Sunderland City Council

Item No. 3

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Thursday 30 June 2011

Present: -

Mr G N Cook in the Chair

Councillors Forbes, Tate and Mr J P Paterson.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Rolph, Trueman and T Wright.

Minutes

8. RESOLVED that the minutes of the meeting of the Committee held on 27 May 2011 be confirmed and signed as a correct record.

The Executive Director of Commercial and Corporate Services referred to the item on Member Training and Development and advised that the update on the Council's Improvement Programme would be presented to the Committee at their next meeting on 22 July 2011.

Internal Audit Progress Report

The Head of Audit, Risk and Procurement submitted a report outlining the progress of Internal Audit from April to 10 June 2011, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

Members' attention was drawn to Appendix 1 which showed the performance to date against the Key Performance Indicators (KPIs). All of the KPIs were on target with the exception of the implementation rate of medium risk recommendations. This currently stood at 83% against a target of 90% with the lowest implementation rate of 64% being in the Health, Housing and Adult Services directorate.

The overall audit opinion in all key risk areas was good or satisfactory apart from Information Governance which remained unsatisfactory. However, management had responded positively to the recommendations and there was evidence of detailed action being taken. Further audit work was required before the overall opinion could be changed but it was hoped this would happen in the near future.

Graham King, Head of Strategic Commissioning, within Health, Housing and Adult Services was in attendance to inform the Committee of the position with regard to the 'significant' recommendations made following the audit of the protection arrangements for vulnerable adults.

The Head of Strategic Commissioning reported that an inspection by the Care Quality Commission (CQC) had identified some inadequacies in existing ICT systems and highlighted training issues in relation to ICT. These issues related not just to the Council but also to partner agencies.

A major ICT supplier had been engaged to develop a new product to be implemented in October 2010 and at the same time, fundamental changes were being implemented in the service and due to the significant amount of ICT training required, it was decided to progress the care management part of the system initially.

In the meantime, and after further consideration of the CQC report, the Safeguarding Adults Board had requested that the approach to safeguarding adults in Sunderland be reviewed. If a new model fro safeguarding was adopted this would have training implications for both council staff and partners.

The Chairman asked if there was confidence that a robust system would be in place moving forward and the Head of Strategic Commissioning confirmed that changes to the care management regime would result in stronger policies and the new ICT system would complement this.

There would be a few hundred staff to be trained in the new arrangements and it was highlighted that the changes could be influenced by forthcoming guidance from the Law Commission about placing safeguarding for adults on a statutory footing.

The Head of Strategic Commissioning was asked to comment on the low implementation rates for medium risk recommendations in Health, Housing and Adult Services and he advised that a new process had been established within the directorate of monthly meetings to consider performance and provide early monitoring of audit recommendations. There would be lead officers identified for each recommendation and they would have the

responsibility for following up the issues. This in turn would lead to an improved implementation rate.
The Chairman asked the Head of Strategic Commissioning to keep the Committee informed of progress and he confirmed this would be actioned.

Having discussed the progress report, it was: -

9. RESOLVED that the report be noted.

Annual Report on the Work of the Committee

The Executive Director of Commercial and Corporate Services presented a report providing a summary of the work undertaken by the Committee during 2010/2011 and the outcome of that work. The report demonstrates how the Committee has fulfilled its role throughout the year.

The report sets out the role of the Committee and the matters it has considered during 2010/2011, including the Internal Audit Strategy and Operational Plan, reports from the Council's External Auditors, the Corporate Risk Profile, the Annual Governance Review, the performance on Treasury Management and the Statement of Accounts.

It also highlighted areas where the Committee had been pro-actively monitoring performance such as the implementation of agreed Internal Audit recommendations and the abolition of the Audit Commission.

The report concluded that the work of the Committee had been comprehensive and robust, resulting in positive assurance for the Authority.

Members having agreed that the report accurately portrayed the work completed over the year, therefore: -

10. RESOLVED that the report be approved and referred to the Council.

Corporate Risk Profile

The Executive Director of Commercial and Corporate Services submitted a report outlining the findings of the latest review of the Corporate Risk Profile undertaken by the Corporate Risk and Governance Group in April 2011.

The Head of Audit, Risk and Procurement reported that the format of the Corporate Risk Profile had changed and the existing Profile had been realigned against the agreed Strategic Objectives of People, Place and Economy and the Corporate Improvement Objectives. New risks had also been identified through discussions with a range of Directors and Heads of Service which reflected the change in context in which the Council was now operating.

The Profile was being developed to include specific mitigating actions and outstanding actions from the previous year's profile would be included within the profile where appropriate.

Councillor Tate highlighted that the Corporate Risk Profile would change when the Education and Localism Bill came into force and noted that the Environment and Attractive City Scrutiny Committee had carried out a review of 'place' and this could feed into the Profile. He also queried the effect which free schools may have on the Council's ability to offer all children the same standard of education and suggested that the risk would be heightened on this issue.

The Chairman referred to the difficulties in trying to achieve priorities and meet aspirations whilst acknowledging that some goals would never be reached.

The Executive Director of Commercial and Corporate Services acknowledged that there needed to be more active consideration of the Corporate Risk Profile by the Executive Management Team as they would have the clearest view of the strategic issues. There was also a need to fine tune the analysis so that it reflected what was in the control of the Council and what the authority *could* do and *could* influence.

Councillor Forbes echoed the comments regarding aspirations and cautioned against a broad brush approach to raising expectations which then could not be fulfilled. She made reference to 'help(ing) those who need it most' and noted that there seemed to be conflict in stating that small communities would have the opportunity to have a real say on issues and then this not being the case when residents came to make their views known. The Executive Director of Commercial and Corporate Services agreed that the Localism Bill had the potential to create challenges and the manifestation of these powers would have to be worked through.

Councillor Tate having requested that the tables within the Profile be provided in colour, the Committee: -

11. RESOLVED that the updated Corporate Risk Profile be noted.

Accounts and Audit Regulations 2011

The Executive Director of Commercial and Corporate Services presented a report updating the Committee of the changes made by the Accounts and Audit Regulations 2011 and the implications for the Statement of Accounts 2010/2011.

The main changes to be applied for the 2010/2011 accounting year were: -

- Revoking the Accounts and Audit Regulations 2003 as amended and consolidating these into the new Accounts and Audit Regulations 2011;

- Simplifying and clarifying the requirements of the regulations and also separating out the regulations that apply to larger public bodies from those which apply to smaller public bodies;

- Current regulations require members to approve the Accounts subject to audit before 30 June but as this was out of step with the private sector, the change in regulations means that the Accounts subject to audit do not now need to be approved but the audited Accounts must still be approved before 30 September each year; and

- The Responsible Finance Officer must certify the presentation of the annual Accounts no later than 30 June each year and must re-certify the Accounts before member approval is given in September.

The Executive Director of Commercial and Corporate Services informed the Committee that for this year, the Statement of Accounts (as certified) would be presented at the meeting in July, with a final version being considered in September in the usual way.

The Accounts for 2010/2011 had been produced in line with the new accounting requirements of the International Financial Reporting Standards (IFRS) and the Assistant Chief Accountant, Technical and External Services provided a summary of the main changes in the Statement of Accounts resulting from the introduction of IFRS.

Having been informed that PFI projects would be brought on to the Authority's Balance Sheet, the Committee: -

12. RESOLVED that the changes arising from the changes to the Accounts and Audit Regulations 2011 be noted.

Annual Review of Corporate Governance Arrangements

The Executive Director of Commercial and Corporate Services submitted a report providing details of the 2010/2011 Annual Governance Review and presenting the draft Annual Governance Statement.

The Council has a local code of governance setting out a framework which aims to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The framework is based on the following core principles: -

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

The report outlined the methodology for the Annual Governance Review and the Committee heard that the conclusion from the Corporate Risk and Governance Group was that the Council continued to have a robust and effective corporate governance arrangements in place. The views elicited from Members and senior managers across the Council demonstrated that the principles of good governance were embedded Council-wide. The Annual Governance Statement would be included within the Statement of Accounts for 2010/2011.

A small number of actions had been identified for improvement and a plan had been drawn up to address these issues during 2011/2012. Councillor Forbes referred to the action around partnership governance and queried what would happen if a partnership failed in one of its duties under the framework.

The Head of Audit, Risk and Procurement advised that with regard to issues of non-compliance, it was expected that the partnership agreement would have a mechanism for dispute resolution. Some partnerships were contractual and some were public to public partnerships, where disputes could be dealt with by relationship management. The Head of Law and Governance stated that a dispute resolution procedure was always covered in partnership agreements and there was an expectation that people would work together to resolve problems.

Councillor Forbes went on to ask how this would be dealt with for issues relating to safeguarding for example and was advised that where there was a general failure in service, the agency with the statutory responsibility would have to address the issue.

The Committee therefore: -

13. RESOLVED that: -

    (i) the draft Improvement Plan be agreed and recommended to Cabinet; and

    (ii) the Annual Governance Statement be agreed.

Consultation on Local Public Audit

The Executive Director of Commercial and Corporate Services submitted a report highlighting the main issues from the Department for Communities and

Local Government's (DCLG) consultation on their vision for the future of local public audit and seeking Members' views on the draft consultation response.

The Head of Audit, Risk and Procurement delivered a presentation on the key proposals arising from the consultation. These were summarised as: -

- Local public bodies with a turnover of over £6.5m would appoint their own independent external auditor, with the appointment being made with the advice of an independent audit committee;

- External auditors would be regulated under a system which mirrors that of the audit of companies;

- The National Audit Office would set the Code of Audit Practice which prescribes the way auditors will carry out their functions.

The Committee discussed the proposals and the suggested responses making particular comment on the role and structure of audit committees and the process for the resignation and removal of external auditors.

The Committee agreed that the Chair and Vice-Chair of audit committees should be independent but felt that it would be useful to have a member of the Cabinet on the Committee to assist with interaction between the two bodies. Members also felt that the local authority concerned should have discretion to set the membership of the audit committee. The proposed process for appointing independent members to the audit committee was supported

Councillor Forbes asked how objections to the Accounts would be dealt with under the new arrangements. Gavin Barker, Audit Commission, advised that the formal objection process had been removed but concerns could still be expressed to the external auditor and then they would decide how to address any matters raised. It was not clear at this time if the auditors would have to report objections to the Committee as although the principles were being established, further details would be supplied in guidance issued in the future.

Gavin Barker then gave a brief status update on the Audit Commission.

Following discussion, it was: -

14. RESOLVED that, with the inclusion of comments from the Committee, the proposed consultation response be agreed and submitted to the Department for Communities and Local Government.

Treasury Management Annual Review 2010/2011

The Executive Director of Commercial and Corporate Services submitted a report informing the Committee of the Treasury Management borrowing and investment performance during 2010/2011.

Borrowing and investment is undertaken in line with the requirements of the Treasury Management Policy and Strategy which was approved by the Council in March 2010.

The Executive Director thanked the Treasury Management function for their work which had continued to contribute significant financial savings which were used to provide funding to support future year’s capital programmes and help support the Council’s revenue budget. New loans and rates of return achieved on investments in 2010/2011 had led to a further savings of over £1.5m compared to the original budget.

The Committee, having heard that the borrowing and investment position was positive and as planned, accordingly the Committee: -

15. RESOLVED that the Treasury Management performance for 2010/2011 be noted.

(Signed) G N COOK
Chairman

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **22 JULY 2011**

AUDIT COMMISSION - INTERIM OPINION REPORT 2010/11

Report of Executive Director of Commercial and Corporate Services

1.0 Purpose of the report

1.1 This report details the Audit Commission's (AC) Interim Opinion Report on the work carried out to up until June 2011 and which will inform the audit opinion for 2010/2011.

2.0 Interim Opinion Report 2010/2011

2.1 The attached document advises of the main findings of their audit work to date and observes International Standards on auditing United Kingdom and Ireland.

2.2 The report is positive and the areas covered include:

- Interim Financial Systems Work
- Review of Internal Audit
- IT Risk Assessment
- Tax Risk Assessment
- Early work on IFRS compliance

2.3 Interim Financial Systems Work

The findings are set out in the Auditors report at Appendix 1 (pages 5 to 8) with the main conclusion that in general the key controls within the Council's main financial systems are operating as designed. There are a number of recommendations that are set out in the Appendix to the Auditors report and actions have been agreed with officers to address these issues which are considered to be low risk.

2.4 Review of Internal Audit

The review concluded that the Internal Audit continues to meet its professional and statutory duties.

2.5 IT Risk Assessment

The review found that the IT arrangements for the key financial systems present a low risk of material error in the 2010/2011 accounts. Some weaknesses were identified in general IT controls which have been separately discussed with officers and the Head of ICT in drawing up an agreed action plan.

2.6 Tax Risk assessment

The appropriate arrangements were found to be in place with no risk of material mis-statement for the audit opinion.

2.7 IFRS Early work

It is pleasing to note that the arrangements in place have worked well and have helped in the audit work carried out to date. Only minor amendments have been identified and these have, in fact, been corrected in the accounts certified at 30th June 2011.

2.8 An officer from the Audit Commission will be in attendance to outline the content of the Report and to answer member questions.

3.0 Description of Decision

3.1 The Committee is recommended to:

- Note the contents of this report

Background Papers

Audit Commission: Interim Opinion Report 2010/2011

Interim Opinion Report

Sunderland City Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction

1 This report sets out the results of our interim opinion audit work for 2010/11, which we concluded in June 2011.

2 The Code of Audit Practice requires review and reporting on the Council's financial statements and the Annual Governance Statement. The work at the interim stage informs the opinion process.

3 The requirements of the International Standards on Auditing United Kingdom and Ireland (ISA UK&I) require auditors to gain an understanding and test the systems which inform the material entries in the financial statements.

Background

4 External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

5 The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

6 Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Audit approach

7 The work we have completed to satisfy the requirements set out in the Introduction consists of:

- mapping the financial and information systems that provide material figures in the financial statements. The material financial and information systems identified are as follows:
  - General ledger
  - Bank reconciliation
  - Loans
  - Investments
  - Accounts payable (Creditors)
  - Accounts receivable (Debtors)
  - Payroll
  - Social care payment system (SWIFT)
  - National Non-Domestic Rates (NNDR)
  - Council Tax
  - Housing and Council Tax Benefits
  - Cash receipting
  - Capital accounting
  - Periodic income
- documenting the processes and controls in place within each system and undertaking walkthrough tests (these follow a transaction through each part of the system) to ensure the system is operating as stated; and
- testing key controls within the systems to ensure that they are operating effectively (these are detailed sample tests covering the full financial year). We have a three year cyclical programme for testing system controls where we seek to place reliance on controls for our opinion audit. This year we carried out controls testing on the following systems:
  - General ledger.
  - Cash receipting.
  - Social care payment system (SWIFT).

8 In addition to the interim financial systems work, we have completed our review of Internal Audit, an IT risk assessment, a tax risk assessment and some early work on Sunderland City Council's compliance with IFRS. These are briefly summarised in this report.

Main conclusions and findings

Interim Systems Work

9 We have concluded that, in general, the key controls within the Council's main financial systems are operating as designed. There is some scope for improvement in the areas of the social care payment system (SWIFT), National Non-Domestic Rates (NNDR), Housing and Council Tax Benefit, Council Tax and Periodic Income. Details are given below. Our recommendations made to address the issues raised and comments from officers are summarised in the Action Plan in Appendix 1. We will follow up the agreed action plan in future audit work to ensure that the actions have been fully implemented by officers.

Journal entries

10 We discussed with officers last year whether there should be independent authorisation of all journal entries, including online journals and all high value journals. A new process was agreed to carry out a review of all journals over £500k as part of the annual closedown of accounts process.

11 To obtain the assurance we need to give our audit opinion on the financial statements, our response to this is that we will increase our sample sizes when substantively testing journals. We will also consider the review of all journals over £500k undertaken by officers.

Social care payment system (SWIFT)

12 Within the SWIFT process a weekly sample check of 10 payments to SAP and copy remittance advices is undertaken. For the week selected in our walkthrough of the SWIFT process, this check had not been undertaken.

Recommendation

R1 Consider whether this check of SWIFT contracts is required. If it is required we recommend that it is carried out consistently as designed.

National Non Domestic Rates (NNDR)

13 It was noted in our walkthrough testing that the daily reconciliation between the cash receipting system and the NNDR system had only been completed up to July 2010 (as at 25 January 2011). However, a separate reconciliation is undertaken between cash receipting and SAP as part of the bank reconciliation process and this was kept up to date.

14 There is a small risk of misallocation of cash postings between council feeder systems without timely and prompt reconciliations.

15 We will ensure that a year end reconciliation has been completed as part of our post statements work.

Recommendation

R2 Daily NNDR reconciliations with the cash receipting system should be undertaken on a timely basis.

Bank Reconciliation

16 The monthly bank reconciliation reviewed during our walkthrough test showed that 7 out of the 15 individual code reconciliations had been signed by only one officer (4 occasions no preparer signature and 3 occasions no reviewer). We do note that the bank reconciliation had been prepared correctly. There is, however, a risk that if the agreed process of preparation and review is not followed, errors may not be highlighted...

17 We will ensure that a year end bank reconciliation has been completed, and we will test this as part of our post statements work.

Recommendation

R3 All bank reconciliations should be signed by the preparing and reviewing officers.

Housing and Council Tax Benefits

18 During our walkthrough test we found there was a lack of documentary evidence that system parameters are checked following uprating. There is a risk that inaccurate data is entered, causing incorrect benefit calculations.

19 Our certification work on the Housing and Council Tax Benefit Subsidy return will include checking the accuracy of 2010/11 Housing Benefits parameters.

Recommendation

R4 Implement a procedure of recording the check on Housing and Council Tax Benefit parameters input during uprating.

Council Tax

20 A monthly report of all property changes is sent to the Valuations Office (VO) from Council Tax; in previous years this was being checked monthly to the VO schedules received to ensure the change had been actioned. During the walkthrough test there was no up-to-date documentation of this control. Review showed that 3 out of 12 months were held on file for 2010/11, but these had little or no annotation to show a check of the changes had taken place.

21 There is a risk that changes may not be processed. This weakness would not have a material impact on the accounts and will not impact on our audit approach.

Recommendation
R5 Monthly review of property amendments with the Valuations Office is undertaken and documentation retained as evidence of the process.

22 Our walkthrough of Council Tax exemptions highlighted an out of date student exemption. The Student Certificate held on file had an expected end date of January 2011. However, the Council Tax account had an exemption into 2011/12 and no review date entered on the system.

23 A weekly review of exemptions takes place based on a report which picks up the review dates entered on the system, therefore this student was not reviewed.

24 There is an annual review of all student exemptions each October which would have highlighted the case. However, there is a risk that arrears are built up resulting in an increased risk of uncollectable tax.

Recommendation
R6 Ensure that student exemptions that have no review date are highlighted on a timely basis.

Periodic Income

25 Our walkthrough highlighted that there was no formal process of checking updates to system parameters. There is a risk that incorrect charges are raised based on an error in the parameters entered.

Recommendation
R7 Periodic Income parameters should be entered by one officer and checked by another officer, and this process should be documented.

26 We were unable to ascertain a common control that ensured all periodic income requested by a department had been billed. Once a request has been sent to the PI team for input, confirmation e-mails were sent to some departments showing the account number set up.

27 Reviewing a few of the processes within initiating departments, showed that monitoring of periodic income was inconsistent between departments. Some departments would follow up the set up of periodic income and maintain spreadsheets of the accounts set up and monitor the invoices sent out. Others stated that there was no formal process for monitoring that all PI requests had been actioned.

Recommendation
R8 Each department should ensure that all periodic income requests are implemented.

Review of Internal Audit

28 We completed our annual review of Internal Audit against the CIPFA Code of Practice for Internal Audit in Local Government, and this included a detailed review of audit files.

29 Our review identified that Internal Audit continues to meet its professional and statutory duties. Processes in place are driven by an effective Quality System. Our detailed review of files did not highlight any significant non-compliance with the Quality System or the Code.

30 A separate report was agreed with officers.

IT risk assessment

31 As part of our work to support the opinion that we give on your accounts, we undertake an annual Information Technology (IT) risk assessment of your arrangements.

32 The scope of our review was to complete an IT Risk Assessment that included testing some general IT controls surrounding the operation of the main financial systems and associated infrastructure.

33 Overall, we concluded that the IT arrangements for the key financial systems present a low risk of material error in the 2010/11 accounts. However, we have identified some weaknesses in general IT controls where there is scope for improvement.

34 A separate report has been discussed with officers and an action plan agreed with the Head of Corporate ICT. The completed action plan will be used to monitor progress in implementing the agreed actions.

Tax risk assessment

35 Our specialist tax auditor carried out a tax risk assessment focused on VAT, PAYE and NIC. We concluded that appropriate arrangements are in place, and we did not identify any risks of material misstatement for our opinion audit.

Implementation of IFRS

36 Throughout the year we have worked closely with officers on the impact of International Financial Reporting Standards (IFRS). Officers have been keen to share their early work with us in order to smooth the workload at the draft accounts stage.

37 Progress on the approach to componentisation of plant, property and equipment has been agreed with us regularly. This included the identification of a suitable minimum asset value for assessment and clarification of which components would be separately depreciated. Appropriate input on these issues has been obtained from the Council's valuer.

38 IFRS compliant restated accounts were provided by officers and our audit work has been focused on the:

- restated 2008/09 Balance Sheet
- restated 2009/10 Balance Sheet
- restated 2009/10 Income and Expenditure Account (now the Comprehensive Income and Expenditure Statement), and
- the new Movement in Reserves Statement

39 This process of ongoing discussion and agreement with officers has helped both with accounts production and the audit. We recognise the considerable efforts undertaken by officers to ensure that the Council complies with the new requirements and the expertise that has been established through this process.

40 We did identify some relatively minor errors in the calculation and presentation of the following:

- accruals for unused leave;
- property lease accounting entries did not take account of up-front contributions to leases; and
- adjustments for lease hire vehicles had been omitted.

41 However, because these issues have been identified in a timely way, officers were able to rectify these errors in the financial statements that were produced before the end of June.

Appendix 1 Action Plan

Recommendations	
Recommendation 1	
Consider whether this check of SWIFT contracts is required. If it is required we recommend that it is carried out consistently as designed.	
Responsibility	Not applicable
Priority	Low
Date	Not applicable
Comments	The checks were all up to date and being maintained. However, a review of this task has shown that this is no longer required, because all SWIFT feeder uploads are controlled and reconciled centrally to SAP on a daily basis.
Recommendation 2	
Daily NNDR reconciliations with the cash receipting system should be undertaken on a timely basis.	
Responsibility	Non Domestic Rates Specialist
Priority	Medium
Date	1 July 2011
Comments	Agreed - all 2010/2011 have been completed since and new process for 2011/2012 to reflect the new income management system that has been implemented.
Recommendation 3	
All bank reconciliations should be signed by the preparing and reviewing officers.	
Responsibility	Principal Accountant
Priority	Low
Date	1 July 2011
Comments	All bank reconciliations for 2010/2011 had been completed, the most important fact, although some signatures were missing. Management have since streamlined the sign off protocol to make the process less onerous.

Recommendation 4	
Implement a procedure of recording the check on Housing and Council Tax Benefit parameters input during uprating.	
Responsibility	Revenue Systems Team Manager
Priority	Low
Date	1 July 2011
Comments	All of the necessary checks and segregation of duties had been carried out but no formal evidence could support this activity. A flow chart of this task is available and was followed, but the Manager is to maintain formal records in future showing signatures of staff entering and checking the input.

Recommendation 5	
Monthly review of property amendments with the Valuations Office is undertaken and documentation retained as evidence of the process.	
Responsibility	Council Tax & Business Rates Officer
Priority	Low
Date	1 July 2011
Comments	Recognised that no formal sign off of each document is carried out although the Manager confirmed that all VO documentation is fully and regularly checked. The fact that few narrative comments were present reflected the fact that only new properties and those with errors can be amended immediately per the regulations. Other changes can only be actioned once a property changes ownership through sale usually and these are kept on file with little or no comment. The Officer however is to ensure all VO documentation is appropriately signed off in future.

Recommendation 6	
Ensure that student exemptions that have no review date are highlighted on a timely basis.	
Responsibility	Council Tax & Business Rates Officer
Priority	Medium
Date	1 July 2011
Comments	Agreed - will introduce regular quarterly reviews to avoid this in future.

Recommendation 7	
Periodic Income parameters should be entered by one officer and checked by another officer, and this process should be documented.	
Responsibility	Transactional Finance Processing Manager
Priority	Low
Date	1 July 2011
Comments	Agreed - checks are carried out on the system parameters but agreed to formally separate out this duty and incorporate within year end procedures to be able to evidence this in future.

Recommendation 8	
Each department should ensure that all periodic income requests are implemented.	
Responsibility	Transactional Finance Processing Manager
Priority	Low
Date	1 July 2011
Comments	Agreed - all requests will be responded to by e-mail once set up as part of the new way of working process. A mitigating factor would be that the budget manager should identify any income that has not been raised properly through budget monitoring procedures.

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Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **22 July 2011**

STATEMENT OF ACCOUNTS 2010/2011 (SUBJECT TO AUDIT)

REPORT OF THE EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPROATE SERVICES

1. Purpose of the Report

1.1 To provide members with the certified copy of the Council's Statement of Accounts 2010/2011 (Subject to Audit) as at 30th June 2011.

2. Description of Decision

2.1 The Committee is requested to note the Statement of Accounts 2010/2011 (Subject to Audit).

3. Introduction

3.1 The Council has observed the new financial reporting requirements set out in the recently introduced Accounts and Audit Regulations 2011 whereby the accounts subject to audit need only be certified by the Relevant Finance Officer by 30th June. The audited accounts however need to be approved by members of this Committee at its planned meeting in September, as the accounts of the Council must be approved before 30th September of each year.

3.2 The Committee at its meeting held on 30th June 2011 were notified of the main changes brought about by compliance with International Financial Reporting Standards (IFRS) for the first time for the 2010/2011 accounts. To help members understand the main changes a Summary paper and Handout were distributed - (these are attached for information in Appendix 1 and Appendix 2 respectively).

4. Statement of Accounts 2010/2011 (Subject to Audit)

4.1 The financial statements for 2010/2011 subject to audit are attached in Appendix 3 for information and have been certified as at 30th June by the Executive Director of Commercial and Corporate Services.

4.2 Members should note that the Foreword by the Executive Director of Commercial and Corporate Services on pages 6 to 28 of the Accounts provides a helpful summary of the main financial issues for 2010/2011 for the Council and is there to help put the accounts, which are very complex in nature, into context.

4.3 Members should they wish, are also able to ask questions on the accounts at this stage, before the audit has been completed, although they will have a further and final opportunity in September when the audited accounts are to be formally considered for approval.

5. Reasons for Decision

5.1 To note the Statement of Accounts 2010/2011 (subject to audit).

6. Alternative Options

6.1 No alternatives are submitted for Members consideration.

Background Papers

Accounts and Audit Regulations 2011

Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011 (based on IFRS)

Sunderland City Council

Statement
of
Accounts

2010/2011

Subject to Audit

Contents

	Page

Cabinet 2010/2011

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

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

Introduction

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

With regard to corporate governance, we are pleased to be able to report that the Council considers an annual review of its Code of Corporate Governance, the 2010/2011 review was considered by the Audit and Governance Committee in June and will be reported to Cabinet in July and will then be reported to full Council. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council has rebust and comprehensive arrangements in place and has identified a small number of areas for improvement and development, which will be acted upon during 2011/2012.

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

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

Councillor Paul Watson Leader of the Council	Dave Smith Chief Executive	Malcolm Page Executive Director of Commercial and Corporate Services

Dated: 30th June 2011

Certification of the Statement of Accounts

Statement of Accounts 2010/2011 (Subject to Audit) Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (2) the Statement of Accounts for 2010/2011 (subject to audit) presents a true and view of the financial position of Sunderland City Council as at 31st March 2011 and its income and expenditure for the year then ended.

MD Page

Mr M Page
Executive Director of Commercial and Corporate Services

Dated: 30th June 2011

Audited Statement of Accounts 2010/2011 Certification on behalf of those charged with governance

As Chairman of the Audit and Governance Committee held on 30th September 2011, I hereby acknowledge receipt of the audited Statement of Accounts for 2010/2011 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8(3), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 30th September 2011 in accordance with sub-paragraph 8 (3) (c) with regard to the aforementioned Regulations.

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

Dated: 30th September 2011

Audited Statement of Accounts 2010/2011 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2010/2011 in accordance with Regulation 8 (2) of the Accounts and Audit Regulations 2011.

Mr M Page
Executive Director of Commercial and Corporate Services

Dated: 30th September 2011

Foreword by the Executive Director of Commercial and Corporate Services

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2010/2011. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011 (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2011 and the Local Government and Housing Act 1989.

It should be noted that this is the first year the Council's accounts will have been produced under the requirements of International Financial Reporting Standards. Full details of all of the changes introduced by compliance with the new reporting standards is fully explained and set out in Note 2 of the Statement of Accounts (Page 53 – 58).

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

1. **Statement of Responsibilities**
   This discloses the respective responsibilities of the Authority and the Chief Finance Officer.

2. **Movement in Reserves Statement (MiRS)**
   This statement shows the movement in the year on the different reserves held by the authority, 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 show in the Movement in Reserves Statement.

4. **Balance Sheet**
   The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the authority.

5. **Cash Flow Statement**
   The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

6. **Notes (including a summary of significant accounting policies and other explanatory information)**
   The Notes to the financial statements have three significant roles, they:
   - Present information about the basis of preparation of the financial statements and the specific accounting policies used.
   - Disclose information that is required by the Code that is not presented elsewhere in the financial statements.
   - Disclose information that is not presented elsewhere in the financial statements, but is relevant to their understanding.

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

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2010/2011 to be met from Government Grants and local taxpayers was approved at £252.697m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,342.80 for 2010/2011. This represented a Council Tax increase of 1.29% over the 2009/2010 Band D Council Tax of £1,325.72. The Council again set the lowest Council Tax level in the whole of the North East region for 2010/2011 for the fourth consecutive year and continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

Comprehensive and detailed budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the Council's Cabinet. These detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items including Treasury Management and Prudential Indicators. Again this reflects strong and robust financial management in 2010/2011 continuing the Council's strong track record in this regard.

The table on the next page summarises the financial position for the year 2010/2011 for General Fund Balances, which is made up of the Council's General Reserve and Balances held by Schools under the Local Management Scheme, in accordance with the Code and also shows the original budget and the revised budget positions for 2010/2011 as compared to the actual position for 2010/2011.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Financial position for the year 2010/2011 for General Fund Balances

	2010/2011 Original Estimate £'000	2010/2011 Revised Estimate £'000	2010/2011 Actual £'000	Restated 2009/2010 Actual £'000
Expenditure on Services*	280,776	272,748	263,696	254,454
Levies and Precepts	18,675	18,675	18,675	18,462
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(112)	(637)
Transfers to / (from) Capital Reserves	0	0	(4,700)	(5,088)
Transfers to / (from) Revenue Reserves:				
PFI Smoothing Reserve	0	0	(317)	(349)
Insurance Reserve	0	0	(1,252)	(184)
Economic Development Reserve	0	0	(700)	0
Play Areas Reserve	0	0	(83)	(273)
WNF - Software City Reserve	0	0	0	2,600
WNF - Visible Workshop and Other Projects Reserve	0	0	0	3,600
House Sale Income Reserve	0	0	178	1,250
BTP Invest to Save	0	0	1,677	0
Modernisation Improvement	0	0	1,000	0
Utilities Reserve	0	0	1,043	0
Invest to save Commercial Opportunities	0	0	1,500	0
All Other revenue Reserves	0	0	10,481	464
Total Net Expenditure	299,451	291,423	291,086	274,299
Financed by:				
Revenue Support Grant and General Grants	59,488	56,309	55,904	58,303
National Non Domestic rates	137,496	137,496	137,496	125,643
Council Tax Collection Fund Receipts**	95,238	95,238	95,903	94,769
Council Tax Surplus	50	50	50	500
Total Net Budget Requirement	292,272	289,093	289,353	279,215
Addition / (Use):				
General Reserve (See Note 1)	(7,179)	(2,330)	(2,330)	3,195
Schools LMS Reserve (See Note 2)	0	0	597	1,721
General Fund Balance brought forward:				
General Reserve	14,749	14,749	14,749	11,554
School LMS Reserve	7,493	7,493	7,493	5,772
General Fund Balance carried forward:				
General Reserve	**7,570**	**12,419**	**12,419**	14,749
School LMS Reserve	**7,493**	**7,493**	**8,090**	7,493

***** This excludes the effect of IAS19 pension fund adjustments.

******This figure includes an adjustment for Council Tax debtors and creditors as required under the Code of practice on Local Authority Accounting in the United Kingdom 2010/2011.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Note 1 – General Reserve

The above table shows a reduction in the general reserve balance of £2.330 million as forecast at the revised estimate stage and is after taking into account the creation of a limited number of reserves reported to Cabinet as part of the outturn report.

The movement in the general reserve balance takes account of the following additions to balances totalling £4.458 million:

- £1.873 million additional debt charge savings primarily as a result of re-profiling capital expenditure and debt restructuring activity in light of market conditions;
- Other net savings in contingencies and non delegated expenditure of £2.585 million;

and the following £4.458 million use of balances:

- approved transfer to the Strategic Investment Reserve of £1.958 million to support one off transitional costs arising from the implementation of budget savings proposals in 2011/2012;
- approved transfer to reserve of £1.0 million to support potential future winter maintenance pressures and continued uncertainties arising as a result of the economic downturn for 2011/2012;
- approved transfer to reserve of £1.5 million to support initial activities regarding potential commercial and economic development opportunities which will in turn lead to improved outcomes for the city and future revenue cost containment.

Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the Code, forms part of the Statement of Movement in General Fund Balances. The movement in school balances during 2010/2011 amounted to a net return to balances of £0.597m (£1.721m net return to balances in 2009/2010), as a result reduced spending by schools and is reflected in the Statement of Accounts within the Income and Expenditure Account on the Education cost of service line. School balances are fully committed and are required to meet the challenges in respect of reduced funding in 20011/2012 and future years.

As a result, the balance of this reserve as at 31st March 2011 increased to £8.090m compared to £7.493m as at 31st March 2010. Further details are set out in Note 9 on Page 66.

Capital Expenditure and Income

Capital Expenditure for the year totalled £90.048m, this is made up of Council expenditure of £86.845m and capital expenditure of £3.203m relating to externally funded schemes where the Council acts as the Accountable Body and must include this in its Statement of Accounts. Expenditure on fixed assets for 2010/2011 was £65.517m (Note 13, Page 70), whilst expenditure on intangible assets was £0.313m (Note 15, Page 74). The remainder of £24.218m represents grants, advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue and expenditure on property not owned by the Authority.

The above total capital expenditure was financed by Supported Capital Expenditure Revenue, SCE(R), which enabled the Council to borrow £6.113m to finance capital expenditure, the balance was financed by Unsupported Borrowing of £7.398m, Capital Receipts of £0.896m, Government Grants of £34.587m, Other Grants and Contributions of £28.419m, Revenue Contributions of £4.973m and Use of Reserves of £7.662m.

Euro

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

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Accounting for Pensions

The accounts continue to be fully compliant with International Accounting Standard 19 (IAS19). Although IAS19 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the Pension Fund.

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2010 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2011. The Council as such continues to comply fully with this Standard and the Accounting Policy on Pages 38 to 40 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and, in reality, as the Council is making the necessary pension deficiency payments to address any assessed shortfall in the pension fund by the Actuary over time, then the Balance Sheet net worth is in effect reporting future years deficits, which are being addressed.

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in (Note 23d, Page 84), as assessed by the Actuary, as at 31st March 2011, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

Cost of Pensions

The cost of pensions to the Council continues to increase year on year and remains a major item of expenditure the Council has to meet each year. The previous Government completed a review of the public sector pension arrangements and implemented changes in light of that review designed to modernise the arrangements whilst seeking to ensure that they are more affordable. The new Government more recently through the Hutton Review has indicated that it is to implement the recommendations from this Review and is currently in negotiations with the relevant public sector unions to agree measures to reduce the employer's costs of funding pensions for public sector workers and to make them more affordable. The Council is currently awaiting the final details of the proposed revised pension schemes.

Impact of the General Election May 2010

In considering the budget for 2010/2011 and for future years one of the overarching issues was the impact of the General Election. All political parties had made it clear that there were going to be spending cuts to public sector funding as a result of the prevailing economic climate and the need to reduce the level of the national debt. Of key importance was the timing and phasing of these reductions.

The new Government implemented a series of in-year budget reductions to Government funding (both capital and revenue) in its Emergency June 2010 Budget which impacted on the Council's finances during the year and after the Council's budget had been fixed.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Financial Planning and the Impact of Government Funding Reductions

The Emergency Budget announced in June 2010 resulted in a reduction in Government funding to the Council of £5.150m revenue and £5.106m capital funding. The cost containment actions taken during 2010/2011 resulted in additional savings of £6.396m in excess of the sum required to meet the impact of the Government funding reductions. These additional savings have been earmarked to meet specific transitional costs which are arising in 2011/2012 linked to the achievement of the 2011/12 budget reductions.

The Council budget for 2010/2011; however was set taking account of efficiency savings of £7.718m reflecting the Council's proactive approach to the government's efficiency requirements set out within the Comprehensive Spending Review 2007.

Subsequent to the setting of the 2010/2011 budget the Council implemented a rigorous and wide ranging set of cost containment measures in order to address both the impact of the June 2010 Emergency Budget and the anticipated significant funding reductions arising from the Comprehensive Spending Review 2010.

As anticipated, the Comprehensive Spending Review 2010 announced in October 2010 which was further detailed in the subsequent local government finance settlement for 2011/2012 resulted in significant reductions in funding to the Council. This combined with unavoidable cost pressures resulted in the budget for 2011/2012 being set taking account of reductions totalling £57.8m:

- £38.7m in respect of reductions in formula grant, and cost pressures. They have been addressed through business transformation savings, fundamental service reviews and other directorate savings proposals. This has continued our aggressive approach to reducing back office costs as much as possible, working more smartly and generating additional income while reviewing services to ensure resources are targeted to areas of highest need to protect front line services as much as possible.
- £19.1 million of specific grant reductions have been passported to the areas of relevant expenditure in accordance with the approach agreed as part of the Budget Planning Framework.

The identification of savings for the medium term will continue through a combined approach of:

- Specific efficiency savings arising from the Business Transformation Programme;
- Reviewing services to gain a comprehensive understanding of customer need and the most cost effective way of meeting that need through service reviews, including through modernising and improving services across the Council and the Sunderland Way of Working;
- Seeking opportunities through new financial models and more commercial approaches to Council business;
- Directorate cash limits being tightly drawn in order to drive the identification and reinvestment of efficiency savings.

The Council's Productivity and Efficiency Strategy 2011/2012 to 2014/2015 provides the framework for developing plans for future service delivery, ensuring that the main priorities are to support the most vulnerable residents in the city and enable economic regeneration to attract new businesses to invest in the city, despite the prevailing economic conditions. The strategy supports the aim of ensuring the most productive use of resources is maintained during this period of financial restraint.

Future Grant settlements and the Council's Improvement Agenda

In light of the anticipated reductions in government funding (and which have been realised in the government's Spending Review 2010 and subsequent local government finance settlements for 2011/2012 and 2012/2013) the Council developed the Sunderland Way of Working in 2009. This new and more efficient operating model encompasses all of the improvement activity across the Council. Each element that makes up this initiative is described as follows:

- The **Business Transformation Programme (BTP)** is the main programme delivering the new business operating model whilst ensuring improvement in front line services. In doing so, the Council has in 2010/2011, achieved the following outcomes:

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

- New unified services have been put in place for Strategy Policy and Performance; Strategic Asset Management; Procurement, Risk and Audit; Legal and Democratic; Scrutiny and Area Arrangements; Transformation, Programmes and Projects; Strategic Finance; Strategic HR; Communications; and Transactional Services (HR, Finance and Administration) which has generated ongoing savings of over £9m.

- 7 council buildings have closed and locality bases have been established in existing buildings to bring services closer to the customer and produce savings. Smarter and more flexible practices have also been introduced. These measures have produced ongoing savings of £0.5m with a further £1.1m expected in 2011/2012.

- Restructuring of ICT has significantly reduced the size of the unit, saving £0.2m with further savings anticipated of £0.4m in the following year.

- Positive signs of staff engagement to the change process, as 83% of staff believed their manager is committed to the Council's change process

- Introduction of the category management approach to Procurement has saved £2.6m to date, with a further £3m forecast in 2011/2012.

- A range of service improvement and review activity that is estimated to generate £10m of savings in 2011/2012.

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

- The **Economic Regeneration Programme (ERP)** focuses on the council's contribution to the delivery of those programmes and projects identified and prioritised as being important to achieving the aims of the Sunderland Economic Master Plan (launched in October 2010).The main objective is to improve Sunderland's economic prosperity. This will be achieved by increasing the city's attractiveness to investors; creating well paid sustainable jobs; developing a skilled workforce; attracting and retaining young people; developing the city in to a national hub of the low carbon economy and; making Sunderland attractive, aspirational, entrepreneurial and inclusive. The Economic Regeneration Programme is directed by an Economic Leadership Board comprising representatives of private sector, public sector and social enterprises, the Programme oversees the development , resourcing and delivery of those projects identified to the deliver benefits and outcomes of the Economic Master Plan and is overseen, within the council, by an Economic Regeneration Programme Board.

Changes to the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011

The Code of Practice on Local Authority Accounting in the UK 2010/2011 introduced some significant changes to the Statement of Accounts for 2010/2011. This is the firs financial statements prepared using International Financial Reporting Standards (IFRS). The main changes are set out in Note 2 for information.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Major Acquisitions, Capital Works and Disposals during 2010/2011

The Council spent £27.812m on the purchase of land and property during 2010/2011 and this was in respect of strategic land acquisitions that will be used to further redevelop the city centre area.

The Council is involved in a number of major projects, known as capital works. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2010/2011, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

Scheme / Project	Expenditure during 2010/2011 £'000	Total Currently Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2011
St Roberts of Newminster BSF	4,684	15,825	Complete
Southern Radial Route	4,068	40,982	Complete
Sunderland Strategic Transport Corridor*	3,435	9,670	In Progress
Replacement Recycling Scheme	2,236	2,700	Complete
BSF ICT Contract	2,180	10,451	Complete

* This project has received programme entry approval from the Department for Transport (DfT) but the Council is still awaiting conditional approval for the scheme. The costs above relate to initial site preparation work and design work should the Council receive full approval for the scheme to go ahead.

There was no major asset disposal (over £500,000) made during the year.

Authority's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 3rd March 2010 detailed the 2010/2011 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Authority is required to set borrowing limits for the following three financial years. The limits for 2010/2011 were as follows:

- Authorised Limit for External Debt for 2010/2011 of £415.548m.
- Operational Boundary for External Debt for 2010/2011 of £327.301m.

As part of the Authority's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2010/2011.

The highest level of external debt incurred by the Council in respect of the above limits, during 2010/2011, was £272.016m for the period 22nd February 2011 to 27th February 2011.

Economic downturn

The economic downturn has continued into 2010/2011 and the council has again responded throughout the year by taking actions to ensure that resources have been directed to those service areas most affected reflecting the position taken at the time the 2010/2011 budget was set. The following factors that were taken into account included:

- The very low interest rates continued to have an impact on the financial return on the Council's deposits, leading to reduced levels of income available to support the Council's Revenue Budget

- The continuing reduction in the ability of the council to generate capital receipts from the sale of surplus assets as demand for development sites has remained fairly subdued in 2010/2011 (similar to the position in 2009/2010) where only very minor receipts of £0.684m being achieved in 2010/2011 (for 2009/2010 £0.949m). The reduced capacity to generate capital receipts continued to have a direct impact on the resources available for the Council's capital programme and this position is now expected to continue into 2011/2012.

- The impact of the economic downturn continues to affect the level of income from fees and charges for Council services.

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

Finally, in preparing the final accounts for 2010/2011 consideration has been given to the ongoing potential impact of the downturn resulting in some limited earmarking of resources.

Treasury Management

In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full council each year. The Policy for 2010/2011 is included in detail within the Accounting policies, on Pages 52 and 53 for information.

Actual interest rates in 2010/2011 did not increase to the levels anticipated as global and national economic growth remained low. This, alongside sovereign debt concerns in the Euro Zone led to a fall in gilt yields despite higher than anticipated levels of inflation. There remains a wide divergence of opinion on the timing of the start of increases in the Bank Rate and economic forecasts will continue to be closely monitored.

The Council has had to operate its Treasury Management function within these very challenging and uncertain times by carefully managing the Council's cash resources and the Council continues to operate a prudent and cautious approach to Treasury Management. The Council follows professional standards and best practice in this specialist area and continues to develop its Treasury Management expertise and knowledge in order to safeguard the Council resources and thereby reducing the risks that inevitably exist in this complex area.

As part of the Government's Spending Review 2010 in October 2010 the PWLB was instructed to increase the interest rate on all new loans by an average of 1.00% above the Government's cost of borrowing. This unexpected increase across all PWLB rates has made borrowing from this source more expensive and also made debt rescheduling opportunities less likely.

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future year's capital programmes and to help support the Council's revenue budget. New loans of £30.5m taken out in 2010/2011 at an average interest rate of 3.31% to fund the Council's capital programme and to replace borrowing repaid as part of previous debt restructuring exercises has led to an ongoing debt interest saving to the Council of £0.449 million per annum. The high rate of return achieved on investments in 2010/2011 of 1.50% has meant a further saving to the original 2010/2011 budget and helps to show how proactive Treasury Management can have significant positive effects on the Council's resources. This action was in line with the Councils' agreed Treasury Management Policy and Strategy for 2010/2011.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

Single Status

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

Equal Pay claims

Both prior to and during 2010/2011, the Council has received a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Whilst a large number of claims have been settled, a large number of other claims remain outstanding where the legal advice is that offers of settlement should not be made. These claims will be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

Insurance Provision

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself and this is one of the main reasons why it is possible to return provisions for insurance costs to Council balances in 2010/2011.

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

Area Based Grant

Area Based Grant was introduced in 2008/2009 which saw numerous specific grants transferred into the new Area Based Grant to provide Local Authorities with more flexibility in the use of this funding, as Councils were given the freedom to spend the grant as they saw fit, in order to support the delivery of local, regional and national priorities in their areas including the achievement of Local Area Agreement targets.

However as each of the grants that transferred into the Area Based Grant came with clear grant conditions and performance expectations, it was considered that in the majority of cases, the performance expectations remained and were consistent with the Sunderland Strategy and Local Area Agreement and other service based inspections. Accordingly, the Council initially 'passported' Area Based Grants to their host Portfolio / Directorate for 2009/2010 and a review was undertaken during 2009/2010 to ensure value for money and the appropriateness of the expenditure in light of changes in priority and performance targets. This review identified efficiency savings of £1.041m which was taken into account when balancing the 2010/2011 budget.

The Council's allocation for Area Based Grant for 2010/2011 was originally £39.9 million however as part of the Coalition government's Emergency Budget in June 2010 this was reduced to £35.9 million which can then be compared to the equivalent grant total for 2009/2010 of £40.2 million. The main reasons for the net reduction of £4.3m million between the years was Working Neighbourhoods Fund (WNF) Grant £1.4m, a number of Education related grants £2.8m and a net overall reduction in the remaining Area Based Grant of £0.1 million.

This more flexible form of grant funding was welcomed by the Council as it continued to help with re-directing resources into its service priority areas in order to improve the key services provided to the people of Sunderland. In 2011/2012 this grant has ended with some elements of the grant allocation most notably WNF worth £9.9 million and a raft of Education related grants totalling £4.5 million were ended altogether. Some elements of the grant have been reduced and then transferred into Formula Grant and some were used to help fund other government core grants in 2011/2012.

Foreword by the Executive Director of Commercial and Corporate Services (Continued)

The Area Based Grant is fully accounted for within the accounts of the Authority in accordance with government guidelines and forms part of Note 35 on page 98.

South Tyne and Wear Waste Management Partnership PFI Scheme

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Sunderland, Gateshead and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. The Partnership has been awarded £73.5m of PFI Credits by the Department for Environment, Food and Rural Affairs (Defra). The Partnership, led by Gateshead Council, entered into a contract on 20th April 2011with a consortium led by Sita Uk Ltd. The waste treatment facility is anticipated to become operational in April 2014 following which there will be an operating period of twenty five years.

Further Information

This publication provides a review of the financial performance of the Council for 2010/2011. A summary set of accounts, is also available on the Council's website at http://www.sunderland.gov.uk/index.aspx?articleid=652

Malcolm Page CPFA
Executive Director of Commercial and Corporate Services
30th June 2011

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

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

The Executive Director of Commercial and Corporate Services Responsibilities

The Executive Director of Commercial and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011 ("the Code"), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2011.

Authorised for Issue Date

The accounts are authorised for issue on 30th June 2011.

Sunderland City Council

Certificate of the Executive Director of Commercial and Corporate Services

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

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

I have also:

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

Malcolm Page CPFA
Executive Director of Commercial and Corporate Services

30th June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Sunderland City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director of Commercial and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Commercial and Corporate Services is responsible for the preparation of the Authority'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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Sunderland City Council's affairs as at 31 March 2011 and of its income and expenditure 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.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007.

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

Authority’s responsibilities

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

Auditor’s responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Signed ....

Date...

Steve Nicklin

Officer of the Audit Commission
Nickalls House
The Metrocentre
Gateshead
Tyne and Wear
NE11 9NH

Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a local Code of Corporate Governance which is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. The Code is on the Council's website or can be obtained from the Executive Director of Commercial and Corporate Services.

This Statement explains how the Council has complied with the SOLACE/CIPFA Framework and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31st March 2011 and up to the date of approval of the Annual Report and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

- The Revenue Budget for 2010/11 and Capital Programme for 2009/2010 to 2013/14 incorporate corporate improvement priority actions.

- To demonstrate the council's commitment to the continuous improvement of service delivery and the use of resources, Corporate Improvement Objectives (CIOs) have been defined:
  CIO1 Customer focused services
  CIO2 One Council
  CIO3 Efficient and effective council
  CIO4 Improving partnership working

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

- Communication of objectives to staff and stakeholders takes place through wide distribution of the Revenue Budget for 2010/11 and Capital Programme for 2009/2010 to 2013/14, including on the Council's website and intranet. The Council also issues an Annual Report setting out the Council's priorities, how the Council spent money on achieving these during the last financial year, and how successful the Council has been.

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

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

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

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

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

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

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

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

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

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

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

- Directorates have established delegation schemes, although these will require updating in some areas to reflect recent and ongoing organisational changes.

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

- The following are in place:

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

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

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

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

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

- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:
  - Whistle Blowing Policy;
  - Anti Fraud and Corruption Policy;
  - Codes of Conduct;
  - Corporate Health and Safety Policy;
  - Corporate Complaints Policy;
  - Corporate Procurement Strategy;
  - Procurement Codes of Practice;
  - Code of Practice for Partnerships;
  - Treasury Management Strategy;
  - Directorate / department budget management schemes.

- There are robust and well embedded risk management processes in place, including;
  - Member Risk Champion;
  - Risk Management Policy and Strategy;
  - Nominated Head of Service lead for Risk Management;
  - Corporate Risk Profile;
  - Corporate Risk and Governance Group;
  - Risk Profiles for major projects and significant partnerships;
  - Risk Management Intranet site;

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

- Business Continuity Plans are in place, which are subject to ongoing review and development.

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- The Council participates in the National Fraud Initiative.

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

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

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

The Executive Director of Commercial and Corporate Services fulfils this role through the following:

- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- 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;
- Ensuring that the finance function is resourced to be fit for purpose;

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

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

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

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

- The Head 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.

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

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

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

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

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

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

- The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role, including the introduction of Account Managers for all Members.

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

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

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

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

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

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

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

REVIEW OF EFFECTIVENESS

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

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

- The role of the Council:
  - Members have participated in the annual review of the Council's Corporate Governance arrangements;
  - The Leader of the Council, the Chief Executive and the Executive Director of Commercial and Corporate Services have overseen the review and signed the Annual Governance Statement.

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

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

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

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

- The Executive Director of Commercial and Corporate Services has directed, co-ordinated and overseen the review.

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

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

- Controls Assurance Statements have also been provided by senior officers responsible for relevant specialist areas.

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

- In the Audit Commission's Annual Audit Letter the District Auditor issued an unqualified conclusion stating that the council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. The District Auditor also reported that the council continues to demonstrate well established and effective processes for good governance and internal control

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

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed for the continuous improvement of the Council's corporate governance and internal control arrangements.

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

Paul Watson
Leader of the Council

Dave Smith
Chief Executive

Malcolm Page
Executive Director of Commercial and Corporate Services

Dated 30th June 2011

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Service line shows the true economic cost of providing the authority's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net Increase / Decrease before Transfers to / from earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the authority. The tables below show the details for both 2009/2010 and 2010/2011 as required by the Code of Accounting Practice.

Financial Statements (Continued)

Movement in Reserves Statement

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grant Receipts in Advance £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Authority Reserves £'000**
Balance at 31 March 2009 (Restated)		**(17,324)**	**(131,321)**	**(6,425)**	**(1,033)**	**(156,103)**	**(492,252)**	**(648,355)**
Movement in reserves during 2009/2010								
(Surplus) or Deficit on provision of services		20,559	0	0	0	**20,559**	0	**20,559**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	90,048	**90,048**
Total Comprehensive Income and Expenditure		**20,559**	**0**	**0**	**0**	**20,559**	**90,048**	**110,607**
Adjustments between accounting basis & funding basis under regulations	8	(27,496)	0	1,073	(609)	**(27,032)**	27,032	**0**
Net Increase / Decrease before transfers to Earmarked Reserves		**(6,937)**	**0**	**1,073**	**(609)**	**(6,473)**	**117,080**	**110,607**
Transfers to / from Earmarked Reserves	9	2,020	(1,312)	0	0	**708**	(708)	**0**
(Increase) / Decrease in 2009/2010		**(4,917)**	**(1,312)**	**1,073**	**(609)**	**(5,765)**	**116,372**	**110,607**
Balance at 31 March 2010 (Restated)		**(22,241)**	**(132,633)**	**(5,352)**	**(1,642)**	**(161,868)**	**(375,880)**	**(537,748)**
Movement in reserves during 2010/2011								
Surplus or (Deficit) on provision of services		(116,624)	0	0	0	**(116,624)**	0	**(116,624)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	(31,440)	**(31,440)**
Total Comprehensive Income and Expenditure		**(116,624)**	**0**	**0**	**0**	**(116,624)**	**(31,440)**	**(148,064)**
Adjustments between accounting basis & funding basis under regulations	8	109,724	0	(259)	65	**109,530**	(109,530)	**0**
Net Increase / Decrease before transfers to Earmarked Reserves		(6,900)	0	(259)	65	**(7,094)**	(140,970)	**(148,064)**
Transfers to / from Earmarked Reserves	9	8,632	(8,632)	0	0	**0**	0	**0**
Increase / Decrease in 2010/2011		1,732	(8,632)	(259)	65	**(7,094)**	(140,970)	**(148,064)**
Balance at 31 March 2011		**(20,509)**	**(141,265)**	**(5,611)**	**(1,577)**	**(168,962)**	**(516,850)**	**(685,812)**

Financial Statements (Continued)

Comprehensive Income and Expenditure Statement

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

Financial Statements (Continued)

Comprehensive Income and Expenditure Statement

2009/2010 (Restated)					2010/2011		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
40,841	35,335	5,506	Central services to the public		**37,140**	**31,023**	**6,117**
118,991	35,207	83,784	Cultural, environmental, regulatory and planning services		**121,900**	**39,803**	**82,097**
351,576	250,152	101,424	Education and children's services		**335,464**	**252,573**	**82,891**
33,067	12,442	20,625	Highways and transport services		**37,385**	**10,669**	**26,716**
134,570	129,407	5,163	Other housing services		**136,520**	**120,614**	**15,906**
118,049	49,149	68,900	Adult social care		**117,064**	**50,593**	**66,471**
10,892	1,947	8,945	Corporate and democratic core		**25,908**	**10,169**	**15,739**
6,065	8,122	(2,057)	Non Distributed Costs		**(131,979)**	**4,479**	**(136,458)**
814,051	521,761	292,290	**Cost of Services**	27	**679,402**	**519,923**	**159,479**
18,702	664	18,038	Other operating expenditure	10	**40,179**	**298**	**39,881**
40,125	6,534	33,591	Financing and investment income and expenditure	11	**22,522**	**3,546**	**18,976**
0	323,360	(323,360)	Taxation and non-specific grant income	12	**0**	**334,960**	**(334,960)**
872,878	852,319	20,559	**(Surplus) or Deficit on Provision of Services**	27	**742,103**	**858,727**	**(116,624)**
		(40,860)	Surplus or deficit on the revaluation of fixed assets	13			**(23,870)**
		708	Surplus or deficit on the revaluation of available for sale financial assets				**0**
		130,200	Actuarial gain / loss on pension assets / liabilities	43			**(7,570)**
		90,048	**Other Comprehensive Income and Expenditure**				**(31,440)**
		110,607	**Total Comprehensive Income and Expenditure**				**(148,064)**

Financial Statements (Continued)

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the authority. Reserves are prepared in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves 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'.

01 Apr 09 (Restated) £'000	31 Mar 10 (Restated) £'000		Notes	**31 Mar 11 £'000**
1,077,290	1,109,962	Property, Plant and Equipment	13	**1,115,432**
87,828	82,067	Investment Property	14	**83,327**
1,320	1,391	Intangible Assets	15	**1,509**
31,525	817	Long Term Investments	16	**817**
28,181	28,064	Long Term Debtors	16	**27,742**
1,226,144	1,222,301	**Long Term Assets**		**1,228,827**
80,845	121,392	Short Term Investments	16	**161,550**
2,094	1,548	Inventories	17	**1,693**
42,203	42,926	Short Term Debtors	18	**42,354**
56,114	53,015	Cash and Cash Equivalents (In-hand & bank)	19	**29,479**
181,256	218,881	**Current Assets**		**235,076**
(11,427)	(8,133)	Cash and Cash Equivalents (overdrawn)	19	**(8,235)**
(32,241)	(32,464)	Short Term Borrowing	16	**(32,985)**
(94,586)	(89,654)	Short Term Creditors	20	**(69,033)**
(138,254)	(130,251)	**Current Liabilities**		**(110,253)**
(8,309)	(6,826)	Provisions	21	**(9,674)**
(139,093)	(148,064)	Long Term Borrowing	16	**(178,443)**
(473,389)	(618,293)	Other Long Term Liabilities	16/23d	**(479,721)**
(620,791)	(773,183)	**Long Term Liabilities**		**(667,838)**
648,355	537,748	**Net Assets**		**685,812**
(156,103)	(161,868)	Usable Reserves	9 / 22	**(168,962)**
(492,252)	(375,880)	Unusable Reserves	23	**(516,850)**
(648,355)	(537,748)	**Total Reserves**		**(685,812)**

Financial Statements (Continued)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made from resources which are intended to contribute towards the authority'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 authority.

2009/2010 (Restated) £'000		Notes	**2010/2011 £'000**
20,559	Net (surplus) or deficit on the provision of services		**(116,624)**
(7,709)	Adjust net surplus or deficit on the provision of services for non cash movement		**92,174**
(33,591)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		**(18,976)**
(20,741)	Net cash flows from operating activities	24	**(43,426)**
(13,437)	Investing activities	25	**33,021**
34,373	Financing Activities	26	**(13,233)**
195	**Net (increase) or decrease in cash and cash equivalents**		**(23,638)**
44,687	Cash and cash equivalents at the beginning of the reporting period		**44,882**
44,882	**Cash and cash equivalents at the end of the reporting period**	19	**21,244**

Notes to the Accounts

Notes to the Accounts (Continued)

Notes to the Accounts (Continued)

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/2011 financial year and its position at the year ended 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011 and the Best Value Accounting Code of Practice 2010/2011, both based on International Financial Reporting Standards (IFRS).

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

1.2 Accruals of Income & Expenditure

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

Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.

Residential Care fees administered through the Council's GIPS system are accounted for on a cash basis. This is a departure from the Code of Local Authority Accounting Practice, although the values of the transactions are not considered material to the Council's Account's.

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 investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Notes to the Accounts (Continued)

1.4 Exceptional Items

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

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

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

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

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

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

1.6 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. 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 amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.7 Employee Benefits

Benefits Payable during Employment

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

Accounting Policies (Continued)

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs, but this accounting treatment ensures that there is no actual impact on the Council's cash reserves.

Termination Benefits

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

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

Post Employment Benefits

Employees of the Council are members of two separate pension schemes: the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE) and the Local Government Pensions Scheme, administered by South Tyneside Council.

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

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

The Local Government Pension Scheme

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

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 6.6% based on the indicative rate of return on high quality corporate bonds;
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price;
  - unquoted securities based on professional estimate;
  - unitised securities at current bid price;

- property at market value;
- The change in the net pensions liability is analysed into seven components:

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

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

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

(d) Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

(e) Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

(f) Actuarial gains and losses – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited (loss) or credited (gain) to the Pensions Reserve;

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

Discretionary Benefits

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

1.8 Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period– the Statement of Accounts is adjusted to reflect such events;

Notes to the Accounts (Continued)

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

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

1.9 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Soft Loans (loans below market rate)

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Notes to the Accounts (Continued)

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

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

Other Investments

Investments in companies and in marketable securities are shown in the Balance Sheet at cost. Provision for losses in value is made where appropriate in accordance with the Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

1.10 Government Grants & Contributions

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

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

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

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

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.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

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.

Notes to the Accounts (Continued)

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 10 years.

1.12 Interests in Companies & Other Entities

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

1.13 Inventories

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

1.14 Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued 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.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund

Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15 Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

(b) The Council as Lessor

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or

Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

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

1.16 Overheads & Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/2011 (BVACOP). The Civic Centre and Area Offices costs are allocated on the basis of floor area occupied. Financial Resources, Personnel, Legal Services and Property Services operate Service Level Agreements for allocating the costs of services to their customers. All other central service departments allocate their costs based on either estimated time or actual time spent.

1.17 Internal Interest

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

Notes to the Accounts (Continued)

1.18 Delegated Budgets

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

1.19 Property, Plant & Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but 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 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 'fixed 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 Head of Land and Property to determine any change the capital scheme has made to an asset's value.

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

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

Notes to the Accounts (Continued)

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Head of Land and Property. 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 the Council's qualified chartered surveyor, N. Wood, the Council's qualified (ARICS) Chartered Surveyor. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service, adjusted for depreciation that would have been charged if the loss had not been recognised.

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

- 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.

De-Minimis Levels

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

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

All capital expenditure is included in the Asset Register.

Impairment

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

Notes to the Accounts (Continued)

Where impairment losses are identified, they are accounted for:

- 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 certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value at 1st April 2010 divided by the future life expectancy. Depreciation is therefore charged in the year following acquisition.

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

Asset Category	Years
Buildings	1 - 60
Infrastructure	40
Vehicles, plant and furniture	3 - 15

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

- Building structure;
- Mechanical and electrical

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

Disposals & Non-current Assets Held for Sale

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

Notes to the Accounts (Continued)

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.20 Private Finance Initiative (PFI) and Similar Contracts

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

Recognising assets and liabilities

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

Prepayments

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

Notes to the Accounts (Continued)

Depreciation, impairment and revaluation

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

MRP (England and Wales)

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

Capital financing requirement

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

1.21 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 example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

1.22 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.

Notes to the Accounts (Continued)

1.23 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.

1.24 Reserves

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

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

1.25 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.

1.26 VAT

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

1.27 Foreign Currency Translation

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

1.28 Treasury Management

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

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

Notes to the Accounts (Continued)

Under the TMPS for 2010/2011 the policies and objectives of treasury management were further updated to reflect formal adoption of the revised Treasury Management Code of Practice on 3rd March 2010 (the words in the brackets show the minor changes to the original statement) and was as follows:

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

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

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

Further information relating to the Council's Treasury management policy and strategy can be found on the Council's website at:
http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=16395 and information on the measures the Council adopted in 2009/2010 in advance of the Revised CIPFA Treasury Management Code of Practice in the Public Sector (2009) can be found on the Council's website at: http://www.sunderland.gov.uk/committees/CmisWebPublic/Binary.ashx?Document=11934

Note 2 – Transition to International Financial Reporting Standards

The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/2010.

The following tables explain the material differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/2010 financial statements:

Notes to the Accounts (Continued)

Opening 1 April 2009 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2008/2009 Adjusted Figures £'000
Debtor	35,144	3,407	38,551
Creditor	(84,022)	(7,946)	(91,968)
Accumulated Absences Account	0	(4,539)	(4,539)

31 March 2010 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2008/2009 Adjusted Figures £'000
Debtor	40,954	1,766	42,720
Creditor	(84,489)	(6,600)	(91,089)
Accumulated Absences Account	0	(4,834)	(4,834)

2009/2010 Comprehensive Income and Expenditure Statement

Cost of Services (Net):

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Figure £'000
Central services to the public	4,453	5	4,458
Cultural, environmental, regulatory and planning service	82,323	51	82,374
Education and children's services	74,500	123	74,623
Highways and transport services	19,385	11	19,396
Other housing services	8,031	5	8,036
Adult social care	69,470	55	69,525
Corporate and democratic core	8,965	5	8,970
Non Distributed Costs	(2,692)	40	(2,652)

Leases of Property

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Authority is the lessee) will be unchanged. Where the Authority is the lessor, the regulations allow the Authority to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

Notes to the Accounts (Continued)

As a consequence of classifying the buildings element of the lease as a finance lease, the financial statements have been amended as follows:

- The Authority has recognised an asset (the building) and a finance lease liability.

- The operating lease charge within the Service Expenditure Analysis has been reduced by the amount that relates to the buildings element of the lease payments.

- A depreciation charge has been included within Service Expenditure Analysis.

- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/2010 are reported in the Movement in Reserves Statement for the year.

- The interest element of the lease payment in respect of the buildings element is charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/2010 financial statements:

Opening 1 April 2009 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2008/2009 Adjusted Figures £'000
Property, Plant and Equipment (leased assets)	955,012	6,713	961,725
Other long term liabilities (finance lease liability)	(464,824)	(6,713)	(471,537)

31 March 2010 Balance Sheet

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Figures £'000
Property, Plant and Equipment (leased assets)	1,011,810	(15)	1,011,795
Other long term liabilities (finance lease liability)	(608,887)	15	(608,872)

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.

- Portions of government grants deferred were previously recognised as income in 2009/2010; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures

Notes to the Accounts (Continued)

- A grant was received in 2009/2010 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

This has resulted in the following changes being made to the 2009/2010 financial statements:

Opening 1 April 2009 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2008/2009 Adjusted Statement £'000
Government grants deferred account	(223,958)	223,958	0
Creditors	(84,022)	1,033	(82,989)
Capital Grants Unapplied Reserve	0	1,033	1,033
Capital adjustment account	560,015	223,958	783,973

Opening 31 March 2010 Balance Sheet

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Government grants deferred account	(252,813)	28,855	(223,958)
Debtors	40,954	138	41,092
Creditors	(84,489)	471	(84,018)
Capital Grants Unapplied Reserve	0	609	609
Capital Adjustment account	520,857	28,855	549,712

2009/2010 Comprehensive Income and Expenditure Statement

Cost of Services (Net):

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Cultural, environmental, regulatory and planning services	82,323	2,190	84,513
Education and children's services	107,239	10,396	117,635
Highways and transport services	19,385	134	19,519
Other housing services	5,031	125	5,156
Adult social care	69,470	276	69,746
Other operating expenditure	18,015	458	18,473
Taxation and non specific grant income	(279,215)	(44,144)	(323,359)

Leases Equipment

Under the Code, leases of equipment have been re-assessed to establish whether they are operating leases or finance leases. The major change in the assessment is the removal of the ‘90% test’ which under SORP 2009 meant that if lease payments amounted to 90% of the value of the asset then it was treated as a finance lease. The code requires a lease or lease type arrangement to be regarded as a finance lease if the Council has most of the risk and rewards of the asset.

Notes to the Accounts (Continued)

As a consequence of classifying some equipment leases and lease type arrangements as finance leases, the financial statements have been amended as follows:

- The Authority has recognised an asset and a finance lease liability.
- The operating lease charge within the Service Expenditure Analysis has been reduced by the amount that relates to the finance element of the lease payments.
- A depreciation charge has been included within Service Expenditure Analysis.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/2010 are reported in the Movement in Reserves Statement for the year.
- The interest element of the lease payment in respect of the buildings element is charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

Opening 1 April 2009 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2008/2009 Adjusted Statement £'000
Property, Plant and Equipment (leased assets)	955,012	1,852	956,864
Other long term liabilities (finance lease liability)	(464,824)	(1,852)	(466,676)

31 March 2010 Balance Sheet

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Property, Plant and Equipment (leased assets)	1,011,810	870	1,012,680
Other long term liabilities (finance lease liability)	(608,887)	(870)	(609,757)

Investment Properties

Under the Code, properties can only be classified as investment property if they meet the strict criteria of investment property, that is that they are only being held for capital appreciation or rental income purposes. Also, assets held for sale can only be classified as such if they are being actively marketed and a sale imminent. As a consequence the following adjustments have been made to the 01 April 2009 and the 01 April 2010 balance sheets.

Opening 1 April 2009 Balance Sheet

	2008/2009 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Property, Plant and Equipment	955,012	40,141	995,153
Investment Property	40,141	47,687	87,828
Assets Held for Sale	87,828	(87,828)	0
Revaluation Reserve	139,357	(5,854)	133,503
Capital Adjustment Account	560,015	5,854	565,869

Notes to the Accounts (Continued)

31 March 2010 Balance Sheet

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Property, Plant and Equipment	1,011,810	20,496	1,032,306
Investment Property	42,214	(2,073)	40,141
Capital adjustment account	520,857	18,423	539,280

Cost of Services (Net):

	2009/2010 Statements £'000	Adjustments Made £'000	2009/2010 Adjusted Statement £'000
Cultural, environmental, regulatory and planning services	82,324	388	82,712
Non Distributed Costs	(2,692)	779	(1,913)
Other operating expenditure	18,015	22	18,037
Surplus or deficit on the revaluation of fixed assets	(42,095)	(16,636)	(58,731)

Note 3 – Accounting standards that have been issued but have not yet been adopted

Heritage Assets: Impact of the Adoption of the New Standard on the 2011/2012 Financial Statements

The Code has introduced a late change in the accounting policy in relation to the treatment of heritage assets which will impact on the treatment of those heritage assets managed and held by the Tyne & Wear Museums and Archives Joint Committee on behalf of the five Tyne & Wear local authorities. These changes will need to be adopted fully by the Joint Committee in the 2011/2012 financial statements.

Although full adoption of the standard is not required until the preparation of 2011/2012 financial statements, the Joint Committee is required to make disclosure of the estimated effect of the new standard in the 2010/2011 financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately in the Joint Committee's Balance Sheet in the 2011/2012 financial statements.

Heritage assets are assets that are held and managed by the Joint Committee 'principally for their contribution to knowledge or culture'. The heritage assets held and managed by the Joint Committee are the collections of assets and artefacts either exhibited or stored in:

- Shipley Art Gallery (founded 1915)
- Discovery Museum (founded 1934)
- Tyne and Wear Archives (based at Discovery Museum, est. 1974)
- Great North Museum: Hancock (founded 1829)
- Great North Museum: Resource Centre (based at Discovery Museum, est 2009)
- Hatton Gallery: Great North Museum (founded 1926)
- Laing Art Gallery (founded 1901)
- Segedunum Roman Fort, Baths & Museum (founded 2000)
- Stephenson Railway Museum (founded 1986)
- Arbeia Roman Fort & Museum (founded 1953)
- South Shields Museum & Art Gallery (founded 1876)
- Monkwearmouth Station Museum (founded 1973)
- Sunderland Museum & Winter Gardens (founded 1846)
- Washington F Pit (founded 1976)

Notes to the Accounts (Continued)

- Regional Museums Store and Regional Resource Centre (in partnership with and based at Beamish Open Air Museum (est. 2002))

The collections held by the Joint Committee are diverse, covering six principal fields. The collection ranges in medium and materials, and includes objects, specimens, documents, digital media and film. The total collection size is estimated at circa, 1m museum objects and approximately 1,562 cubic metres of archive material. It reflects a period of collecting of over 200 years by the archives, museums and their predecessor bodies. The definition of numbers in the collection follows museum and archive best practice but, in terms of valuing the asset, is fairly arbitrary as single items accessioned may comprise a wide range of objects, artefacts, components or supporting papers. However the following table indicates the estimated number of objects/records held within each field:

Category	Estimated number of objects/records as at 31 March 2011
Art (including fine art, decorative art, contemporary craft and design)	41,492
Archaeology	226,170
Ethnography	7,105
History (including social history, costume, maritime history and engineering, science and industry)	190,165
Natural Sciences (including geology and biology)	640,793
Total	**1,105,725**
	Cubic Metres
Archives	1,562

The collection is not currently recognised in the financial statements as no reliable information is available on the summative cost or the value of the assets. This is due to a number of factors, not all of which will apply consistently to the different fields, but includes: the lack of information on purchase cost; the lack of comparable market values; the diverse nature of the objects; and the volume of objects held. The assets are held in the asset register of the Joint Committee, currently MODES database software, but in the process of migrating to KE EMu collections management system.

The Code will require that heritage assets are measured at valuation in the 2011/2012 financial statements (including the 2010/2011 comparative information). The 2011/2012 Code where it relates to heritage assets will permit some relaxations of the normal valuation requirements of heritage assets and this will mean that the Joint Committee is able to recognise more of its collections of heritage assets in the Balance Sheet.

The Joint Committee anticipates that it will be able to recognise its art collection on the Balance Sheet using as its base the detailed insurance valuations (which are based on market values) held by the Joint Committee in respect of much of this collection. The Joint Committee is unlikely to be able to recognise the majority of the other collections in future financial statements as it is of the view that conventional valuation approaches lack sufficient reliability and obtaining any valuations for the vast majority of these collections would likely incur a significant cost. Even if valuations could be obtained it would involve a disproportionate cost that would not be commensurate with any benefits to the Joint Committee, its senior management, curatorial staff, the public or to the users of the Joint Committee's financial statements – this exemption is permitted by the 2011/2012 Code.

Only items in the collection estimated to be worth in excess of £10k are identified separately for insurance purposes. The Joint Committee estimates, from its insurance records, that the value of those items within the art collection worth in excess of £10k is £124.064 million as at 1 April 2010. Therefore, it is estimated that the total value of heritage assets to be recognised in the Balance Sheet at 1 April 2010 (under the requirements of the 2011/2012 Code) will be £124.064 million. As these assets have not yet been recognised in the Balance Sheet this will require a corresponding increase in the Revaluation Reserve of £124.064 million, i.e. a revaluation gain.

Notes to the Accounts (Continued)

The Joint Committee considers that the heritage assets held by the Joint Committee will have indeterminate lives and a high residual value; hence the Joint Committee does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Joint Committee's heritage assets.

The following table sets out the movements of heritage assets in the year to provide users of the financial statements with a fuller understanding of the impact of the new standard on the balance sheet in 2010/2011 financial year and provides a split between the owners of the assets.

District	Estimated number of Art objects valued at £10k or above as at 31 March 2011	Heritage Assets recognised for the first time at valuation as at 31 April 2010	Additions (purchase of painting)	Carrying Value as at 31 March 2011
Gateshead	148	£13.12m	£0m	£13.12m
Newcastle	699	£101.32m	£0.04m	£101.36m
North Tyneside	0	£0m	£0m	£0m
South Tyneside	13	£0.49m	£0m	£0.49m
Sunderland	133	£9.13m	£0m	£9.13m
Total	**993**	**£124.06m**	**£0.04m**	**£124.1m**

The Council also owns a number of statues, monuments and public art which are located within the city. Currently these assets are held on the asset register with community assets. Their value is part of the overall value of the park in which they are located. These assets will be reviewed in light of IAS30 and accounted for accordingly in 2011/2012.

Note 4 – Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Authority 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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Retirement benefit obligations – the Council recognise and disclose its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 42.
- Provisions – provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance sheet date, and are discounted to present value where the effect is material.
- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

Notes to the Accounts (Continued)

- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement.
- Valuation Newcastle Airport – the value of the Council's investment in Newcastle Airport is based on the last independent valuation at 31st March 2010.

Note 5 – Assumptions made about the future and major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.593m for every year that useful lives had to be reduced.*
Provisions	The Authority has provisions of £9.69m, £4.03m of this relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.402m to the provision needed.*
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £100.96m. However, the assumptions interact in complex ways. During 2010/2011, the Authority's actuaries advised that the net pensions liability had increased by £29.73m as a result of estimates being corrected as a result of experience and decreased by £5.11m attributable to updating of the assumptions used.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2011, the Authority had a balance of debtors of £47.442m. A review of significant balances suggested that an impairment of doubtful debts of 10.73% (£5.089m) was appropriate. However, to the significant changes current economic climate could effect the adequacy of this provision.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £5.089m to set aside as an allowance.*

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

Note 6 – Material items of income and expenditure

The loss on disposal of fixed assets of £21.299m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged on the face of the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer.

As part of this loss, assets have been transferred to the following schools during 2010/2011;

School	Loss on Disposal £m	Date of Transfer
Hylton Red House Secondary School	£16.523m	25th March 2011
Bexhill Primary School	£3.376m	1st March 2011
Town End Farm Primary School	£2.217m	1st March 2011
Other Net (Gains) and losses	(£0.817m)	
Total	**£21.299m**	

Note 7 – Events after the balance sheet date

Non-adjusting Post Balance Sheet Event

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

Notes to the Accounts (Continued)

The Empire Theatre Trust Ltd has become a moribund employer whereby the organisation has no active contributors. In cases such as these the Pensions Authority will carry out a terminal valuation rather than set a new contribution rate as part of the 2010 valuation. This means that if a deficit exists once valued, this has to be paid by the Theatre and/or its guarantor which is the Council. The valuation position is not yet available and as such this is considered a non adjusting balance sheet event.

Note 8 – Adjustments between accounting basis and funding basis under regulations

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

Notes to the Accounts (Continued)

Adjustments between accounting basis and funding basis under regulations

	2010/2011				2009/2010 (Restated)			
	Usable				Usable			
	General Fund Balance £'000	**Capital Receipts Reserve £'000**	**Capital Grant Unapplied £'000**	**Movement in Unusable Reserves £'000**	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairement of non current assets	**(37,408)**	**0**	**0**	**37,408**	(32,409)	0	0	32,409
Revaluation losses on Property Plant and Equipment	**(23,848)**	**0**	**0**	**23,848**	(44,676)	0	0	44,676
Movements in market value of investment property	**634**	**0**	**0**	**(634)**	(5,761)	0	0	5,761
Amortisation of intangible assets	**(195)**	**0**	**0**	**195**	(171)	0	0	171
Capital grants and contributions	**45,606**	**0**	**0**	**(45,606)**	40,937	0	0	(40,937)
Revenue expenditure funded from capital under statute	**(7,472)**	**0**	**0**	**7,472**	(4,235)	0	0	4,235
Amounts 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	**(21,933)**	**0**	**0**	**21,933**	(166)	0	0	166
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			**0**				0	
Statutory provision for the financing of capital investment	**11,349**	**0**	**0**	**(11,349)**	11,085	0	0	(11,085)
Capital expenditure charged against General Fund balances	**12,635**	**0**	**0**	**(12,635)**	19,215	0	0	(19,215)
Adjustments involving the Capital Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Account	**554**	**0**	**(554)**	**0**	3,207	0	(3,207)	0
Application of grants and capital financing transferred to the Capital Adjustment Account	**0**	**0**	**619**	**(619)**	0	0	2,598	(2,598)

Notes to the Accounts (Continued)

Adjustments between accounting basis and funding basis under regulations

	2010/2011				2009/2010 (Restated)			
	Usable				Usable			
	General Fund Balance £'000	**Capital Receipts Reserve £'000**	**Capital Grant Unapplied £'000**	**Movement in Unusable Reserves £'000**	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments involving the Capital Reciepts Reserve:								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		**(1,174)**		**1,174**		(949)		949
Use of capital reserves to finance new capital expenditure	**0**	**896**	**0**	**(896)**	0	2,485	0	(2,485)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital reciepts pool	**(19)**	**19**	**0**	**0**	(25)	25	0	
Adjustments involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**0**	**0**	**0**	**0**	0	(488)	0	488
Adjustments involving the Financial Instruments Adjustment Account:								
Amount of 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	**(116)**	**0**	**0**	**116**	(74)	0	0	74
Adjustments involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	**93,230**	**0**	**0**	**(93,230)**	(51,120)	0	0	51,120
Employer's pensions contributions and direct payments to pensioners payable in the year	**36,740**	**0**	**0**	**(36,740)**	36,130	0	0	(36,130)

Notes to the Accounts (Continued)

Adjustments between accounting basis and funding basis under regulations

	2010/2011				2009/2010 (Restated)			
	Usable				Usable			
	General Fund Balance £'000	**Capital Receipts Reserve £'000**	**Capital Grant Unapplied £'000**	**Movement in Unusable Reserves £'000**	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments involving the Collection Fund Adjustment Account: Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different to Council Tax income calculated for the year in accordance with statutory requirements	**665**	**0**	**0**	**(665)**	862	0	0	(862)
Adjustments involving the Accumulating Compensated Absences Adjustment Account: Amount of which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(698)**	**0**	**0**	**698**	(295)	0	0	295
Total Adjustments	**109,724**	**(259)**	**65**	**(109,530)**	(27,496)	1,073	(609)	27,032

Notes to the Accounts (Continued)

Note 9 – Movements in usable reserves

	Balance at 01 April 2009 £'000	Transfers Out 2009/2010 £'000	Transfers In 2009/2010 £'000	Balance at 31 March 2010 £'000	Transfers Out 2010/2011 £'000	Transfers In 2010/2011 £'000	**Balance at 31 March 2011 £'000**
General Fund Balance	11,553	0	3,196	14,749	(2,330)	0	**12,419**
Delegated Budget Reserves:							
Balances held by schools under a scheme of delegation	5,771	0	1,722	7,493	0	597	**8,090**
Delegated budgets reserve - general	10,949	(1,031)	0	9,918	(2,635)	2,688	**9,971**
Total Delegated Reserves	16,720	(1,031)	1,722	17,411	(2,635)	3,285	**18,061**
Capital Reserves:							
Unutilised RCCO Reserve	7,559	(3,698)	5,055	8,916	(5,124)	2,701	**6,493**
Strategic Investment Plan Reserve	12,741	(1,940)	742	11,543	(1,706)	0	**9,837**
Other General Capital Reserves	4,577	(88)	0	4,489	(762)	0	**3,727**
Childrens Social Care Capital reserve	358	(163)	0	195	(3)	0	**192**
Usable Capital Reciepts	6,425	(2,510)	1,437	5,352	(915)	1,174	**5,611**
Capital Grants Unapplied	1,033	0	609	1,642	(65)	0	**1,577**
Total Capital Reserves	32,693	(8,399)	7,843	32,137	(8,575)	3,875	**27,437**
Earmarked Revenue Reserves:							
Insurance Reserve	5,384	(184)	0	5,200	(1,288)	36	**3,948**
Strategic Investment Reserve	56,184	(9,663)	4,666	51,187	(2,394)	12,521	**61,314**
Economic Development Reserve	1,000	0	0	1,000	(700)		**300**
Winter Maintenance and Economic Downturn Reserve	300	0	900	1,200	(1,134)	1,000	**1,066**
Sandhill Centre PFI Smoothing Reserve	2,804	(161)	0	2,643		66	**2,709**

Notes to the Accounts (Continued)

	Balance at 01 April 2009 £'000	Transfers Out 2009/2010 £'000	Transfers In 2009/2010 £'000	Balance at 31 March 2010 £'000	Transfers Out 2010/2011 £'000	Transfers In 2010/2011 £'000	**Balance at 31 March 2011 £'000**
School Community Reserve	2,367	(2,367)	2,245	2,245	(2,245)	2,033	**2,033**
Connexions Hub Agreement	379	0	327	706	(717)	1,192	**1,181**
Education Redundancies Reserve	872	(800)	880	952	0	649	**1,601**
Street Lighting and Highways Signs PFI Smoothing Reserve	7,637	(308)	119	7,448	(383)		**7,065**
Adult Services Modernisation and Service Pressures Reserve	800	0	0	800	(64)	1,047	**1,783**
Play Areas Reserve	1,377	(627)	354	1,104	(83)		**1,021**
House Sale Income	0	0	1,250	1,250		178	**1,428**
WNF - Software City	0	0	2,600	2,600	0	0	**2,600**
WNF Visible Workshop and other projects	0	0	3,600	3,600	0	0	**3,600**
BTP Invest to Save	0	0	0	0	0	1,677	**1,677**
Modernisation Improvements	0	0	0	0	0	1,000	**1,000**
Utilities Reserve	0	0	0	0	0	1,043	**1,043**
Invest to Save Commercial and economic development activities	0	0	0	0	0	1,500	**1,500**
Other Earmarked Reserves	14,530	(5,244)	5,555	14,841	(5,868)	4,408	**13,381**
Total Revenue Reserves	93,634	(19,354)	22,496	96,776	(14,876)	28,350	**110,250**
Available for sale reserve (Newcastle Airport)	1,503	(708)	0	795	0	0	**795**
Total Reserves	156,103	(29,492)	35,257	161,868	(28,416)	35,510	**168,962**

Notes to the Accounts (Continued)

Purpose of Earmarked Reserves

Capital Reserves:	Purpose of the Reserve
Un-utilised RCCO Reserve	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan approved by Council in April 2008.
Other General Capital Reserve	Usable capital receipts set aside to fund future capital projects previously approved.
Children's Social Care Capital Reserves	Reserve earmarked for capital developments within Children's Services.
Revenue Reserves:	**Purpose of the Reserve**
Strategic Investment Reserve	A reserve established to address some of the Council's key developments and strategic priorities.
Other Earmarked Reserves	Numerous small revenue reserves set up for specific purposes.
Economic Development Reserve	This reserve was established to fund future economic development grants.
Winter Maintenance and Economic Downturn Reserve	To mitigate the potential budgetary impact of the economic downturn and winter maintenance pressures.
School Community Reserve	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
Connexions Hub Agreement	The reserve is held as part of the current Hub agreement to provide for unforeseen costs.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of voluntary redundancies at schools as a result of falling pupil rolls within the Authority's schools.
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Adult Services Modernisation and Service Pressures Reserve	Reserve required to meet increased demand pressures especially in Learning Disabilities residential nursing and home and day care and modernisation investment requirements.
Play Areas Reserve	The reserve relates to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. On completion of the development the contributions are used to provide play equipment on housing developments.
House Sale Income	Reserve established from income owed to the council for the care needs of clients in independent sector care homes.
WNF - Software City	Reserve established to help fund the development of Software City
WNF Visible Workshop	Reserve established to help fund the development of visible workshop.
BTP Invest to Save	Reserve established to finance BTP invest to save initiatives.
Modernisation Improvements	Reserve established to assist with the financial implications of the Councils Modernisation plans.
Utilities Reserve	Reserve established to protect the council against the future volatility of utility costs.
Invest to Save Commercial and Economic development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.

Notes to the Accounts (Continued)

Note 10 – Other operating expenditure

2009/2010 (Restated) £'000		2010/2011 £'000
51	Parish Council Precept	**53**
18,412	Levies	**18,622**
(664)	Surplus on Trading Undertakings	**(298)**
26	Deficit on Trading Undertakings	**186**
25	Payments to the Government Housing Capital Receipts Pool	**19**
188	Gain / losses on the disposal of non current assets	**21,299**
18,038	**Total**	**39,881**

Note 11 – Financing and investment income and expenditure

2009/2010 (Restated) £'000		2010/2011 £'000
9,805	Interest payable and similar charges	**10,272**
30,320	Pensions interest cost and expected return on pension fund assets	**12,250**
(3,558)	Interest receivable and similar income	**(3,546)**
(2,976)	Changes in the fair value of investment property	**0**
33,591	**Total**	**18,976**

Note 12 – Taxation and non specific grant income

2009/2010 (Restated) £'000		2010/2011 £'000
95,269	Council Tax Income	**95,954**
125,643	Non domestic rates	**137,496**
58,303	Non-ringfenced government grants	**55,904**
44,145	Capital grants and contributions	**45,606**
323,360	**Total**	**334,960**

Notes to the Accounts (Continued)

Note 13 – Property, Plant and Equipment
Movement on Balances 2010/2011

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation					0	
At 1 April 2010 (Restated)	864,292	68,771	279,773	29,590	1,242,426	54,973
Additions	38,536	6,996	4,352	15,633	65,517	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	17,316				17,316	
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(27,508)				(27,508)	
Derecognition - Disposals	(23,399)				(23,399)	
Derecognition - Other	(302)				(302)	
Other movements in Cost or Valuation	17,030	592	2,670	(20,327)	(35)	
At 31 March 2011	**885,965**	**76,359**	**286,795**	**24,896**	**1,274,015**	**54,973**
Accumulated Depreciation and Impairment						
At 1 April 2010 (Restated)	41,837	28,637	61,990	0	132,464	7,787
Depreciation Charge	23,302	6,725	7,382	0	37,409	1,632
Depreciation written out to Revaluation Reserve	(6,555)				(6,555)	
Depreciation written out to the Surplus / Deficit on the Provision of Services	(3,661)				(3,661)	
Derecognition - Disposals	(1,023)				(1,023)	
Derecognition - Other	(51)				(51)	
At 31 March 2011	**53,849**	**35,362**	**69,372**	**0**	**158,583**	**9,419**
Net Book Value						
At 31 March 2010 (Restated)	**822,455**	**40,134**	**217,783**	**29,590**	**1,109,962**	**47,186**
At 31 March 2011	**832,116**	**40,997**	**217,423**	**24,896**	**1,115,432**	**45,554**

Notes to the Accounts (Continued)

Movement on Balances 2009/2010

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation					0	
At 1 April 2009 (Restated)	787,773	56,068	272,201	75,959	1,192,001	54,973
Additions (capital expenditure)	28,909	12,119	6,587	21,015	68,630	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	27,858	0	0	0	27,858	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(45,419)	(910)	0	0	(46,329)	0
Derecognition - Disposals	(100)	0	0	0	(100)	0
Derecognition - Other	(1,015)	0	0	0	(1,015)	0
Other movements in Cost or Valuation (transfers between categories)	66,286	1,494	985	(67,384)	1,381	0
At 31 March 2010 (Restated)	**864,292**	**68,771**	**279,773**	**29,590**	**1,242,426**	**54,973**
Accumulated Depreciation and Impairment						
At 1 April 2009 (Restated)	36,402	23,480	54,829	0	114,711	6,205
Depreciation Charge	19,961	5,287	7,161	0	32,409	1,582
Depreciation written out to Revaluation Reserv	(13,003)	0	0	0	(13,003)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(1,523)	(130)	0	0	(1,653)	0
At 31 March 2010 (Restated)	**41,837**	**28,637**	**61,990**	**0**	**132,464**	**7,787**
Net Book Value						
At 31 March 2009 (Restated)	**751,371**	**32,588**	**217,372**	**75,959**	**1,077,290**	**48,768**
At 31 March 2010 (Restated)	**822,455**	**40,134**	**217,783**	**29,590**	**1,109,962**	**47,186**

Notes to the Accounts (Continued)

Depreciation

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

- Land and Buildings – 1 – 60 years
- Vehicles, Plant and Equipment – 3 – 15 years
- Infrastructure - 20 – 40 years

Capital Commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/2012 and future years budgeted to cost £26.568m (As at 31 March 2010 £36.936m). The major commitments are:

- Sunderland Software City - £6.908m
- St Joseph's RC Primary School - £4.003m
- Houghton Primary care Centre - £2.389m
- Economic Development Support £2.000m
- Seafront Regeneration - £1.400m
- Sunderland Strategic Transport Corridor - £1.323m
- Southern Radial Route - £1.119m

Effects of changes in Estimates

In 2011/2012 the Council made a material change to its accounting estimates for Property, Plant and Equipment. This was in respect of componentised assets. The effect of the change was to increase depreciation charged in 2010/2011 by £2.671 million above the depreciation that would have been charged had the change in estimates not taken place.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

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

Notes to the Accounts (Continued)

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Total £'000
Carried at historic cost	37,208	76,359	286,795	400,362
Valued at fair value as at:				
31 March 2011	280,984	0	0	280,984
31 March 2010	150,217	0	0	150,217
31 March 2009	433,246	0	0	433,246
31 March 2008	6,046	0	0	6,046
31 March 2007	3,160	0	0	3,160
Total Cost or Valuation	**910,861**	**76,359**	**286,795**	**1,274,015**

Note 14 – Investment properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2008/2009 £'000	2009/2010 £'000		**2010/2011 £'000**
5,839	6,207	Rental income and investment property	**5,639**
0	0	Direct operating expenses arising from investment property	**0**
5,839	6,207	**Net gain / (loss)**	**5,639**

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

The following table summarises the movement in the fair value of investment properties over the year:

2009/2010 (Restated) £'000		**2010/2011 £'000**
87,828	Balance at the start of the year	**82,067**
(5,761)	Net gain / losses from fair value adjustments	**634**
	Transfers:	
0	To / From Property, Plant and Equipment	**626**
82,067	Balance at the end of the year	**83,327**

Notes to the Accounts (Continued)

Note 15 – Intangible Assets

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

All software is given a finite useful life, based on assumptions of the period that the software is expected to be of use to the Authority. The useful life for all software is deemed to be 10 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.195m charged to revenue in 2010/2011 was charged to the Administration cost centres and absorbed where appropriate as an overhead across service headings in the Net Expenditure of services

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

	2010/2011 Software Licences £'000	2009/2010 Software Licences £'000
Balance at start of year:		
Gross carrying amounts	**1,906**	1,664
Accumulated Amortisation	**(515)**	(344)
Net carrying amount at the start of the year	**1,391**	1,320
Additions		
Purchases	**313**	242
Amortisation for the period	**(195)**	(171)
Net carrying amount at the year end	**1,509**	1,391
Comprising		
Gross carrying amounts	**2,219**	1,906
Accumulated amortisation	**(710)**	(515)
	1,509	1,391

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

Notes to the Accounts (Continued)

Note 16 – Financial Instruments

Categories of Financial Instruments

	Long Term			Current		
	31 March 2011 £'000	31 March 2010 (Restated) £'000	31 March 2009 (Restated) £'000	**31 March 2011 £'000**	31 March 2010 (Restated) £'000	31 March 2009 (Restated) £'000
Investments						
Loans and receivables	**0**	0	30,000	**161,550**	121,392	80,845
Available-for-sale financial assets	**817**	817	1,525	**0**	0	0
Unquoted equity investment at cost	**0**	0	0	**0**	0	0
Financial assets at fair value through P&L	**0**	0	0	**0**	0	0
Total Investments	**817**	817	31,525	**161,550**	121,392	80,845
Debtors						
Loans and receivables	**26,985**	27,246	27,303	**29,479**	53,015	56,114
Financial assets carried at contract amount	**757**	818	878	**42,354**	42,926	42,203
Total Debtors	**27,742**	28,064	28,181	**71,833**	95,941	98,317
Borrowings						
Financial liabilities at amortised costs	**(178,443)**	(148,064)	(139,093)	**(41,220)**	(40,597)	(43,668)
Financial liabilities at fair value through P&L	**0**	0	0	**0**	0	0
Total Borrowings	**(178,443)**	(148,064)	(139,093)	**(41,220)**	(40,597)	(43,668)
Other Long Term Liabilities						
PFI and finance lease liabilities	**(43,141)**	(44,173)	(44,459)	**0**	0	0
Pensions	**(436,580)**	(574,120)	(428,930)	**0**	0	0
Total other long term liabilities	**(479,721)**	**(618,293)**	**(473,389)**	**0**	0	0
Creditors						
Financial liabilities at amortised cost	**0**	0	0	**0**	0	0
Financial liabilities carried at contract amount	**0**	0	0	**(69,033)**	(89,654)	(94,586)
Total creditors	**0**	0	0	**(69,033)**	(89,654)	(94,586)

Notes to the Accounts (Continued)

Income, Expense, Gains and Losses

	2010/2011				2009/2010			
	Financial Liabilities	**Financial Assets**		**Total**	Financial Liabilities	Financial Assets		Total
	Liabilities measured amortised cost £'000	**Loans and receivables £'000**	**Available for sale assets £'000**	**£'000**	Liabilities at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	£'000
Interest Expense	**(6,169)**	**0**	**0**	**(6,169)**	(6,046)	0	0	(6,046)
Total expenses in Surplus or Deficit on the Provision of Services	**(6,169)**	**0**	**0**	**(6,169)**	(6,046)	0	0	(6,046)
Interest Income	**0**	**3,546**	**0**	**3,546**	99	3,558	0	3,657
Total expenses in Surplus or Deficit on the Provision of Services	**0**	**3,546**	**0**	**3,546**	99	3,558	0	3,657
Net Gain / (loss) for the year	**(6,169)**	**3,546**	**0**	**(2,623)**	(5,947)	3,558	0	(2,389)

Notes to the Accounts (Continued)

Fair Value of Assets and Liabilities carried at Amortised Cost

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

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 063/10.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms for a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value.

The fair values calculated are as follows:

Liabilities	**31 March 2011**		31 March 2010	
	Carrying Amount £'000	**Fair Value £'000**	Carrying Amount £'000	Fair Value £'000
PWLB	**137,950**	**138,175**	108,675	105,257
LOBO's	**40,221**	**46,126**	40,578	47,500
Stock	**105**	**75**	128	88
Other	**167**	**231**	238	276
Bank Overdraft	**8,235**	**8,235**	8,133	8,133
Short Term Borrowing	**32,985**	**32,985**	30,908	30,908
Financial Liabilities	**219,663**	**225,827**	188,660	192,162

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rates payable are higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest is below current market rates, reducing the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Assets	**31 March 2011**		31 March 2010	
	Carrying Amount £'000	**Fair Value £'000**	Carrying Amount £'000	Fair Value £'000
Deposits with Banks & Building Societies	**188,991**	**189,357**	172,247	172,650
Financial Assets	**188,991**	**189,357**	172,247	172,650

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

Notes to the Accounts (Continued)

Note 17 – Inventories

2010/2011

	Consumable Stores £'000	**Maintenance Materials £'000**	**Client Services Work £'000**	**Total £'000**
Balance Outstanding at start of year	**972**	**158**	**418**	**1,548**
Purchases	**6,265**	**265**	**344**	**6,874**
Recognised as an expense in the year	**(5,982)**	**(284)**	**(418)**	**(6,684)**
Written off balances	**(45)**	**0**	**0**	**(45)**
Balance outstanding at the year-end	**1,210**	**139**	**344**	**1,693**

2009/2010

	Consumable Stores £'000	Maintenance Materials £'000	Work In Progress £'000	Total £'000
Balance Outstanding at start of year	801	169	1,124	2,094
Purchases	5,726	332	418	6,476
Recognised as an expense in the year	(5,521)	(343)	(1,124)	(6,988)
Written off balances	(34)	0	0	(34)
Balance outstanding at the year-end	972	158	418	1,548

Notes to the Accounts (Continued)

Note 18 – Short Term Debtors

2008/2009 (Restated) £'000	2009/2010 (Restated) £'000		**2010/2011 £'000**
12,494	18,499	Central government bodies	**23,156**
1,464	387	Other local authorities	**626**
1,717	2,337	NHS bodies	**2,177**
229	16	Public corporations and trading funds	**0**
26,299	21,687	Other entities and individuals	**16,395**
42,203	42,926	**Total**	**42,354**

Note 19 – Cash and cash equivalents

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

2008/2009 (Restated) £'000	2009/2010 (Restated) £'000		**2010/2011 £'000**
(9,578)	(5,973)	Cash held by the Authority	**(6,196)**
46,237	45,849	Bank current accounts	**27,440**
8,028	5,006	Short-term deposits with building societies	**0**
44,687	44,882	**Total Cash and Cash Equivalents**	**21,244**

Note 20 – Short-Term Creditors

2008/2009 (Restated) £'000	2009/2010 (Restated) £'000		**2010/2011 £'000**
(38,812)	(42,160)	Central government bodies	**(32,091)**
(3,507)	(4,776)	Other local authorities	**(4,291)**
(1,453)	(1,935)	NHS bodies	**(1,047)**
0	(928)	Public corporations and trading funds	**0**
(50,814)	(39,855)	Other entities and individuals	**(31,604)**
(94,586)	(89,654)	**Total**	**(69,033)**

Notes to the Accounts (Continued)

Note 21 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 1 April 2009	3,268	5,041	8,309
Additional provisions made 2009/2010	2,789	169	2,958
Amounts used 2009/2010	(2,784)	(1,657)	(4,441)
Balance at 31 March 2010	3,273	3,553	6,826
Additional provisions made 2010/2011	3,587	5,460	9,047
Amounts used 2010/2011	(2,834)	(3,365)	(6,199)
Balance at 31 March 2011	4,026	5,648	9,674

Included within other provisions £1.463m back on the map temporary funding (2009/2010 £2.898m), £2.929m known transitional costs (2009/2010 £Nil), £1.037m procurement efficiencies to support the 2011/2012 budget (2009/2010 £Nil) and guarantee bonds of £0.219m (2009/2010 £1.128m).

Note 22 – Usable Reserves

Movements in the Council's usable reserves are detailed in Note 9 – Movement in Usable Reserves (Pages 66 – 68).

Note 23 – Unusable Reserves

2008/2009 (Restated) £'000	2009/2010 (Restated) £'000		Note	**2010/2011 £'000**
133,503	166,800	Revaluation Reserve	23a	**184,994**
789,827	785,377	Capital Adjustment Account	23b	**771,277**
(442)	(516)	Financial Instrument Adjustment Account	23c	**(631)**
(428,930)	(574,120)	Pensions Reserve	23d	**(436,580)**
2,685	2,164	Deferred Capital Receipts Reserve	23e	**1,650**
146	1,008	Collection Fund Adjustment Account	23f	**1,673**
(4,537)	(4,833)	Accumulated Absence Account	23g	**(5,533)**
492,252	375,880	**Total Unusable Reserve**		**516,850**

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

23a) Revaluation Reserve

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

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

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

Notes to the Accounts (Continued)

2009/2010 (Restated) £'000		**2010/2011 £'000**
133,503	**Balance at 1 April**	**166,800**
58,857	Upward revaluation of assets	**34,008**
(17,997)	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Service	**(10,138)**
174,363	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	**190,670**
3,498	Revaluation gain transfers offsetting revaluation losses	**0**
3,965	Difference between fair value depreciation and historical cost depreciation	**4,638**
100	Accumulated gains on assets sold or scrapped	**1,038**
7,563	Amount written off to the Capital Adjustment Account	**5,676**
166,800	**Balance at 31 March**	**184,994**

23b) Capital Adjustment Account

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

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

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

Notes to the Accounts (Continued)

2009/2010 (Restated) £'000		2010/2011 £'000
789,827	**Balance at 1 April**	**785,377**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(32,410)	Charges for depreciation and impairment of non-current assets	**(37,409)**
(44,676)	Revaluation losses on Property, Plant and Equipment	**(23,848)**
(171)	Amortisation of intangible assets	**(195)**
(4,202)	Net revenue expenditure funded from capital under statute	**(7,437)**
(1,115)	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	**(22,687)**
(82,574)		**(91,576)**
7,563	Adjusting amounts written out of Revaluation Reserve	**5,678**
(75,011)	Net written out amount of the cost of non current assets consumed in the year	**(85,898)**
	Capital financing applied in the year:	
2,486	Use of Capital Receipts to finance new capital expenditure	**896**
40,938	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have applied to capital financing	**45,606**
2,598	Application of grants to capital financing from the Capital Grants Unapplied Account	**619**
11,085	Statutory provision for the financing of capital investment charged against the General Fund balance	**11,349**
19,215	Capital expenditure charged against the General Fund balance	**12,634**
76,322		**71,104**
(5,761)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**694**
785,377	**Balance at 31 March**	**771,277**

23c) 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 Authority 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 Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed]

Notes to the Accounts (Continued)

2009/2010 £'000		**2010/2011 £'000**
(442)	**Balance at 1 April**	**(516)**
171	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	**107**
(245)	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	**(222)**
(516)	**Balance at 31 March**	**(631)**

23d) 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 Authority 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 Authority makes employer's contributions to pension funds or eventually pay 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 Authority 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.

2009/2010 £'000		**2010/2011 £'000**
(428,930)	**Balance at 1 April**	**(574,120)**
(130,200)	Actuarial gains and loses on pensions assets and liablilities	**7,570**
(51,120)	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	**93,230**
36,130	Employers' pensions contributions and direct payments to pensioners payable in the year	**36,740**
(574,120)	**Balance at 31 March**	**(436,580)**

23e) 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 Authority 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.

2009/2010 £'000		**2010/2011 £'000**
2,685	**Balance at 1 April**	**2,164**
(33)	Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	**(34)**
(488)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(480)**
2,164	**Balance at 31 March**	**1,650**

Notes to the Accounts (Continued)

23f) Collection Fund Adjustment Account

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

2009/2010 £'000		**2010/2011 £'000**
146	**Balance at 1 April**	**1,008**
862	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	**665**
1,008	**Balance at 31 March**	**1,673**

23g) 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.

2009/2010 £'000		**2010/2011 £'000**
(4,537)	**Balance at 1 April**	**(4,833)**
4,539	Settlement or cancellation of accrual made at the end of the preceding year	**4,833**
(4,833)	Amounts accrued at the end of the current year	**(5,533)**
(4,831)	**Balance a 31 March**	**(5,533)**

Note 24 – Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

2009/2010 (Restated) £'000		**2010/2011 £'000**
3,357	Interest received	**3,546**
(9,805)	Interest paid	**(10,272)**
201	Dividends received	**0**

Notes to the Accounts (Continued)

Note 25 – Cash Flow Statement – Investing Activities

2009/2010 (Restated) £'000		**2010/2011 £'000**
67,347	Purchase of property, plant and equipment, investment property and intangible assets	**70,510**
0	Purchase of short-term and long-term investments	**0**
1,247	Other payments for investing activities	**975**
(949)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(694)**
0	Proceeds for short-term and long-term investments	**0**
(81,082)	Other receipts from investing activities	**(37,770)**
(13,437)	**Net cash flows from investing activities**	**33,021**

Note 26 – Cash Flow Statement – Financing Activities

2009/2010 (Restated) £'000		**2010/2011 £'000**
(455)	Capital receipts of short and long-term borrowing	**(455)**
(34,935)	Other receipts and financing activities	**(41,180)**
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	**0**
25,741	Repayments of short and long term borrowing	**10,274**
44,022	Other payments and financing activities	**18,128**
34,373	**Net cash flows from financing activities**	**(13,233)**

Note 27 – Amounts Reported for Resource Allocation Decisions

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

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

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

Notes to the Accounts (Continued)

Portfolio Income and Expenditure 2010/2011

	Leader and Deputy Leader £'000	Resources £'000	Children and Learning City £'000	Prosperous City £'000	Healthy City £'000	Safer City and Culture £'000	Attractive and Inclusive City £'000	Sustainable Communities £'000	Responsive Local Services and Customer Care £'000	Total £'000
Fees and Charges	(1,071)	(11,665)	(13,597)	(2,867)	(17,520)	(1,977)	(12,774)	(449)	(689)	(62,609)
Government grants	(87)	(142,836)	(222,340)	(569)	(2,673)	(869)	(2,649)	(406)	(1,648)	(374,077)
Other Grants, reimbursements and contributions	(1,339)	(581)	(9,477)	(2,945)	(29,831)	(2,891)	(3,614)	(1,363)	(836)	(52,877)
Total Income	(2,497)	(155,082)	(245,414)	(6,381)	(50,024)	(5,737)	(19,037)	(2,218)	(3,173)	(489,563)
Employee expenses	4,779	(130,974)	204,065	6,371	42,756	8,971	33,383	3,480	4,927	177,758
Other service expenditure	24,227	145,582	88,758	10,165	82,508	11,109	25,828	10,790	6,205	405,172
Total Expenditure	29,006	14,608	292,823	16,536	125,264	20,080	59,211	14,270	11,132	582,930
Net Expenditure	26,509	(140,474)	47,409	10,155	75,240	14,343	40,174	12,052	7,959	93,367

Notes to the Accounts (Continued)

Portfolio Income and Expenditure 2009/2010

	Leader and Deputy Leader £'000	Resources £'000	Children and Learning City £'000	Prosperous City £'000	Healthy City £'000	Safer City and Culture £'000	Attractive and Inclusive City £'000	Sustainable Communitie s £'000	Responsive Local Services and Customer Care £'000	Total £'000
Fees and Charges	(1,814)	(14,704)	(16,216)	(3,761)	(18,070)	(2,011)	(12,650)	(609)	(424)	(70,259)
Government Grants	(81)	(138,037)	(205,286)	(376)	(13,629)	(161)	(2,371)	(61)	(159)	(360,161)
Other Grants, reimbursements and contributions	5,402	(8,468)	(15,978)	(4,110)	(26,469)	(2,830)	(3,523)	(1,797)	(2,127)	(59,900)
Total Income	3,507	(161,209)	(237,480)	(8,247)	(58,168)	(5,002)	(18,544)	(2,467)	(2,710)	(490,320)
Employee Expenses	5,836	3,210	203,465	6,198	40,042	8,623	30,805	2,653	4,712	305,544
Other Service Expense	5,585	147,225	82,843	8,995	81,027	10,645	24,225	5,488	5,569	371,602
Total Expenditure	11,421	150,435	286,308	15,193	121,069	19,268	55,030	8,141	10,281	677,146
Net Expenditure	14,928	(10,774)	48,828	6,946	62,901	14,266	36,486	5,674	7,571	186,826

Notes to the Accounts (Continued)

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

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

2009/2010 £'000		**2010/2011 £'000**
186,826	Net expenditure in the portfolio analysis.	**93,367**
111,210	Net expenditure of services and support services not included in the analysis.	**68,860**
(5,746)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis.	**(2,748)**
292,290	**Cost of Service in the Comprehensive Income and Expenditure Analysis**	**159,479**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis or portfolio income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

Notes to the Accounts (Continued)

2010/2011

	Portfolio Analysis £'000	Amounts not reported to management £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(111,933)	0	0	(111,933)	(14,387)	(126,320)
Interest and investment income	0	0	0	0	(3,546)	(3,546)
Income from council tax	0	0	0	0	(95,954)	(95,954)
Government grants and contributions	(377,630)	(10,802)	0	(388,432)	(239,006)	(627,438)
Total Income	(489,563)	(10,802)	0	(500,365)	(352,893)	(853,258)
Employee expenses	177,758	0	0	177,758	12,250	190,008
Other service expenses	405,172	6,538	0	411,710	14,275	425,985
Support service recharges	0	0	5,807	5,807	0	5,807
Depreciation, amortisation and impairment	0	1,516	63,053	64,569	0	64,569
Interest Payments	0	0	0	0	10,272	10,272
Precepts and Levies	0	0	0	0	18,675	18,675
Payments to Housing Capital reciepts Pool	0	0	0	0	19	19
Gain and Loss on Disosal of Fixed Assets	0	0	0	0	21,299	21,299
Total Expenditure	582,930	8,054	68,860	659,844	76,790	736,634
Surplus or deficit on the provision of services	93,367	(2,748)	68,860	159,479	(276,103)	(116,624)

Notes to the Accounts (Continued)

2009/2010

	Portfolio Analysis £'000	Amounts not reported to management £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(126,821)			(126,821)	(17,380)	(144,201)
Interest and investment income	0			0	(3,760)	(3,760)
Income from council tax	0			0	(94,408)	(94,408)
Government grants and contributions	(363,499)	(7,597)		(371,096)	(228,951)	(600,047)
Total Income	(490,320)	(7,597)	0	(497,917)	(344,499)	(842,416)
Employee expenses	305,544	294		305,838	30,320	336,158
Other service expenses	371,602	19,428		391,030	16,966	407,996
Support service recharges			72,549	72,549	0	72,549
Depreciation, amortisation and impairment		(17,871)	38,661	20,790	(2,976)	17,814
Interest Payments				0	9,805	9,805
Precepts and Levies				0	18,462	18,462
Payments to Housing Capital reciepts Pool				0	25	25
Gain and Loss on Disosal of Fixed Assets				0	166	166
Total Expenditure	677,146	1,851	111,210	790,207	72,768	862,975
Surplus or deficit on the provision of services	186,826	(5,746)	111,210	292,290	(271,731)	20,559

Notes to the Accounts (Continued)

Note 28 – Trading Operations

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

	2010/2011			2009/2010		
	Expenditure £'000	**Income £'000**	**Net Expenditure £'000**	Expenditure £'000	Income £'000	Net Expenditure £'000
City Print Services	**2,036**	**1,855**	**181**	2,129	2,234	(105)
City Stores	**0**		**0**	26	0	26
General Highways	**3,493**	**3,675**	**(182)**	5,952	6,191	(239)
Education and Civic Buildings Maintenance	**8,572**	**8,688**	**(116)**	8,353	8,632	(279)
Networking Services	**174**	**169**	**5**	284	324	(40)
	14,275	**14,387**	**(112)**	16,744	17,381	(637)

Note 29 – Agency Services

These are services that are performed for the Council by other Authorities or Bodies, but where the Council still has responsibility for that service and reimburses the Authority or Body involved for the cost of the work or service carried out on its behalf. The principal areas of agency work are shown below and more detailed information can be made available on request of the Director of Financial Resources, Office of the Chief Executive, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

	2010/2011 £m	2009/2010 (Restated) £m
Residential, Nursing and Home Care Provision	**52.5**	57.7
Learning Providers	**11.3**	0.0
Fostering and Adoption Service	**5.5**	5.8
Payments to Voluntary Organisations	**5.9**	1.7
Health Trust	**4.9**	2.1
Supporting People Contracts	**6.0**	6.0
Highways Maintenance	**9.9**	11.0
Waste Disposal	**7.7**	7.5
Council Services provided to Schools Delegated Budgets	**3.7**	3.5
School Meals Contract provided to Schools	**6.2**	6.0
School Placements for Special Education in Other Authorities	**0.5**	1.1
Museums Service - Joint Authority	**0.9**	1.0
Other Payments	**4.4**	3.6
Total Agency Payments	**119.4**	107.0

Notes to the Accounts (Continued)

Note 30 – Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities, and other agencies in order to improve and co-ordinate services. A pooled budget is established to which each partner organisation makes an agreed contribution. The aim of the partnership is to provide a service to a target client group and allow organisations to work in a more unified way. Included within the Council's accounts are three such partnership schemes with Sunderland Teaching Primary Care Trust (STPCT). The notes below summarises the financial performance of each scheme and offers a brief explanation of their purpose:

Community Equipment Service
The aim of this service is to provide all the residents of Sunderland, with an assessed need, appropriate equipment in order to improve their ability to live in their own homes and to encourage independence.

	2010/2011 £'000	2009/2010 £'000
Sunderland City Council	**(1,097)**	(1,038)
Sunderland Teaching Primary Care Trust	**(1,401)**	(1,326)
Total Funding	**(2,498)**	(2,364)
Gross Expenditure	**2,601**	2,229
Net (Funding) / Expenditure	**103**	(135)

Learning Disabilities
The aim of this service is to plan and implement a joint service for people in residential care with learning disabilities identified as difficult to support within existing learning disability establishments.

	2010/2011 £'000	2009/2010 £'000
Sunderland City Council	**(935)**	(901)
Sunderland Teaching Primary Care Trust	**(1,457)**	(1,405)
Learning Disabilities Development Fund	**0**	(522)
Total Funding	**(2,392)**	(2,828)
Gross Expenditure	**2,201**	2,553
Net (Funding) / Expenditure	**(191)**	(275)

Intermediate Care

The aim of this service is the improvement of the intermediate care for older people to facilitate early discharge of people who are medically fit but need extra support through rehabilitation care and preventing unnecessary admission or re-admission to hospital or longer term care, through closer working arrangements with partners.

	2010/2011 £'000	2009/2010 £'000
Sunderland City Council	**(1,244)**	(1,274)
Sunderland Teaching Primary Care Trust	**(992)**	(1,015)
Total Funding	**(2,236)**	(2,289)
Gross Expenditure	**2,198**	2,242
Net (Funding) / Expenditure	**(38)**	(47)

Notes to the Accounts (Continued)

Note 31 – Members' Allowances

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

	2010/2011 £'000	2009/2010 £'000
Allowances	**1,041**	1,036
Expenses	**31**	36
Total	**1,072**	1,072

Note 32 – Officers' Remuneration

The number of employees, whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000:

	2010/2011		2009/2010	
	Non-Teaching Staff	**Teaching Staff**	Non-Teaching Staff	Teaching Staff
£50,000 - £54,999	**48**	**49**	31	61
£55,000 - £59,999	**23**	**20**	15	49
£60,000 - £64,999	**7**	**37**	13	48
£65,000 - £69,999	**7**	**22**	7	19
£70,000 - £74,999	**6**	**5**	5	9
£75,000 - £79,999	**11**	**5**	13	4
£80,000 - £84,999	**7**	**3**	1	5
£85,000 - £89,999	**5**	**3**	8	2
£90,000 - £94,999	**3**	**0**	2	5
£95,000 - £99,999	**2**	**2**	0	0
£100,000 - £104,999	**1**	**0**	0	1
£110,000 - £114,999	**0**	**0**	1	1
£115,000 - £119,999	**2**	**1**	1	0
£120,000 - £124,999	**2**	**0**	1	0
£125,000 - £129,999	**1**	**0**	0	0
£130,000 - £134,999	**1**	**0**	0	0
£135,000 - £139,999	**1**	**0**	1	0
£200,000 - £204,999	**1**	**0**	0	0
£205,000 - £209,999	**0**	**0**	1	0
£215,000 - £219,999	**0**	**0**	1	0

The tables below disclose the specific remuneration information in relation to 'Senior' officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2010/2011 and 2009/2010 in the following categories:

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

Notes to the Accounts (Continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2010/2011								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	**193,148**	**0**	**0**	**0**	**7,905**	**201,053**	**28,494**	**229,547**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	**120,024**	**0**	**0**	**0**	**0**	**120,024**	**18,043**	**138,067**
Executive Director of Adult Services	**115,268**	**0**	**0**	**0**	**0**	**115,268**	**16,684**	**131,952**
Executive Director of Children's Services	**109,907**	**0**	**0**	**0**	**1,002**	**110,909**	**15,907**	**126,816**
Executive Director of City Services	**122,940**	**0**	**0**	**0**	**0**	**122,940**	**17,826**	**140,766**
Executive Director of Corporate and Commercial Services*	**29,454**	**0**	**0**	**0**	**0**	**29,454**	**4,270**	**33,724**
Strategic Director of Transformation	**117,664**	**0**	**0**	**0**	**0**	**117,664**	**17,238**	**134,902**
Head of Legal Services*	**78,343**	**0**	**0**	**0**	**0**	**78,343**	**11,359**	**89,702**
Director of Financial Resources*	**82,226**	**0**	**0**	**0**	**0**	**82,226**	**11,922**	**94,148**
Chief Solicitor*	**48,963**	**0**	**0**	**0**	**0**	**48,963**	**7,056**	**56,019**

* Officer not in post for a full year

Notes to the Accounts (Continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Employers Pension Contributions £	Total Remuneration including Pension Contributions £
2009/2010								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	201,801	0	0	0	7,905	209,706	29,261	238,967
Director of Financial Resources - Keith Beardm	110,502	0	0	107,326	0	217,828	16,023	233,851
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive*	66,097	0	0	0	0	66,097	9,584	75,681
Director of Adult Services	114,403	0	0	0	504	114,907	16,588	131,495
Director of Children's Services	118,890	0	0	0	0	118,890	17,239	136,129
Director of City Services*	64,885	0	0	0	0	64,885	9,408	74,293
Chief Solicitor	90,100	0	0	0	0	90,100	14,109	104,209
Director of Development and Regeneration*	64,609	0	0	0	0	64,609	9,368	73,977
Director of Community and Cultural Services*	34,867	0	0	0	0	34,867	5,056	39,923

* Officer not in post for a full year

Notes to the Accounts (Continued)

Note 33 – External Audit Costs

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

	2010/2011 £'000	2009/2010 £'000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year.	**333**	330
Fees payable to the Audit Commission in respect of statutory inspection.	**0**	0
Fees payable to the Audit Commission with regard to additional external audit services carried out by the appointed auditor.	**0**	6
Fees payable to the Audit Commission for the certification of grant claims and returns for the year.	**40**	62
Fees payable in respect of other services by the Audit Commission during the year.	**(33)**	0
Total Costs	**340**	398

Note 34 – Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance (England) Regulations 2008. The School Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/2011 are as follows:

	Central Expenditure £	Individual Schools Budget (ISB) £	Total £
Final DSG for 2010/2011	12,302,611	144,728,426	157,031,037
Plus			
Brought forward from 2009/2010	0	0	0
Less			
Carry forward to 2011/2012 agreed in advance	0	0	0
Agreed budgeted distribution in 2010/2011	12,302,611	144,728,426	157,031,037
Less			
Actual central expenditure	11,867,212	0	11,867,212
Less			
Actual ISB deployed to schools	0	145,163,825	145,163,825
Plus			
Local authority contribution for 2010/2011	0	0	0
Carry forward to 2011/2012	**435,399**	**(435,399)**	**0**

Notes to the Accounts (Continued)

Note 35 – Grant Income

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

	2010/2011 £'000	2009/2010 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	**19,966**	29,000
National Non Domestic Rates	**137,496**	125,643
Area Based Grant	**35,938**	28,924
Local Area Business Growth Incentive Scheme Grant	**0**	379
Department for Education - Capital Grants	**11,647**	31,829
Department for Transport - Capital Grants	**5,571**	3,273
Communities and Local Government - Capital Grants	**117**	1,078
Homes and Communities Agency	**21,330**	0
One North East - Capital Grants	**3,937**	2,303
Heritage Lottery Fund - Capital Grants	**1,326**	881
Department for Environment, Food and Rural Affairs - Capital Grants	**486**	398
Commission for Architecture and the Built Environment - Capital Grants	**293**	0
NE Efficiency Partnership - Capital Grants	**0**	197
Other Capital Grants and Contributions	**899**	978
Total	**239,006**	224,883

Notes to the Accounts (Continued)

	2010/2011 £'000	2009/2010 £'000
Credited to Services		
Department for Education - Dedicated Schools Grant	**157,031**	156,649
Department for Education - Standards Fund	**29,268**	31,568
Department for Education - Sure Start	**12,714**	12,777
Department for Education - Children and Young Peoples Grant	**1,664**	0
Department for Education	**1,219**	2,779
Department for Education - Capital Grants	**8,453**	17,475
Children's Workforce Development Council	**200**	236
Young Peoples Learning Agency	**19,236**	0
National Institute of Adult Continuing Education	**0**	402
Training and Development Agency	**205**	201
Learning and Skills Council	**940**	9,992
Skills Funding Agency	**2,719**	827
Department for Works and Pensions - Housing Benefit Grants	**142,656**	137,207
Department for Works and Pensions	**220**	0
Department of Health	**3,071**	2,454
Department of Health - Capital Grants	**1,125**	2,004
Communities and Local Government - Supporting People	**0**	11,339
Communities and Local Government - PFI	**3,733**	3,733
Communities and Local Government	**1,292**	955
Communities and Local Government - Capital Grants	**1,373**	1,006
Communities and Local Government - Single Housing Investment Pot - Capital Grants	**2,142**	1,209
Department for Transport	**293**	0
Department for Transport - Capital Grants	**0**	1,307
Homes and Communities Agency - Capital Grants	**155**	1,315
Home Office	**938**	1,744
Youth Justice Board	**1,240**	1,681
New Deal for Communities	**1,805**	2,383
Teaching Primary Care Trust	**28,527**	25,321
Primary Care Trust - Capital Grants	**550**	1,234
One North East	**1,262**	1,068
One North East - Capital Grants	**47**	380
Sport England	**795**	845
Youth Opportunities Fund	**205**	535
Northern Arts	**157**	194
Other Grants	**1,289**	1,435
Other Capital Grants	**286**	574
Total	**426,810**	432,829

Notes to the Accounts (Continued)

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

	2010/2011 £'000	2009/2010 £'000
Capital Grant Receipts in Advance		
Department for Education - Standards Fund	**9,978**	14,293
Department for Education - Sure Start	**77**	784
Department of Health	**105**	885
Communities and Local Government	**958**	1,427
Communities and Local Government - Single Housing Investment Pot	**757**	1,182
Department for Transport	**634**	354
Department for Environment, Food and Rural Affairs	**54**	257
Homes and Communities Agency	**6,120**	9,365
One North East	**3,942**	1,390
Primary Care Trusts	**516**	1,068
Commission for Architecture and the Built Environment	**708**	500
Private Sector Contributions	**0**	317
Other Grants and Contributions	**90**	107
Total	**23,939**	31,929

Note 36 – Related Parties

The Authority 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 asses 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 authority.

Central Government
Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the above in Note 27 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 35.

Members
Members of the council have direct control over the council's financial and operating policies. The total members allowances paid in 2010/2011 are shown in Note 31. In respect of 2010/2011 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £4.005m made by the Authority in 2010/2011 (£4.537m in 2009/2010), of which £0.023m (£0.026m for 2009/2010) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £1.827m (£2.133m for 2009/2010) payments to companies and £2.155m (£2.378m for 2009/2010) to voluntary organisations.

It should be noted that all Council members pecuniary and non financial interests which could conflict with those of the Council are open to the 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. In addition, the award of any contracts by the Authority's Procurement Procedure

Notes to the Accounts (Continued)

Rules approved by the Council. The relevant members must therefore declare an interest (which was minuted) and they do not take part in any discussion or decision relating to the transactions concerned.

Officers
In respect of the 2010/2011 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Authority.

Entities Controlled or Significantly Influenced by the Authority

Tyne and Wear Development Company Ltd

The Tyne and Wear Development Company Ltd (TWEDCo) was established in 1986 by Tyne and Wear County Council and the five District Councils of Tyne and Wear. TWEDCo is a company limited by guarantee and does not have a share capital. Sunderland has three representatives on the Board of Directors as does each of the other four districts of Tyne and Wear.

Members of the Company have a limited guarantee of £1. The financial results of the company for 2010/2011 showed a consolidated trading profit after taxation of £0.428m (2009/2010 £0.034m loss) and had net assets worth £14.719m (2009/2010 £13.823m). The Company's audited accounts for 2010/2011 will be made available once approved by the Board at its AGM in December 2011.

The Council acts as an agent for the Company in managing its property interests in Sunderland, as well as providing legal and financial services, and makes a charge for these services against the company's income. Copies of the accounts can be acquired upon application to the Manager, Tyne and Wear Development Company Limited, Investor House, Colima Avenue, Sunderland Enterprise Park, Sunderland SR5 3XB.

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. In consideration of this transfer the Council received £3.306m worth of shares.

On 4th May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Sunderland City Council has a shareholding of 1845 shares representing a 18.45% interest in the company.

The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (18.45% of 51%) was £12.608m. The valuation of NIAL Holdings Limited is reviewed annually. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.795m based upon the discounted cash flow method. There has been no significant change in external factors since the valuation that would materially affect the value of the shareholding.

Notes to the Accounts (Continued)

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2003/04, of which the Council will receive £4.6m over the 10 years.

Sunderland City Council's 18.45% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 9.41% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Limited).

The principal activity of Newcastle International Airport Limited (Registered Number 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

No dividends were payable for the years ended 31st December 2010 or 31st December 2009.

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 £4.823m and a loss after tax of £1.786m for the year ended 31st December 2010.

Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee. The principal activity of the Trust is to operate the Sunderland Theatre. The Council has 12 representatives on the Board of 17 Directors.

The Council has a facilities management arrangement with the Ambassador Theatre Group for a fixed annual amount, the amount paid by the Council totalled £0.366m in 2010/2011, (£0.392m in 2009/2010).

In 2010/2011, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust made a small surplus of £25 in 2010/2011 (surplus of £24 for 2009/2010) in year which will increase its reserves to meet future costs. Its reserves as at 31 March 2011 now stand at £7,069 (£7,044 as at 31 March 2010). In 2010/2011 the Council made a contribution of £29,501 (£26,806 for 2009/2010) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building to which the Trust has no liability. A copy of the Trust accounts can be obtained from the Director of Commercial and Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

Beamish Museum Joint Committee and related companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, this totalled £30,974 in 2010/2011 (£30,974 2009/2010).

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

In 2009/2010 Beamish Museum Joint Committee and related companies produced group accounts. Due to a change in regulation this is not required in 2010/2011, the following is the position for the Joint Committee and the BML / BMTL group.

Notes to the Accounts (Continued)

In 2010/2011 the Joint Committee made an operating profit of £0.009m (2009/2010 £0.023m profit) and had net assets of £20.824m (2009/2010 £19.504m). In 2010/2011 the BML and BMTL group made an operating profit of £0.438m (2009/2010 £0.892m profit) and had net assets of £0.384m

(2009/2010 £1.579m net liability). The Council receives no income or contributions from the above reported arrangements. Copies of the Joint Committees and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

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

Tyne & Wear Fire and Rescue Authority, Beamish Museum Joint Committee, Beamish Museum Limited, Beamish Museum Trading Limited, Empire Theatre Trust Company Limited, Bowes Railway, Hetton Town Council, Tyne and Wear Development Company Limited, Tyne and Wear Economic Development Joint Committee, Back on the Map Limited, Raich Carter Sports Centre, Pooled Budget Arrangements with the local Teaching Primary Care Trust and Tyne and Wear Care Alliance.

The council also provides a range of services to various external organisations, the scale of the charges in respect of this are set out below:

	2010/2011 £'000	2009/2010 £'000
Tyne and Wear Fire and Rescue Service	**596**	600
Beamish Joint Committee	**19**	23
Beamish Museum Limited	**32**	47
Beamish Museum Trading Limited	**11**	12
Tyne and Wear Economic Development Company	**73**	73
Tyne and Wear Economic Development Joint Committee	**14**	13
	745	768

Notes to the Accounts (Continued)

Note 37 – Capital Expenditure and Capital Financing

The total amount of capital expenditure 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2010/2011 £	2009/2010 £
Opening Capital Financing Requirement	**241,243**	243,109
Capital Investment		
Property, Plant and Equipment	**67,082**	70,012
Investment Properties	**0**	0
Intangible Assets	**313**	241
Revenue Expenditure Funded from Capital under Statute	**20,042**	31,049
Sources of Finance		
Capital Receipts	**(896)**	(2,486)
Government grants and other contributions	**(59,803)**	(70,382)
Sums set aside from:		
Direct revenue contributions	**(12,634)**	(19,215)
MRP	**(11,350)**	(11,085)
Closing Capital Financing Requirement	**243,997**	241,243
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	**(701)**	(993)
Increase in underlying need to borrow (unsupported by government financial assistance)	**4,779**	(302)
Assets acquired under finance leases	**72**	828
Assets acquired under PFI contracts	**(1,396)**	(1,399)
Increase / (decrease) in Capital Financing Requirement	**2,754**	(1,866)

Note 38 – Leases

Authority 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:

	2010/2011 £'000	2009/2010 (Restated) £'000
Other Land & Buildings	**7,487**	6,916
Vehicles, Plant, Furniture and Equipment	**2,331**	2,547
	9,818	9,463

Notes to the Accounts (Continued)

The Authority 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 Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2010/2011 £'000	2009/2010 (Restated) £'000
Finance Lease Liabilities (NPV of Future lease payments):		
Current	**568**	568
Non - Current	**8,906**	8,850
Finance costs payable in future years	**1,659**	1,214
Minimum lease payments	**11,133**	10,632

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2010/2011 £'000	2009/2010 (Restated) £'000	**2010/2011 £'000**	2009/2010 (Restated) £'000
Not later than one year	**1,245**	1,317	**536**	568
Later than one year and not later than five years	**3,302**	2,713	**2,780**	2,248
Later than five years	**6,586**	6,602	**6,586**	6,602
	11,133	10,632	**9,902**	9,418

Operating Leases

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

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

	2010/2011 £'000	2009/2010 (Restated) £'000
Not later than one year	**141**	153
Later than one year but not later than five years	**80**	100
Later than five years	**0**	0
	221	253

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £385,559, (2009/2010 £522,761).

The Authority has acquired a small number of properties by entering into operating leases. The annual payment of £692,000 in 2010/2011 (2009/2010 £672,000) relates to the following periods:

	2010/2011 £'000	2009/2010 (Restated) £'000
Not later than one year	**337**	310
Later than one year but not later than five years	**200**	227
Later than five years	**155**	135
	692	672

Notes to the Accounts (Continued)

Authority as Lessor

Finance Leases

The Authority has leased out the following properties under finance lease arrangements.

- Bungalows lease to three rivers housing – Remaining lease 13 years
- Raich Carter Centre – Remaining lease 15 years
- Marine Activity Centre – Remaining lease 111 years

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

Operating Leases

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

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

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

	2010/2011 £'000	2009/2010 (Restated) £'000
Not later than one year	**6,598**	6,207
Later than one year but not later than five years	**18,303**	21,246
Later than five years	**8,895**	12,450
	33,796	39,903

Note 39 – Private Finance Initiatives and Similar Contracts

The Council operates two PFI schemes:

- Sandhill View School and Community and Learning Centre, became operational in September 2002 the Council is required to provide details about the contract and the committed revenue resources for future financial years.

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

The estimated contract payments for both PFI contracts can be analysed over the term of the respective contracts as follows, with the contract for Sandhill View Community and Learning Centre expiring in September 2027 (2027/2028) and the Highway Signs and Street Lighting contract expiring in August 2008 (2028/2029).

Notes to the Accounts (Continued)

	2011/2012 £'000	2012/2013 - 2015/2016 £'000	2016/2017 - 2020/2021 £'000	2021/2022 - 2025/2026 £'000	2026/2027 - 2028/2029 £'000	Total £'000
Finance Lease Creditor Repayment	1,190	4,928	7,973	12,661	6,956	33,708
Finance Lease Creditor Interest	2,836	10,305	10,373	6,106	805	30,425
Lifecycle Maintenance Costs	315	1,339	1,863	2,097	1,147	6,761
Contingent Rentals	379	1,404	1,799	2,092	309	5,983
Operating Costs	2,977	14,020	20,879	23,431	11,349	72,656
PFI Grant	(3,734)	(14,935)	(18,669)	(18,669)	(7,448)	(63,455)
Total	3,963	17,061	24,218	27,718	13,118	86,078

Note 40 – Impairment Losses

During 2010/2011, the Authority has not recognised any impairment losses.

Note 41 – Termination Benefits

The Authority terminated the contracts of a number of employees in 2010/2011, incurring liabilities of £960,544 (£2,046,563 in 2009/2010). Of this total, £682,621 related to teachers (£1,463,069 in 2009/2010).

Note 42 – Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2010/2011, the Council paid £12.332m to the Teachers Pensions Scheme in respect of teachers retirement benefits, representing 14.2% of pensionable pay. The figures for 2009/2010 were £12.558m and 14.1%. There were no contributions remaining payable at the year end.

The authority is responsible for any additional benefits awarded upon early retirement outside of the terms of the teachers scheme.

Note 43 – Defined Benefit Pension Schemes

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

The authority 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 Authority and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there is no investment assets built up to meet these pensions' liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due.

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

Notes to the Accounts (Continued)

Transactions Relating to Post-employment Benefits

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011 £m	2009/2010 £m	**2010/2011 £m**	2009/2010 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	**29.52**	19.74	**0.00**	0.00
Past service cost	**(131.20)**	1.06	**(3.80)**	0.00
Settlements and curtailments	**0.00**	0.00	**0.00**	0.00
Financing and Investment Income and Expenditure				
Interest cost	**64.83**	60.80	**2.51**	2.95
Expected return on scheme assets	**(55.09)**	(33.43)	**0.00**	0.00
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(91.94)**	48.17	**(1.29)**	2.95
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement				
Actuarial gains and losses	**(7.99)**	126.15	**0.42**	4.05
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(99.93)**	174.32	**(0.87)**	7.00
Movement in Reserves Statement				
or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(125.35)**	15.40	**(4.62)**	3.95
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	**33.41**	32.77	**3.33**	(1.00)
Retirement payments payable to pensioners	**(32.80)**	(29.56)	**0.00**	0.00

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £222.68m.

Notes to the Accounts (Continued)

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011 £m	2009/2010 £m	**2010/2011 £m**	2009/2010 £m
Opening balance at 1 April	**1,276.85**	920.91	**50.04**	46.40
Current service cost	**29.52**	19.74	**0.00**	0.00
Interest cost	**64.83**	60.80	**2.51**	2.95
Contributions by scheme participants	**9.34**	9.27	**0.00**	0.00
Actuarial gains and (losses)	**(34.84)**	294.59	**0.42**	4.05
Benefits paid	**(32.80)**	(29.52)	**(3.33)**	(3.36)
Past service cost	**(132.20)**	1.06	**(3.80)**	0.00
Entity combinations	**0.00**	0.00	**0.00**	0.00
Curtailments	**0.00**	0.00	**0.00**	0.00
Settlements	**0.00**	0.00	**0.00**	0.00
Closing balance at 31 March	**1,180.70**	1,276.85	**45.84**	50.04

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2010/2011 £m	2009/2010 £m
Opening balance at 1 April	**752.77**	538.38
Expected rate of return	**55.09**	33.43
Actuarial gains and (losses)	**(26.85)**	168.44
Employer contributions	**33.41**	32.77
Participant contributions	**9.34**	9.27
Benefits paid	**(32.80)**	(29.52)
Entity combinations	**0.00**	0.00
Settlements	**0.00**	0.00
Closing balance at 31 March	**790.96**	752.77

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected return on equity investments reflect long-term real rates of return experienced in the respective markets.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing Sunderland City Council's liabilities in Tyne & Wear Pension Fund by £135.0m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund

Notes to the Accounts (Continued)

The actual return on scheme assets in the year was £28.24m (2009/2010 £201.87m)

	2007/2008 £m	2008/2009 £m	2009/2010 £m	**2010/2011 £m**
Present value of liabilities:				
Local Government Pension Scheme	839.63	920.91	1,276.85	**1,181.70**
Discretionary Benefits	44.96	46.40	50.04	**45.84**
Fair value of assets in the Local Government Pension Scheme	640.77	538.38	752.77	**790.96**
Surplus / (Deficit) in the scheme:				
Local Government Pension Scheme	(198.86)	(382.53)	(524.08)	**(390.74)**
Discretionary Benefits	(44.96)	(46.40)	(50.04)	**(45.84)**
Total	(243.82)	(428.93)	(574.12)	**(436.58)**

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £1,181.70m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive balance sheet worth of £685.8m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £30.6m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £2.43m.

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 depend on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefit liabilities have been assessed by Aon Hewitt Limited an independent firm of actuaries, estimates for the council fund being based on the latest full valuation of the scheme as at 1 April 2010.

Notes to the Accounts (Continued)

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011	2009/2010	**2010/2011**	2009/2010
Long-term expected rate of return on assets in the scheme:				
Equity investments	**8.4%**	8.0%	**N/A**	N/A
Property	**7.9%**	8.5%	**N/A**	N/A
Government Bonds	**4.4%**	4.5%	**N/A**	N/A
Corporate Bonds	**5.1%**	5.5%	**N/A**	N/A
Cash	**1.5%**	0.7%	**N/A**	N/A
Other	**8.4%**	8.0%	**N/A**	N/A
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	**23.3 years**	22.2 years	**23.3 years**	22.2 years
Women	**25.6 years**	25.1 years	**25.6 years**	25.1 years
Longevity at 65 for future pensioners				
Men	**21.5 years**	20.0 years	**21.5 years**	20.0 years
Women	**23.7 years**	22.9 years	**23.7 years**	22.9 years
RPI	**3.7%**	3.9%	**3.6%**	3.8%
CPI	**2.8%**	N/A	**2.7%**	N/A
Rate of increase in salaries	**5.2%**	5.4%	**N/A**	N/A
Rate of increase in pensions	**2.8%**	3.9%	**2.7%**	3.8%
Rate for discounting scheme liabilities	**5.4%**	5.5%	**5.5%**	5.5%
Commutation - Pre 1 April 1998	**50.0%**	50.0%	**N/A**	N/A
Commutation - Post 31 March 2008	**75.0%**	75.0%	**N/A**	N/A

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

	2010/2011 %	2009/2010 %
Equities	**68.0**	67.8
Property	**8.1**	7.4
Government Bonds	**7.0**	9.3
Corporate Bonds	**11.7**	11.4
Cash	**1.2**	1.3
Other	**4.0**	2.8
Total	**100.0**	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can be analysed into the following catagories, measured as a percentage of assets or liabilities at 31 March 2011.

	2007/2008 %	2008/2009 %	2009/2010 %	**2010/2011 %**
Difference between the expected and actual return on assets	(5.5)	(22.1)	26.8	**3.6**
Experience gains and losses on liabilities	(0.5)	1.3	2.3	**1.0**

Notes to the Accounts (Continued)

Note 44 – Contingent Liabilities

Like most other local authorities there are a number of part-time pension cases which have been pending for some time. A number of test cases have now been decided and the process of applying the principles determined in the test cases to the claims commenced against the Council is now underway. Potential payments are anticipated not to exceed £0.250m.

The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils.

The City Council acts as a guarantor for No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees.

Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non environmental and environmental warranties. This agreement was drawn up as part of the Large Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo. The amount included in the Agreement stipulates that the Council's maximum liability to the Group in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made.

The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to the Sunderland Housing Group, (now Gentoo), on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

A revised claim was received from Pyeroy of approximately £0.395m, (previously £0.260m), in respect of the Wearmouth Bridge Works which were completed in August 2003. The dispute has already been considered by an Adjudicator who dismissed Pyeroy's claim; however they have referred the dispute to formal arbitration. The Council continues to resist Pyeroy’s claim and has sought advice from Queen’s Counsel on this matter. The Council is reasonably confident that Pyeroy will not succeed but it is still however considered prudent to disclose a contingent liability in the accounts. The claim continues to be resisted by the Council and in light of the position with this dispute the Council considers that any further payment would not exceed £0.200m plus potential costs should the Council lose this action.

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Council. The Council has settled a large number of claims and is currently engaged in proceedings in relation to other claims made but not yet settled and has therefore set up a reserve to meet or assist in meeting these future potential liabilities. The Council continues to strenuously resist the claims made and has taken advice from leading Counsel. However, if the Council were to lose cases there could be a significant financial impact on the Council.

The Council has received notice from the Environment Agency that it is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works have not yet been accurately quantified and it is not possible to determine the level of the Council’s exposure at this current time. The position will however be kept under regular review, but it is considered prudent to treat it as a contingent liability.

Notes to the Accounts (Continued)

Further to the recent judicial review proceedings brought by Prudential Assurance Company Ltd in connection with Peel Retail Park in Washington, the Council has agreed to consider the question of whether or not two planning permissions granted for the sub-division of Units 1 and 2 of the Retail Park should be modified to restrict the retail use of the proposed sub-units to the sale of certain categories of goods only in accordance with a planning agreement entered into 1987 in respect of the site. This matter is to be considered by the Council's Planning & Highways Committee in due course. If the Council determines that it is appropriate to modify the two planning permissions in light of the relevant planning considerations, then the Council would be liable to pay compensation to Peel as the owner of the site. If necessary, the amount of the Council's liability would be determined at the appropriate time.

Note 45 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with Revenue and Customs in relation to overpaid output tax, the value of these claims amount to £4.665m. However as there is no indication of the likelihood of these claims being paid they have been reflected as a contingent asset.

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.261m.

Note 46 - Nature and Extent of Risk Arising from Financial Instruments

The Council's management of treasury risks activity works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principals for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

Credit Risk

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

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	50	2 Years
AA+	F1+	A1+	Aa1	P-1	50	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 Days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	230	364 Days
A+	F1	A-1	A1	P-1	10	364 Days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 Days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities					30	364 Days
Money Market Funds					50 (max 10 per fund)	2 Years

Notes to the Accounts (Continued)

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 Councils Treasury Management Policy and Strategy

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. The Council expects full repayment on the due date of deposits placed with its counterparties

	Amount at 31 March 2011 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2011 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2011 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2010 £'000
Deposits with Banks and other financial institutions	188,991	0	0	0	0
Bonds and other securities	0	0	0	0	0
Customers	16,655	2.90	0	483	535
Financial Assets	**205,646**		**0**	**483**	**535**

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

The authority does not generally allow credit for customers, such that £16.655m of the £69.033m is beyond its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2011 £'000	31 March 2010 £'000
Less than 3 months	**6,370**	6,248
Three to six months	**439**	113
Six months to one year	**85**	172
More than one year	**467**	472
	7,361	7,005

Liquidity Risk
The Council has access to a facility to borrow from the Public Works Loan Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact or re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities is as follows:

Notes to the Accounts (Continued)

Loans Outstanding	31 March 2011 £'000	31 March 2010 £'000
Less than 1 year	**32,985**	32,463
Maturing in 1-2 years	**5,052**	58
Maturing in 2-5 years	**15,144**	10,046
Maturing in 5-10 years	**18,248**	14,081
Maturing in 10-20 years	**15,248**	9,110
Maturing in 20-30 years	**30**	40
Maturing in 30-40 years	**15,000**	15,002
Maturing in 40-50 years	**74,500**	64,500
Maturing in more than 50 years	**35,221**	35,227
Total	**211,428**	180,527

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

Market Risk
The Council is exposed to interest rate risk in different ways; the first being the uncertainty of interest paid / received on variable rate instruments, and the second being the affect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Statement.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Statement.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets held at fair value in the balance sheet, which would also be reflected in the STRGL.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk and these are set out in the Council's Annual Treasury Management Policy and Strategy Statement. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid to limit exposure to losses. The risk of loss is ameliorated to a certain extent by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the authority's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and this is updated and reviewed regularly during the year. This allows for any adverse changes to be considered and addressed where appropriate. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31st March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

Notes to the Accounts (Continued)

	31 March 2011 £'000	31 March 2010 £'000
Increase in interest payable on variable rate borrowings	**411**	509
Increase in interest received on variable rate borrowings	**2,105**	1,869
Net Impact on Income and Expenditure Account	**1,694**	1,360
Decrease in fair value of 'available for sale' investment assets	**0**	0
Impact on MiRS	**0**	0
Decrease in fair value of fixed rate investment assets	**(569)**	(586)
(No impact on Comprehensive I&E Statement or MiRS)		
Decrease in fair value of fixed rate borrowing liabilities	**24,271**	(17,377)
(No impact on Comprehensive I&E Statement or MiRS)		

Price Risk
The Council does not generally invest in equity shares but does have shareholdings to the value of £795,123 (2009/2010 £795,123) in Newcastle Airport which is not listed on the stock exchange. The authority is consequently exposed to loss arising from the movement in the price of these shares which were re-valued in 2009/2010.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541(2009/2010 £19,541) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in the MiRS. The market value of these holdings as at 31st March 2011 was £106,601 in total (the value at 31st March 2010 was £81,676).

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

Note 47 – Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. At 31st March 2011 the Council was responsible for 42 of these funds (40 relating to Children's Services and 2 relating to Adult Social Services), details of which are shown below.

	Balance at 01/04/2010 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	**Balance at 31/03/2011 £'000**
Childrens Services Trust Funds	194	0	43	67	**170**
Adult Services Trust Funds	71	0	0	0	**71**
	265	0	43	67	**241**

Supplementary Statement

The Collection Fund Account for Year Ended 31 March 2011

	Note	2010/2011		2009/2010	
		£'000	£'000	£'000	£'000
Income					
Council Tax	48		**108,713**		107,474
Government Grants	51		**2**		(1)
Income from Business Rates	49		**74,949**		78,036
			183,664		185,509
Expenditure					
Precepts and Demands:					
City of Sunderland		**95,238**		93,908	
Tyne and Wear Fire and Rescue Authority		**6,720**		5,837	
Northumbria Police		**5,875**	**107,833**	6,546	106,291
Business Rates - Payment to pool	49	**73,079**		76,131	
Business Rates - Cost of collection and other allowances.	49 & 50b	**1,870**	**74,949**	1,905	78,036
Amounts Written Off:					
Council Tax	50a		**470**		430
Provision for uncollectable amounts:					
Council Tax			**(391)**		(723)
			182,861		184,034
Net Income (Deficit) for the Year			**803**		1,475
Add balance b/fwd from previous year			**1,141**		166
Less Amounts transferred to General Fund					
Council Tax Surplus			**(50)**		(500)
Fund Balance Carried Forward at 31 March	52		**1,894**		1,141

Notes to the Collection Fund Account

48 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base. This basic amount of Council Tax for a Band D property £1,342.80 for 2010/2011, (£1,325.72 for 2009/2010), is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills are based on the following proportions:

Band	Proportion
A	0.67
B	0.78
C	0.89
D	1.00
E	1.22
F	1.44
G	1.67
H	2.00

The calculation of the estimated, adjusted Band D is shown below and gives the amount of Council Tax which would be raised over each Band for every £1 of Council Tax charged by the Council. This is more commonly known as the Council Tax Base.

Band	**2010/2011 £ p**	2009/2010 £ p
A	**43,799.55**	43,785.07
B	**11,270.60**	11,095.10
C	**12,487.82**	12,441.86
D	**7,282.63**	7,317.66
E	**3,195.97**	3,223.22
F	**1,311.51**	1,307.26
G	**883.22**	893.03
H	**28.42**	25.48
	80,259.72	80,088.68

The income of £108,713,589 for 2010/2011, (£107,473,578 for 2009/2010), is receivable from the following sources:

	2010/2011 £'000	2009/2010 £'000
Billed to Council Tax Payers	**82,009**	81,286
Council Tax Benefits	**26,704**	26,188
Total	**108,713**	107,474

Notes to the Collection Fund Account (Continued)

49 – Income from (National Non Domestic Rates) Business Rates

Under the revised arrangements for business rates, the Council collects business rates for its area which are based on local rateable value multiplied by a uniform rate. The total amount, less certain reliefs and other deductions is paid to a central pool managed by Central Government. The contribution due from the Council to the National Non Domestic Rates Pool for 2010/2011 can be analysed as follows:

	2010/2011		2009/2010	
	£'000	**£'000**	£'000	£'000
Gross Rates Collectable		**74,949**		78,036
Less:				
Costs of Collection Allowance	**(333)**		(340)	
Other Allowances and Adjustments Reclaimable	**(587)**		(619)	
Amounts Written Off	**(950)**	**(1,870)**	(946)	(1,905)
Amount Payable to Pool		**73,079**		76,131

Central Government, in turn, pays back to authorities their share of the pool based on a standard amount per head of the local adult population. For 2010/2011 the Council received a contribution from the pool of £137,496,111 which is payable directly to the General Fund, (in 2009/2010 this figure was £125,643,033).

The Total Business Rateable value as at 31 March 2011 was £217,453,597 (the value as at 31st March 2010 was £184,383,871). The Business Rates Multiplier (poundage) for 2010/2011 was 41.4 pence compared to the previous year's figure of 48.5 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 40.7 pence in 2010/2011, (compared to the 48.1 pence in 2009/2010).

50 – Amounts Written Off During The Year

a) Council Tax
Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. In 2010/2011 £469,687 (£430,004 for 2009/2010) was written off with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such does not impact on the Precepting Authorities resources. To put this figure into context, the amount written off compared to the collectable Council Tax for 2010/2011 represents 0.43% (2009/2010 was 0.40%) of the total sum.

b) Business Rates
In 2010/2011 £950,499 was written off, (2009/2010 £945,650), with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such does not impact on the Authorities resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2010/2011 represents 1.27% (2009/2010 was 1.21%) of the total sum.

51 – Government Grants

	2010/2011	2009/2010
	£'000	£'000
Transitional Relief Grant	**2**	(1)

Notes to the Collection Fund Account (Continued)

52 – Fund Balance

The fund balance can be analysed as follows:

	2010/2011 £'000	2009/2010 £'000
Sunderland City Council	**1,673**	1,008
Northumbria Police Authority	**118**	70
Tyne & Wear Fire and Rescue Authority	**103**	63
Total Collection Fund Balance	**1,894**	1,141

The amounts of the Collection Fund balance relating to the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority are shown in the Balance sheet as creditors, as the amounts of £118,054 and £103,213 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £1,673,178 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that 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 do not include estimation techniques.

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.

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency Services
Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

BVACOP
The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
b) Facilitate accurate comparison between both services and authorities.
c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
d) Represent best practice.

Glossary of Terms (Continued)

Capital Charge
The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Capital Expenditure
Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

Capital Financing Charges
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
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority'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
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Fixed Assets
The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

Community Assets
These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Glossary of Terms (Continued)

Constructive Obligation
An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
The form of local taxation operated from April 1993, based on properties.

Credit Approvals
The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

Basic Credit Approvals - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

Supplementary Credit Approvals - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

Creditors
Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

Glossary of Terms (Continued)

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the City Council but not received at the date of the balance sheet.

Defined Benefit Scheme
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
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Direct Service Organisation (DSO)
The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Glossary of Terms (Continued)

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 fixed asset consumed in a period.
- 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.

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.

Expenditure
Amounts paid by the City 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 City Council).

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

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.

Fees and Charges
Income arising from the provision of services, e.g. for the use of recreation facilities.

Formula Spending Shares (FSS’s)
This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

General Fund
This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

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 an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Glossary of Terms (Continued)

IFRIC – *International Financial Reporting Interpretations Committee*

Impairment
A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Income
Amounts due to the City 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 City Council).

Infrastructure Assets
These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.
Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

Intangible Fixed Assets
These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

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.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

Investments (Non-Pensions Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Large Scale Voluntary Transfer (LSVT)
The voluntary transfer of public sector housing tenancies to other bodies, usually to a Registered Social Landlord, which may be a Housing Company or Housing Association.

Leasing
The method of financing the provision of various capital assets to discharge the City 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:

Operating Leases - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Glossary of Terms (Continued)

Lender Option Borrower Option Loans (LOBO)
Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

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.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

London Inter Bank Bid Rate (LIBID)
The rates of interest being bid on the London Money Market for various time periods.

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 Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued 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 but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

Net Book Value
The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable Value
The open market value of the 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.

Glossary of Terms (Continued)

Non-Operational Assets
Fixed assets held by a local authority 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
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

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 (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear District Councils on their behalf.

Prior Year Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowing where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

Private Finance Initiatives (PFI)
PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority 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 Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Glossary of Terms (Continued)

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 Local Authority 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 local authorities 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 authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities 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 their budget setting process.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Rate of Return on Capital
The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

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.

Glossary of Terms (Continued)

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The Materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Renewals Accounting
Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

Research and Development
Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
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.

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The City 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 City Council, the costs principally include employee expenses, capital financing charges and general running costs.

Glossary of Terms (Continued)

Revenue Expenditure Funded by Capital under Statute
Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. *Revenue Expenditure Funded by Capital under Statute* is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits: and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

Statements of Recommended Practice (SORPs)
Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

Statements of Standard Accounting Practice (SSAPs)
Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

Stocks
Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

Supported Capital Expenditure
Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Glossary of Terms (Continued)

Trust Funds
Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to 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;
- the effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the authority will derive benefits from the use of a fixed asset.

Vested Rights
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits:
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

Appendix 1

Summary - International Financial Reporting Standards (IFRS)

- Implemented from1st April 2010
- Accounts for 2009/2010 have been restated so comparable with 2010/2011 accounts

Presentational Changes

2009/10 Accounts format	2010/11 IFRS Format	Pages
Income & Expenditure Account (I&E) Statement of Recognised Gains and Losses (STRGL)	Now both included in the Comprehensive Income and Expenditure Statement	31 / 32
Statement of Movement in General Fund Balance (SMiGFB)	Movement in Reserves Statement (MiRS) - (General Fund movement and all other reserves)	29 / 30
Balance Sheet (detailed)	Balance Sheet (simplified)	33
Cash Flow Statement (detailed)	Cash Flow Statement (simplified)	34
Notes to the Accounts (not prescribed and in any order)	Notes to the Accounts prescribed order and now includes the main Accounting Policies (much more complex)	35 / 117
Collection Fund Account and notes	Collection Fund Account and notes	118
Glossary	Glossary (no change)	122

Summary of the main changes (quite technical)

1. Accrual for Employee Benefits
2. Property Leases – Land / Buildings now separately valued in the accounts
3. Definition of leases has changed – more operating leases becoming finance leases (on Balance Sheet when previously treated as revenue ‘rental hire’ expenditure).
4. Government grants recognised as income when they become receivable. The Government Grants Deferred A/c on the Balance Sheet is not now required and accounting treatment has changed.
5. Investment property more stringent criteria applied – must be solely held for capital appreciation / rental income purposes
6. Assets held for sale - must be being actively marketed or sale is imminent – Council does not have any of these currently.
7. Componentisation – covered in more detail below
8. Segmental reporting – new requirement, accounts more aligned to the structure of the Authority

9. Some major changes already made in previous years accounts (e.g. Financial Instruments and PFI) which helped phase in the more complex IFRS requirements earlier.

Pensions Accounting
FRS17 now IAS19 – only minor changes to reporting requirements, however, – major change is the change in valuing benefits using CPI rather than RPI – (a lower cost option) which has had a significant impact on the accounts for 2010/2011

Component Accounting
Analysis and accounting for assets into their component parts e.g. infrastructure heating system, roof etc. but only where material – but which recognises that different elements of an asset will be used within varying time periods.

Also prospective in nature - applies only to new assets acquired from 1.4.11 and those re-valued each year – but
reflects a more accurate use of assets in the accounts as different components are depreciated having different asset lives – so helpful to management in the use of assets and in making investment decisions.

Finance Officer Foreword
Still a very important summary included within the Statement of Accounts which covers all of the main issues in the accounting year. **(Pages 6 to 16)**

Handout
The handout (based on a CIPFA document 'IFRS – How to tell the story') along with the draft accounts – sets out more details of the changes brought about by IFRS. The Council's figures are used so that it helps with understanding the new format of the accounts and the key messages they provide.

This also includes a Question and Answer sheet on IFRS.

IFRS – changes

Completing the transition to IFRS involved many challenges. But there are opportunities to simplify presentation and make the messages in the financial statements clearer. This briefing note is intended to help non accountants, members and other senior staff to better understand the IFRS-based financial statements for 2010/11. It therefore provides an overview of the main changes involved and explains how the new formats can be used to convey the key points in the following areas:

- Comparisons with budgets;
- General Fund performance;
- Reserves position; and
- Cash flows.

It also provides some answers to commonly raised questions.

Overview of main changes from UK GAAP to IFRS

	Significant IFRS changes	Substantially the same
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority.	New formats consistent with those used in the SORP where this is possible and helpful.
Purchase of goods and services	None.	Everything.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year end.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure	Only the same for capital grants if there are conditions
Property, Plant and Equipment (Fixed Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses. New class of 'assets held for sale'.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.
PFI	Assets brought onto the balance sheet where the authority controls the asset. Changes made in SORP 2009- no change for 2010/11	
Leases	90% 'test' to separate finance and operating leases removed. Property leases classified and accounted for as separate leases of land and buildings. Need to assess whether other arrangements contain the substance of a lease.	Everything else. IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK GAAP.	Everything.

General Fund performance

The format of the first section of the new Comprehensive Income and Expenditure Statement (CIES), the (Surplus) or Deficit on Provision of Services, is very similar to the Income and Expenditure Account under the SORP, although less detail is required below the Cost of Services. The format of the second section of the CIES is, very similar to the STRGL under the SORP which is shown below.

Comprehensive Income and Expenditure Statement (CIES) 2010/2011

	2010/2011		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central services to the public	37,140	31,023	6,117
Cultural, environmental, regulatory and planning services	121,900	39,803	82,097
Education and children's services	335,464	252,573	82,891
Highways and transport services	37,385	10,669	26,716
Other housing services	136,520	120,614	15,906
Adult social care	117,064	50,593	66,471
Corporate and democratic core	25,908	10,169	15,739
Non Distributed Costs	(131,979)	4,479	(136,458)
Cost of Services	679,402	519,923	159,479
Other operating expenditure	40,179	298	39,881
Financing and investment income and expenditure	22,522	3,546	18,976
Taxation and non-specific grant income	0	334,960	(334,960)
(Surplus) or Deficit on Provision of Services	742,103	858,727	(116,624)
Surplus or deficit on the revaluation of fixed assets			(23,870)
Surplus or deficit on the revaluation of available for sale financial assets			0
Actuarial gain / loss on pension assets / liabilities			(7,570)
Other Comprehensive Income and Expenditure			(31,440)
Total Comprehensive Income and Expenditure			(148,064)

Equivalent to the SORP's Net cost of Services, and reconciles to the Segmental reporting Note

Equivalent to the surplus or deficit on the I&E Account under the SORP

Whilst the financial statements under IFRS (other than the Movement in Reserves Statement) still don't provide a direct comparison with the budget, one of the new notes to the financial statements – on segmental reporting - can also provide a bridge between budgets and the financial statements.

Comparisons with budgets

For members, probably the most important issue for them is whether the authority has a surplus or deficit compared to its budget (and Council Tax) for the year. Because the financial statements follow accounting standards rather than local government legislation, this hasn't been easy to identify in the past. However, the new Movement in Reserves Statement gives this information. The extract below shows this information. For housing authorities, there is a separate column in the Movement in Reserves Statement showing the equivalent HRA figures; other columns show earmarked reserves etc.

Movement in Reserves Statement

	General Fund Balance £'000	
Balance at 31 March 2009 (Restated)	**(17,324)**	
Movement in reserves during 2009/2010		
(Surplus) or Deficit on provision of services	20,559	General Fund share of the Surplus or Deficit
Other Comprehensive Income and Expenditure	0	
Total Comprehensive Income and Expenditure	**20,559**	
Adjustments between accounting basis & funding basis under regulations	(27,496)	Statutory adjustments such as replacing depreciation with MRP, pension liabilities with contributions etc.
Net Increase / Decrease before transfers to Earmarked Reserves	**(6,937)**	
Transfers to / from Earmarked Reserves	2,020	
(Increase) / Decrease in 2009/2010	**(4,917)**	Deficit for the year
Balance at 31 March 2010 (Restated)	**(22,241)**	
Movement in reserves during 2010/2011		
Surplus or (Deficit) on provision of services	(116,624)	
Other Comprehensive Income and Expenditure	0	
Total Comprehensive Income and Expenditure	**(116,624)**	
Adjustments between accounting basis & funding basis under regulations	109,724	
Net Increase / Decrease before transfers to Earmarked Reserves	(6,900)	
Transfers to / from Earmarked Reserves	8,632	Offset by transfers from earmarked reserves
Increase / Decrease in 2010/2011	1,732	
Balance at 31 March 2011	**(20,509)**	Gives the change in the General Fund balance over the year

Other Comprehensive Income and Expenditure are taken from the Comprehensive Income and Expenditure Statement (CIES) (see example below), which replaces both the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses (STRGL). The Surplus or Deficit on Provision of Services is the equivalent to the Income and Expenditure Account under the SORP. Other Comprehensive Income and Expenditure includes unrealised gains and losses (eg revaluation of land and buildings), and is the equivalent of the STRGL under the previous guidance.

Members will have previously approved the transfers to or from earmarked reserves shown in the Movement in Reserves Statement. The increase or decrease on the General Fund balance which is shown in this Statement would also normally be reported to members as part of the outturn report, although it might have been described as the surplus or deficit for the year.

A loss shown in the CIES is an indication that the costs of providing this year's services have not been covered by income, which will need to be funded by taxpayers in future years. An overall increase in usable reserves despite a loss being shown in the CIES normally means that there is a corresponding change in unusable reserves as for example MRP charges are replaced with depreciation and impairment. The difference will be reflected in the Capital Adjustment Account. Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayer

Segmental Reporting Note

As discussed above, a comparison with budgets is one of the key items members will look for. Since the financial statements contain figures members won't be used to seeing, it is useful to explain the accounts by starting with the Segmental Reporting note.

The note is based on internal management structures and has to include at least 75% of service expenditure. The example below starts off by showing outturn information previously reported to members, and includes a line for support service recharges. However, if your authority reports the costs of support services separately, they could appear as a separate segment.

Note the headings are based on the Authority's departments

	Leader and Deputy Leader £'000	Resources £'000	Children and Learning City £'000	Healthy City £'000	Attractive and Inclusive City £'000	Total £'000
Fees and Charges	(1,071)	(11,665)	(13,597)	(17,520)	(12,774)	(62,609)
Government grants	(87)	(142,836)	(222,340)	(2,673)	(2,649)	(374,077)
Other Grants, reimbursements and contributions	(1,339)	(581)	(9,477)	(29,831)	(3,614)	(52,877)
Total Income	(2,497)	(155,082)	(245,414)	(50,024)	(19,037)	(489,563)
Employee expenses	4,779	(130,974)	204,065	42,756	33,383	177,758
Other service expenditure	24,227	145,582	88,758	82,508	25,828	405,172
Total Expenditure	29,006	14,608	292,823	125,264	59,211	582,930
Net Expenditure	26,509	(140,474)	47,409	75,240	40,174	93,367

Outturn figures previously reported to members

Note: These sectors have been excluded from the above table - Prosperous City, Safer City and Culture, Sustainable Communities, Responsive Local Services and Customer Care. Please see page 88 of the Councils Statement of Accounts 2010-11 report for full details.

The note then needs to be reconciled to the Comprehensive Income and Expenditure Statement (CIES). The example below also doesn't include 100% of the service expenditure – so the missing services appear in the reconciliation. Including all the service expenditure in the note is likely to be more beneficial for members, and simplifies the reconciliation. Other reconciling items are likely to be common year-end adjustments such as for depreciation, pension adjustments etc. provided that these aren't already included in monitoring reports.

	2010/2011 £'000
Net expenditure in the portfolio analysis.	**93,367**
Net expenditure of services and support services not included in the analysis.	**68,860**
Amounts in the Comprehensive Income and Expenditure Account not reported to management in the analysis.	**(2,748)**
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement.	**0**
Cost of Service in the Comprehensive Income and Expenditure Analysis	**159,479**

The **cost of services** that used to form part of the Income and Expenditure Account now appears in the CIES, and forms part of the Surplus or Deficit. Under IFRS, this figure might be different to that under the SORP, because of changes to the accounting for capital grants. Previously, these were credited to services to match depreciation, whereas capital grants are now credited to taxation and non-specific grant income as they are received (ie not matched with depreciation). This means that service lines won't include capital grant income and also that the Surplus or Deficit may be affected.

Reserves

Reserves – including the General Fund and (where relevant) the Housing Revenue Account – are an indication of the resources available to an authority to deliver services in the future. The key message for members in terms of reserves – especially the General Fund and the HRA – are how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the Balance Sheet and related notes, and in the Movement in Reserves Statement and related notes. This latter statement will be more useful in explaining the changes that have taken place during the year, including contributions to and from earmarked reserves.

The ***Balance Sheet*** remains under IFRS, and the layout is also very similar to the SORP's Balance Sheet. One difference is that the minimum requirements under IFRS are less detailed than under the SORP. For example, only one line is required for property, plant and equipment – although more details than this can be shown if required. With a few exceptions (a new line for assets held for sale, and the cash line now including 'cash equivalents'), the top half of the IFRS Balance Sheet (assets and liabilities) looks very similar to the SORP Balance Sheet.

The bottom half of the Balance Sheet (reserves) is where the main changes have occurred. The key figures are as follows:

	Note	**31 March 2011 £'000**
Usable Reserves	9/22	**(168,962)**
Unusable Reserves	23	**(516,850)**
Total Reserves		**(685,812)**

The minimum requirement is to include only two lines – usable reserves (such as General Fund and earmarked reserves) and unusable reserves (such as the Revaluation Reserve and the Capital Adjustment Account).

Other Reserves can be shown on the balance sheet as long as these totals are shown

Whilst the Balance Sheet aims to show those Reserves over which members have control, some of the unusable will become a charge against the revenue account – or usable reserves – over time. In some cases this might be within a year or two.

Not all reserves can be used to deliver services, and the Code reflects this by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves such as the General Fund and earmarked reserves are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account aren't subject to such member influence.

Cash flows

The final statement required by the Code is the ***Cash Flow Statement.*** Although similar to the SORP Cash Flow Statement, the cash flows of an authority are presented over fewer headings under IFRS than under SORP. Consequently, the statement will be quite short if the minimum presentation is used. A key difference is that the statement balances to the movement in 'cash and cash equivalents', not just to the movement in cash. The indirect method could look like this:

	2010/2011 £'000
Net (surplus) or deficit on the provision of services	**(116,624)**
Adjust net surplus or deficit on the provision of services for non cash movement	**92,174**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(18,976)**
Net cash flows from operating activities	**(43,426)**
Investing activities	**33,021**
Financing Activities	**(13,233)**
Net (increase) or decrease in cash and cash equivalents	**(23,638)**
Cash and cash equivalents at the beginning of the reporting period	**44,882**
Cash and cash equivalents at the end of the reporting period	**21,244**

Surplus or Deficit taken from Comprehensive Income ad Expenditure Statement

3 groups of transactions
- Operating
- Investing
- Financing

Cash and cash equivalents figure in the Balance Sheet

IFRS questions and answers

IFRS – what is it?

International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. IFRS is the international equivalent of the Financial Reporting Standards (FRSs) used until now in the UK.

Why move to IFRS?

In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt IFRS, as this was seen as best practice and allowed for international comparisons to be made.

It was also a question of timing. The UK Accounting Standards Board (ASB) has been reviewing the future of UK GAAP and in the short to medium term all but the smallest organisations will be producing accounts based on IFRS.

Why does IFRS change everything?

It doesn't. Recent UK standards have been based on IFRS, so many requirements are unchanged. There are differences, and the work required to reflect these changes shouldn't be underestimated, but for many transactions, there is little or no change as shown in the table on page 1.

The accounts are already too long – and IFRS will make them worse.

Yes, the accounts can be long, but local authorities have a complex story to tell. IFRS does introduce more disclosures. But notes only need to be produced if they are material - leaving out notes that aren't material or required by legislation is a good start.

The Pension deficit is meaningless – why do we have to show it?

The deficit doesn't have to be funded from this year's budget, but it's still a true cost – it represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding. Not showing this would hide the liability that the authority has incurred.

This also applies to other reserves. Like the Pension Reserve, the Capital Adjustment Account, the Unequal Pay Back Pay Account and similar reserves all do one thing: they hold expenditure that the authority has incurred but not yet financed. Think of them as being a bit like a credit card balance - these amounts will have to be funded in future, either from taxation or from usable reserves.

Concerns have been expressed that all these reserves make the Balance Sheet incomprehensible. But all that needs to be shown on the Balance Sheet itself are 'Usable Reserves' and 'Unusable Reserves' – the details can all go in a note. This will help to de-clutter the Balance Sheet.

A lot of detail is required in relation to employees' pay. Is it really needed?

Yes - it's a legal requirement. It's also in line with the rest of the public sector, and in the current climate of transparency, local authorities can't be seen to be less open than everyone else.