23
Sub-total:		280,000,000			
TOTAL:		318,290,012			



- 3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Council uses to assess its performance.

	2022/2023 Actual to 30/09/22 %	2022/2023 Benchmark to 30/09/22 %
Return on investments	1.88	1.22

- 3.4 Investments placed in 2022/2023 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.
- 3.5 Investment rates available in the market have started to rise following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 9 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16th December 2021, there have been six subsequent rises. The Base Rate currently stands at 2.25% with further increases expected.

Effective Date	BoE Base Rate %
19 Mar 2021	0.10
16 Dec 2021	0.25
3 Feb 2022	0.50
17 Mar 2022	0.75
5 May 2022	1.00
16 Jun 2022	1.25
4 Aug 2022	1.75
22 Sep 2022	2.25

- 3.6 Whilst investment rates have improved recently, the Council continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Council continues to follow

advice from our treasury advisors by placing funds in shorter dated liquid investments than previously.

- 3.7 Advice also confirms that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.
- 3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes are reflected on the Approved Lending List shown in Appendix C.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) * Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years
Strategic Partners						Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

* CNAV=Constant Net Asset Value, LVNAV=Low Volatility Net Asset Value and VNAV=Variable Net Asset Value

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These new limits are as follows:

Appendix B (continued)

Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the Government has previously undertaken and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non-UK	50

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the Government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List

Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	A	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	Ba2	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	BBB+	F2	A2	P-1	A	A-1	0	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Strategic Partners

Cabinet, at its October 2020 meeting, endorsed an unsecured investment with Education Partnership North East (EPNE), based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan. As at the 30th September 2022 there have been no funds drawdown by EPNE.

Notes

Note 1 Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

/* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

****** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
<p>1. Strategic Risk</p> <p>The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.</p>	<p>This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management alongside monitoring and reviewing the Council's approved capital programme and its financing requirements. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Treasury Management team's view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Link Asset Services).</p> <p>The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.</p>
<p>2. Interest Rate Risk</p> <p>The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.</p>	<p>The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy.</p> <p>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Treasury Management team's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy.</p> <p>A proactive approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.</p>

Risk

Controls

3. Exchange Rate Risk

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk.

This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.

4. Inflation Risk

There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.

Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance.

Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.

5. Counterparty Risk

The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.

The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited.

The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement.

The Executive Director of Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other

Risk

Controls

appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.

6. Capital Financing and Refinancing Risk

There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.

The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required.

PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted.

7. Statutory and Regulatory Risk

There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.

The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice which is reported to and agreed by Council.

8. Treasury Management Arrangements Risk

There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.

This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well-established Treasury Management team that operates under the Executive Director of Corporate Services and is staffed appropriately with a good mix of both experienced and qualified staff.

Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

