Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 30 September 2016 at 1.30pm

For further information and assistance, please contact:

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9.	**Treasury Management 2016/2017 – Second Quarterly Review** Report of the Director of Corporate Services (copy attached).	237

ELAINE WAUGH
Head of Law and Governance

Civic Centre
Sunderland

21 September 2016

Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 24 June 2016

Present:

Mr G N Cook

Councillors O'Neil, Scullion, Wood and Mr M Knowles.

In Attendance:

Barry Scarr (Interim Director of Corporate Services), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Rhiannon Hood (Assistant Head of Law and Governance), Lisa Armstrong (Principal Accountant), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Speding and N Wright.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 18 March 2016 be confirmed as a correct record.

Liz St Louis, Head of Customer Service and Development, was in attendance to provide an update with regard to the ICT Unit as external reports had found limited assurance in relation to the Business Continuity and ICT key risk areas within the Corporate Assurance Map.

Liz advised that the Business Continuity Planning Corporate Risk Area had changed from green to amber and it was acknowledged that work had fallen behind on this. A project had now been instigated and officers in ICT were working closely with the Business Continuity Officer to address the issues.

Scott Butler, Assistant Technical Services Manager, reported that a third party consultant had been engaged to review the position and report their findings and suggested actions. The first meeting of a project board established to review Business Continuity and Disaster Recovery from an ICT point of view had taken place and the group would meet several times during June and July. Work was taking place to develop test scenarios for Business Continuity and Disaster Recovery for key business solutions and once completed, testing would be scheduled for the core systems. The work was not being looked at as an ICT solution but rather a core business solution.

The Chair thanked Liz and Scott for the update and was keen to ensure that sufficient resources were available to carry out this work as recovery plans were a serious and critical issue for the authority. He requested that further updates on the major priorities be brought to future meetings of the Committee.

Ann Goldsmith, Interim Director of Children's Services, was also in attendance to provide an update on the work being carried out to address issues in the Children's Safeguarding service.

Members of the Committee were provided with a copy of the Children's Services Learning and Improvement Plan and the Performance Dataset for the Improvement Board. Ann referred to the Improvement Plan and advised that this had been submitted to Ofsted 70 days after the initial inspection and was now showing that more actions were rated as 'green', showing that they had been completed and there was evidence that the improvement was sustained.

The permanent senior management team was now in place and Alex Hopkins, Director of Children's Services and Chief Executive of Together for Children Limited, would review the Improvement Plan once he formally came into post in July.

It was expected that there would be a small Ofsted inspection during August and this would potentially be based around the theme of care leavers. The Children's Commissioner was happy that this theme was to be proposed and it was understood that the original inspector was also interested in looking at this area.

Ofsted had changed their regime for authorities who had been judged to be inadequate and had introduced monitoring visits which would be a more formal visit and include many elements of a formal inspection. A letter would be published setting out the findings from this mini inspection and it was expected that this would be received before the end of August. Visits would take place quarterly until a full follow up inspection took place within two years of the original visit and a theme for each visit would be agreed in advance of the monitoring inspection.

The Committee were informed that the service continued to work on addressing issues and it was highlighted that there were due to be some Serious Case Reviews published in July.

Ann directed Members to the performance report and highlighted that the summary again showed that there were more actions which were rated green showing that performance was good and in line with, or above, target. One of the areas which continued to have problems was the front end of the system where children were referred and there were a high level of partner contacts which flooded this area. The

Children's Safeguarding Board were aware of the issue and would look again at trying to raise the threshold with partners.

There continued to be recruitment challenges; there was a strategy and expectations about the standard of practice but the pace was frustrating due to the number of agency workers, however there had been some improvement in timeliness and quality. A national advertisement had been issued and there was an online microsite for recruitment to the additional posts which had been put into the service.

There were more children subject to Child Protection Plans at the present time than there had been in previous years which reflected anxiety in professional networks. There was a marked improvement in permanence planning and there was much better performance in having all children seen regularly, including young people leaving care.

The number of looked after children who were not in employment, education or training was reducing month by month and it was hoped to get this figure in line with the national average. All accommodation for care leavers had been reviewed, with the Change Council having carried out some inspections and young people being much more involved in giving feedback.

The performance report identified a number of areas which were still to achieve 'green' status but the most important factor was consistency in quality of practice. Work was taking place to update transitions protocols as a result of a scrutiny workshop and early help services were being reviewed and restructured and efforts made to co-locate these teams alongside social workers where the workload was generic.

Mr Knowles commented that progress seemed to be reasonable but noted that the PI for 'Contact Outcome and Timeliness of Decision Making' seemed to remain resolutely red. Ann Goldsmith stated that there were too many contacts of variable quality. The Multi Agency Safeguarding Hub (MASH) would receive initial contacts and the staff, which included the Police, health and education services, had recently been re-shuffled with the intention that they would take a view on the threshold and feed back to their parent organisations. The changes had taken effect on 14 April 2016 and it was hoped that over time this would see the number of contacts being reduced.

Councillor Wood asked if it was known how much longer agency staff would be relied upon and Ann stated that there was a real push on frontline manager posts which would encourage people to stay with the authority. It was positive to have a permanent senior management team which stabilised the service, however it was nowhere near achieving the target of ten appointments every month. Realistically, the service would be relying on agency workers into the next financial year but there was an opportunity for increased recruitment due to media interest in the new company.

The Chair thanked Ann for her comprehensive update and wished her well for the future.

Annual Governance Review/Annual Governance Statement 2015/2016

The Director of Corporate Services submitted a report providing details of the 2015/2016 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The report also included a Draft Annual Governance Statement and an improvement plan for the year ahead.

The Audit, Risk and Assurance Manager advised Members that assurance work was carried out throughout the year and was used to review the Council's corporate governance arrangements on an annual basis. The assurance gathered was shown on the Corporate Assurance Map and the final position as at 31 March 2016. It was highlighted that management assurance had changed from green to amber in relation to Customer Focus and Performance Management but the overall assurance positions remained the same.

In terms of Internal Audit performance, all of the targets had been achieved apart from the implementation of medium risk recommendations which stood at 84% against a target of 90%. There had originally been 54 audits planned for the year, however it had not been considered appropriate to carry out five of them; four of these were related to children's social care and the fifth related to Human Resources and Organisational Development, however as the relevant officers were under pressure to deliver the pay and grading review it was decided to move the audit into 2016/2017.

It was confirmed that 91% of the planned audits had been completed and an additional four unplanned audits were also completed during the year, meaning that sufficient audit work had been undertaken in order to provide an internal audit opinion on the Council's overall system of control.

The Audit, Risk and Assurance Manager drew Members' attention to the counter fraud and error work which had been undertaken during the year, noting that there had been no major concerns.

Appendix 1 of the report set out a small number of improvements which had been identified to strengthen the corporate governance arrangements and the draft Annual Governance Statement was attached as Appendix 2.

Having considered the report, it was: -

2. RESOLVED that: -

   (i) the report and the updated Corporate Assurance Map be noted;

   (ii) the Improvement Plan included at Appendix 1 be agreed; and

   (iii) the draft Annual Governance Statement at Appendix 2 be agreed.

Annual Report on the Work of the Committee

The Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2015/2016 and the outcome of this work. The report was intended to demonstrate how the Committee had fulfilled its role and would be presented to the Council following consideration by the Committee.

The report set out the role of the Committee and the matters considered during the year which had included the Corporate Assurance Map, the Ofsted inspection of the Children's Safeguarding service, Information Governance arrangements, Treasury Management and the annual Statement of Accounts.

The Chair commented that he felt that the report accurately reflected the work which had been done over the past year and that regular reports had been received from council officers if the Committee had any specific concerns.

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

Corporate Assurance Map 2016/2017 – Update

The Head of Assurance, Procurement and Projects submitted the updated Corporate Assurance Map which had been reviewed based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year and the performance of Internal Audit.

Members were directed to the map itself and advised that performance management assurance in relation to customer focus should be amber rather than green and that assurance from the Programme and Projects Office on Programme and Project Management had changed from amber to green.

The Strategic Risk Areas were in the process of being reviewed and now that the Corporate Plan had been finalised, the Strategic Risk Profile would be updated over the summer.

The detailed results of Internal Audit work was set out at Appendix 2 to the report and the Audit, Risk and Assurance Manager stated that a further seven school audits had been issued and two further audits had been added to the plan.

The work of the Risk and Assurance team was also outlined within the report and it was highlighted that the Council had now completed the Department of Health's Information Governance Toolkit and had achieved level 2, with an action plan. The Risk and Assurance team would continue to support further improvements in working towards Level 3 compliance. There were some key areas which were being targeted for improvement which would reduce risk considerably.

The performance of Internal Audit was on target for all KPIs apart from the percentage of medium risk recommendations implemented for the Council and schools which stood at 84% and 82% respectively.

Mr Knowles commented that he looked forward to receiving the revised Corporate Assurance Map and stated that he would be keeping a close eye on the areas where the assurance position was limited, referring particularly to Performance Management and Information Governance.

Councillor Wood asked about the planned Internal Audit coverage for service and business planning in relation to Human Resources and Organisational Development's proposals for spinning out services. The Audit, Risk and Assurance Manager advised that the service was considering options for moving into a different model with the aim of improving income generation opportunities.

Having considered the report, it was: -

4. RESOLVED that the updated Corporate Assurance Map 2016/2017 be noted.

Draft Statement of Accounts 2015/2016 (Subject to Audit)

The Director of Corporate Services submitted a report providing Members with a draft copy of the Council's Statement of Accounts 2015/2016 (Subject to Audit), details of the new requirements of the Accounts and Audit Regulations 2015 and the Letters of Assurance required by the external auditor as part of the final accounts process. Appendix B, 'Amendments to the Statement of Accounts' was tabled at the meeting.

The Director of Corporate Services reported that the Accounts were fully compliant with the code of practice for 2015/2016 and referred the Committee to the Narrative Statement which set out the Council's financial position, key priorities and performance management arrangements. The 2015/2016 had seen the adverse Ofsted inspection of Children's Services, however the financial impact of this had been managed well.

The Committee were advised that, in relation to the funding context and financial planning, matters had been stable over the last few years, however this was now beginning to change in light of rising inflation and other changes in the financial landscape. The council continued to plan for further significant budget reductions and risks through an approved Efficiency Strategy.

The Council's Capital Programme remained ambitious and totalled £252m over four years to 2019/2020. The Council also continued to examine the most appropriate service delivery options for services and these had included Sunderland Care and Support Limited, Sunderland Live Limited, Siglion and Sunderland Lifestyle Partnership.

The Council had also agreed to establish a Children's Company to deliver children's services on behalf of the Council and the structure and governance arrangements for the company were currently being determined. This company would go live from April 2017.

In terms of the overall financial performance of the Council, there was an underspend of £0.220m for the financial year and the general reserve balance of £7.570m had been maintained. Moving forward the authority would look to bring the additional funding out of Children's Services and the Director of Corporate Services highlighted the careful and prudent approach which was taken to Treasury Management. He also thanked the Assistant Head of Financial Resources and his team for their work in pulling together the Financial Statements for 2015/2016.

Councillor Wood referred to Note 31 regarding the disclosure of remuneration information and the Director of Corporate Services confirmed that this was a legal requirement.

Having considered the report, it was: -

5. RESOLVED that: -

(i) the draft and unsigned Statement of Accounts 2015/2016 (subject to audit) and the separate Statements set out in Appendices C to E as a result of complying with the requirements of the Accounts and Audit Regulations 2015, be noted;

(ii) the contents of the Letter of Assurance from those charged with governance be approved; and

(iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

Treasury Management Review of Performance 2015/2016

The Director of Corporate Services submitted a report presenting the Treasury Management borrowing and investment performance for 2015/2016 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Council on 2 March 2016.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.52% was low and in the top quartile when benchmarked against other authorities. The rate of return on investments was 0.92% for the year which was also in the top quartile against a benchmark rate of 0.36%.

Members were reminded of the basis of the Borrowing Strategy for 2015/2016 and that it had been reviewed in June, September and December 2015. The strategy had agreed a benchmark financing rate of 4.25% for long term borrowing and no new borrowing had been taken out during 2015/2016.

The Authorised Borrowing Limit for External Debt had been set as £516.408m for 2015/2016 and the Operational Boundary for External Debt was set as £422.196m and the authority was well within the tolerances for these.

The Director of Corporate Services commented that the average borrowing rate achieved by the Council was remarkable, especially for fifty year money, and that the Assistant Head of Financial Resources and the Treasury Management team should be applauded for achieving this result.

Accordingly the Committee: -

6. RESOLVED that the positive Treasury Management performance for 2015/2016 be noted.

Treasury Management – First Quarterly Review 2016/2017

The Director of Corporate Services presented a report outlining the Treasury Management performance for the first quarter of 2016/2017 and setting out the Lending List Criteria and Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. The Committee were advised that PWLB rates had fluctuated throughout 2015/2016 and continued to be volatile, therefore no new borrowing had been taken out to date in 2016/2017 but the position continued to be monitored.

The Assistant Head of Financial Resources advised that borrowing had been taken out during 2015/2016 when PWLB rates had dipped to record low rates and it was the aim of the Treasury Management team to take value at the most opportune time and a prudent approach was taken towards borrowing small amounts of money at a time. The position would continue to be monitored as the rates could be affected by the outcome of the EU referendum.

The Council's interest rate on borrowing was very low, currently 3.52%, and the authority benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.84% compared with a benchmark of 0.36% and the Assistant Head of Financial Resources advised that this rate had dropped slightly due to financial institutions strengthening their balance sheets and the overall trend was downwards.

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

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as an appendix to the report for information.

The Chair thanked the Assistant Head of Financial Resources and his team for the excellent performance of the Treasury Management function as outlined in the report.

7. RESOLVED that: -

   (i) the Treasury Management performance for the first quarter of 2016/2017 be noted; and

   (ii) the Lending List Criteria set out at Appendix B and the Approved Lending List at Appendix C be noted.

External Auditor – Audit Progress Report

The Director of Corporate Services submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to June 2016.

Gavin Barker advised that Mazars had completed all of the audit planning work, carried out interim testing and were now ready to begin detailed testing on the Financial Statements. The external auditors liaised closely with the Assistant Head of Financial Resources and his team and commended their professional approach to the audit process.

Gavin also stated that officers had experimented with bringing the accounts production timetable forward and discussions would take place following the completion of this year's audit about delivering an earlier audit for 2016/2017.

The report informed Members that the second meeting of the North East Governance Forum would take place on Thursday 16 June 2016 and also drew attention to three recent publications which may be of interest to the Committee.

8. RESOLVED that the Audit Progress Report be noted.

Update on Key Issues

This item was deferred to a future meeting of the Committee.

(Signed) G N COOK
Chair

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **30 September 2016**

CORPORATE ASSURANCE MAP 2016/2017 – UPDATE

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year; and the performance of Internal Audit.

1.2 For completeness, the report covers Internal Audit's key performance measures. The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

3. Background

3.1 In March 2016 the Committee approved the proposed Corporate Assurance Map for 2016/17 and the plans of work for Internal Audit and Risk & Assurance.

3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

4.1 The updated Corporate Assurance Map, as at 20th September 2016, is shown overleaf.

4.2 The Map also shows assurance received in relation to the Council's wholly owned companies, Sunderland Care and Support Ltd and Sunderland Live Ltd.

Corporate Assurance Map

Assurance Position (Cumulative)		2016/17										
		1st Line	2nd Line								3rd Line	
		Management Assurance	Other Internal Assurance Activity								Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR &OD	Business Continuity	Risk and Assurance		
Strategic Risk Areas												
Current Risk	Residual Risk											
People										X		
Place										X		
Economy										X		
Organisational				X						X		X
Corporate Risk Areas												
Customer Focus / Service		X				X				X	X	X
Legality		X	X							X	X	
Service / Business Planning		X				X				X	X	X
Programme and Project Management		X			X					X	X	
Partnerships		X								X	X	X
Business Continuity Planning		X							X	X	X	
Procurement		X								X	X	
Relationship and Contract Management		X								X	X	
Financial Management		X		X						X	X	X
Human Resource Management		X						X		X	X	
Information Governance		X	X							X	X	X
Performance Management		X				X				X	X	X
Asset Management		X								X	X	
ICT Strategy and Delivery		X					X			X	X	
Fraud and Corruption		X									X	
Risk Management (Service Delivery)		X								X		
Schools		X		X						X	X	
Wholly Owned Companies												
Sunderland Care and Support Ltd		X		X		X					X	X
Sunderland Live Ltd		X		X		X					X	

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

Strategic Risk Areas

4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. A refresh of the Strategic Risk Profile has been completed and is included on this meeting's agenda for consideration by the Committee. This shall then feed into a revised Corporate Assurance Map, therefore the previous Risk Profile has not been included as an Appendix to this report.

Assurance from Internal Audit

4.4 The audits to be carried out this year and the detailed results of Internal Audit work are shown at Appendix 1, with the summary outcomes shown on the Map. Appendix 1 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level. Those audits shown in grey are those in previous year's where it became not appropriate to complete the audit at that time or in that way.

The assurance level from Internal Audit for the Legality key risk area has changed from Green to Amber. This is due to limited assurance being provided for the audit which covered the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date.

Although significant work is being undertaken to improve the Council's approach to information governance, recent checks specifically on the use of email to send sensitive / confidential information have identified that this remains an issue. An audit undertaken during 2015/16 highlighted this as a concern and significant risk recommendations were made. The recent checks have shown that only one of the recommendations have been effectively implemented. A further report and action plan has been issued to address this.

Assurance from Risk and Assurance Team

4.5 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 2. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:

- Support to the development of alternative service delivery vehicles such as Sunderland Care and Support Ltd and place based services.
- Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3 and the International Advanced Manufacturing Park.
- Delivery of the Children's Services Improvement Plan and preparation for the set-up of the new company, Together for Children.
- Risks in relation ICT business objectives, including disaster recovery/business continuity.

- Replacement of the SWIFT ICT system.
- Information Governance.
- Adults Safeguarding Board, and Personal Budgets/Direct Payments
- Governance arrangements and procedures at Sunderland Care and Support Ltd.

4.6 At the last meeting of the Committee an update was provided in relation to the Council's arrangements for updating and testing the ICT disaster recovery and business continuity plans as they were considered to be out of date. Members may be aware that a recent incident resulted in the loss of access to ICT systems. The Council will in due course undertake a review of the circumstances relating to this incident and will take account of this when updating the BCM plans.

Assurance from others within the Council

4.7 Assurance provided from others within the Council is shown in the Corporate Assurance Map.

4.8 Provision for all on-going financial pressures, including Children's Safeguarding, has been made within the budget planning for 2016/2017 and delivery of the savings plans is being closely monitored through the Implementation Board.

Assurance from Management

4.9 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

4.10 The Map includes assurance from relevant external sources. The results of the external reports in relation to the ICT Unit is shown as Limited Assurance being provided against both the Business Continuity and ICT key risk areas in the Corporate Assurance Map. An officer is attending the committee meeting to provide an update in relation to these arrangements

Overall

4.11 All overall assurance levels remain the same.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 3.

5.2 Performance is on target for KPI's apart from:

- The percentage of significant risk recommendations implemented by the due date stands at 91% against a target of 100%. This relates information governance issues as described in paragraph 4.4 above.

- The percentage of medium risk recommendations implemented for the Council and Schools is shown below..

Area	Implementation Rate
Council services	87%
Schools	79%

6. Conclusions

6.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.

6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control. In relation to Children's Safeguarding, the Council received positive feedback from its first Ofsted monitoring visit which reviewed the progress made in respect of the experiences and progress of care leavers. The Ofsted report concluded that the local authority is making significant progress to improve services for care leavers.

7. Recommendations

7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Appendix 1

Detailed Internal Audit Coverage

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Customer Focus	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network	M	Community and Family Wellbeing		Better Care Fund			Moderate
	Out of Area Placements	L			Adoption Service		Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	Web Content Development	M			Multi Agency Safeguarding Hub		Leaving Care Grants		A review of the controls in place to manage monies due to young people leaving care.	
	Crisis Loans / Social Fund	S			Safeguarding and Quality Assurance Unit		Bereavement Services		Review of proposed changes to service systems and procedures	
					Commissioning	L				
					Accounting / General Ledger	S				
					Personal Budgets	L				
Legality					Constitution	M	Employment Clearances	L	A review of the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Service / Business Planning	Corporate Service/ Business Planning	M	Corporate Service Planning Arrangements		Community and Family Wellbeing		Corporate Service Planning Arrangements		Audit of the level of compliance with the new planning framework	Moderate
	Community and Family Wellbeing - Governance Arrangements	L	Community and Family Wellbeing - Governance Arrangements		Adoption Service		Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	Derwent Hill	M	Multi Agency Safeguarding Hub		Multi Agency Safeguarding Hub		Ethos		A review of the proposed arrangements for spinning out HR & OD services.	
	Out of Area Placements	L	Port Governance Arrangements	M	Commissioning	L				
	Operational Asset Management	M	LEP Accountable Body Arrangements	S	Corporate Service Planning Arrangements	S				
Programme and Project Management	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Corporate Service Planning Arrangements	S	Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	Moderate
			Realisation of Benefits & Savings	M	Capital Programme Funding and Monitoring Benefits Realisation	M L				
Partnerships			Corporate Partnership Arrangements	L	Follow Up of 2014/15 audit		Partnerships		A review of the level of compliance with the new Partnerships Code of Practice	Limited
			Multi Agency Safeguarding Hub							

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
			Sunderland Partnership							
Business Continuity and Emergency Planning	HHAS Business Continuity Planning	M	Corporate Business Continuity Planning	M	Emergency Planning	S	Business Continuity Planning		An audit of the BCP arrangements in People Services	Moderate
Procurement	Derwent Hill	M	Commissioning	L	Commissioning	L	Agency Workers - Off contract spend		A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	Moderate
	Out of Area Placements	L	Contract Management	M	Revenue Procurement	M				
	Revenue Procurement	S	Capital Procurement	S						
Relationship and Contract Management	Streetlighting PFI Contract Management	M	Commissioning	L	Commissioning	L	Highways Contract Monitoring		A review of the arrangements for monitoring highways construction projects	Moderate
	Events Company Contract Management	M			Contract Management - Sunderland Care and Support	M	Leisure Services Management	M	Review of the management and monitoring arrangements for the delivery of the leisure contract.	
					LABV	L				
					Capital Programme Funding and Monitoring Benefits Realisation	S L				
Financial Management	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding		Grant certification	Substantial

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Grant certification	
	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant	M	Troubled Families Performance Reward Grant	L	Troubled Families Performance reward Funding		Grant certification	
	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Personal Budgets	L	Sport for Life Grant		Grant certification	
	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Financial Verification of Leavers from the Direct Payments Scheme	S	Disabled Facilities and Social Care Capital Grants (replaces Sunderland a City by the Sea grant for which there is no audit requirement)	S	Grant certification	
	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Port Income	M	Big Coastal Communities Grant		Grant certification	
	Out of Area Placements	L	Commissioning	L	Commissioning	L	SSTC2		Grant certification	
	Foster Care Allowances	M	Port Governance Arrangements	M	Corporate Service Planning Arrangements	S	Leaving Care Grants		A review of the controls in place to manage monies due to young people leaving care.	
	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements	S	Personnel Administration Arrangements		Adult Social Care Contributions		Audit of the Benefits Assessment Team's calculation of clients' contributions	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
			Personal Budgets / Direct Payments	M	LABV	L	Port Fuel System		A review of the systems for issuing and controlling fuel stocks.	
	Direct Payments	L	Accounting / General Ledger	S	Accounting / General Ledger	S	Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	34 Schools	S	32 Schools	S	18 schools	S	Agency Workers - Off contract spend		A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	
	SAP Organisation Structures	S	SAP Organisation Structures		Capital Programme Funding and Monitoring Benefits Realisation	S L	Payroll		Audit of the controls in the payroll processing and payments systems.	
	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	BACS Processing	S	Asset Register / Capital Accounting		Audit of the arrangements for accounting for the Council's capital assets	
	BACS Processing	S	BACS Processing	S	Cash Receipting	S	Income		Audit of the Accounts Payable and Periodic Income systems	
	Cash Receipting	S	Cash Receipting	S	Accounts Payable	M	Accounts Payable		An audit of the system for making payments to creditors	
	Payroll	M	Payroll	M	Accounts Receivable	S				
	Council Tax	S	Council Tax - Valuation	S	Periodic Income	S				
	Business Rates	S	Business Rates - Valuation	S	Benefits Administration	S				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Accounts Payable	S	Accounts Payable	M	Business Rates - Liability	S				
	Accounts Receivable	S	Accounts Receivable	S	Business Rates - Revised Billing	S				
	Aquatic Centre	S	Periodic Income	S	Enforcement Section	S				
	Benefits	S	Benefits Administration	S	Payroll	M				
	Council Tax Support Scheme	S	Recovery of Benefit Overpayments	M	Revenue Procurement	M				
	Operational Asset Management	M	Elections Hardware Grant	S	Autism Innovation Grant	S				
	Asset Register / Capital Accounting	S	Cash in Transit / Parking Services Income	M	Agency Workers (Unplanned)	N				
	Building Maintenance	N			Go Smarter to Work Grant	S				
	Capital Programme Funding and Monitoring	S								
	Treasury Management	S								
	External Funding	S								
	External Funding - Support to Partners / VCS	M								
	Insurance Claims Handling	S								

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Council Tax Support Scheme	S								
	Local Business Rates Scheme	S								
	Crisis Loans / Social Fund	S								
	Derwent Hill	M								
	Events Company Contract Management	M								
Human Resource Management	SAP Organisation Structures	S	SAP Organisation Structures		SAP Organisation Structures	M	SAP Organisation Structures	M	A review of the controls surrounding the Organisation Structure as recorded on SAP	Moderate
	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements	L	Induction Procedures	M	Ethos		A review of the proposed arrangements for spinning out HR & OD services.	
	Corporate HR Management	M			Code of Conduct / Whistleblowing	M	Agency Workers - Off contract spend		A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	
					Personnel Administration Arrangements		Payroll		Audit of the controls in the payroll processing and payments systems.	
					Agency Workers (Unplanned)	N	Employment Clearances	L	A review of the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
							Personnel Administration Arrangements		A review of the administrative processes relating to, for example, recruitment, starters, leavers, honoraria etc	
Information Governance	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Reviews of data security.	Limited
			Multi Agency Safeguarding Hub		Multi Agency Safeguarding Hub					
					Use of Email	L				
Performance Management	Operational Asset Management	M	Corporate Performance Management Arrangements	M	Multi Agency Safeguarding Hub		Corporate Performance Management Arrangements		A review of compliance with the new performance management framework, and verification of performance data	Moderate
	Community and Family Wellbeing - Governance Arrangements	L	Community and Family Wellbeing - Governance Arrangements		Community and Family Wellbeing		Adults Services Performance Management		Review of data quality	
					Capital Programme Funding and Monitoring Benefits Realisation	S L				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
					Safeguarding and Quality Assurance Unit					
Asset Management	Derwent Hill	M			LABV	L	LABV Client Arrangements		A review of the implementation of the Siglion client arrangements	Moderate
	Technology Forge	L			Corporate Asset Management	M	Asset Register / Capital Accounting		Audit of the arrangements for accounting for the Council's capital assets	
	Operational Asset Management	M					ICT Technology Allocation Process	M	Implementation of new policy on allocation of ICT equipment, mobile phones etc	
	ICT Asset Management	M								
	Asset Register / Capital Accounting	S								
ICT Strategy and Delivery	ICT Asset Management	M	Physical and Environmental Controls	S	Cyber Security	L	ICT Technology Allocation Process	M	Implementation of new policy on allocation of ICT equipment, mobile phones etc	Moderate
			Mobile Phone Contract	L						
Fraud and Corruption	Counter Fraud Testing		Counter Fraud Testing	M	Financial Verification of Leavers from the Direct Payments Scheme	S	140 days for targeted counter fraud work			Substantial
	National Fraud Initiative Case Investigations		National Fraud Initiative Case Investigations	S	BACS Processing	S				
	Direct Payments	L	Schools Counter Fraud Checks	S	Cash Receipting	S				
			Personal Budgets	M	Accounts Payable	M				
	BACS Processing	S	BACS Processing	S	Accounts	S				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
					Receivable					
	Cash Receipting	S	Cash Receipting	S	Periodic Income	S				
	Payroll	M	Payroll	M	Benefits Administration	S				
	Council Tax	S	Council Tax - Valuation	S	Business Rates - Liability	S				
	Business Rates	S	Capital Procurement	S	Enforcement Section	M				
	Benefits	S	Benefits Administration	S	Payroll	M				
	Accounts Payable	S	Accounts Payable	M	Revenue Procurement	M				
	Accounts Receivable	S	Accounts Receivable	S	Agency Workers (Unplanned)	N				
			Periodic Income	S						
			SAP Organisation Structures							
			Cash in Transit / Parking Services Income	M						
Risk Management			Port Governance Arrangements	M						Substantial
Schools	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	30 schools completed to date - 24 substantial, 5 moderate, 1 limited	S	18 schools 15 completed to date, 13 substantial, 2 moderate	S	31 schools in plan - 20 schools completed to date - 16 substantial and 4 moderate	S		Substantial

Other Clients

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Sunderland Care and Support	Direct Payments	L	Governance Arrangements	L	Community Equipment Store	M	Transactions Testing		To assess the level of compliance with recently introduced new procedures	
			Farmborough Court	S	Grace House Partnership	M				
			Financial Procedures in Residential and Daycare Units (Establishment Visits)	L	Reablement	M				
					Governance Arrangements	M				
					Unit Costing					
	Procurement Arrangements	S	Management and Security of Service Users Monies – Compliance with Procedures	S						
	Risk Management Arrangements	L								
	Information Management Arrangements	S								
	Transaction Testing	S								
Sunderland Live	Governance Arrangements	M	Airshow Income – Transaction Testing	M	Airshow Income – Transaction Testing	L	Governance Arrangements		Review of the effectiveness of the revised Governance arrangements within the company	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Verification of Expenditure and Income Transactions	M	Income	L	Procurement					
			Event Management	L	HR Management					
					Information Governance					

Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational. Mitigating actions have been agreed and progress is being monitored. A review of the profile has been completed in line with the development of the revised Corporate Plan and is set out on this Agenda.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the management of risks through services, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	An assurance framework for schools is in place and updated with key officers within the People's Directorate. A number of Academies have also bought in the risk service.
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	Major projects / service reviews being supported include: • Sunderland Care and Support Ltd. • ICT – various activity, including disaster recovery/business continuity • Adult Social Care • Safeguarding – Childrens and Adults • Replacement of the SWIFT ICT system • Enterprise Zones and international Advanced Manufacturing Park • New Wear Crossing construction and SSTC Phase 3 • Information Governance • Sunderland Live Ltd.

Appendix 3

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2016/17			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 80% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) On target –- 90% 3) Ahead of target – 90% 4) On target - £460 v £699 average
Quality			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – behind target – 91% Medium – behind target 87% (excluding schools)
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Actual Performance**
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.0 to date 2) Non undertaken 3) 3 compliments 0 complaints

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **30 September 2016**

STRATEGIC RISK PROFILE

Report of the Director of Corporate Services

1. Purpose of Report

1.1. This report sets out the process followed to develop a new Strategic Risk Profile (the Profile) for the Council and presents the Profile at Appendix 1 for agreement by Members.

2. Background / Development of the Profile

2.1. The Council's current Strategic Risk Profile was developed in 2012. Over the last few months the Council has developed a new Corporate Plan (which is currently being consulted upon) setting out its priorities and key actions for their achievement over the short to medium term. A new Strategic Risk Profile has therefore been developed in line with the new Corporate Plan.

2.2. The risks in the new Profile have been set against the actions within the Corporate Plan. The identification of the risks, causes and impacts, evaluation of the risks and the development of mitigating actions were discussed with each member of the Executive Management Team and other key officers within the Council. They were subject to a quality assurance review by the Director of Corporate Services and Assistant Chief Executive before the full Profile was presented to a meeting of the Executive Management Team.

2.3. Final details of the timescales for a small number of the mitigating actions and these will be progressed with the relevant Director.

3. Next Steps

3.1. The Strategic Risk Profile attached only relates to the priorities as set out in the Corporate Plan. A separate Corporate Risk Profile is currently being developed in the same format for those corporate risks that occur in relation to the daily operation of the council, for example risks inherent in financial and non-financial systems. This Profile will be brought to the next committee meeting.

3.2. Once the two profiles are complete the Corporate Assurance Map will then be updated to reflect the new risk areas. Systems are being developed to maintain and update the profiles and provide assurance on the new risk areas. The systems will also be aligned with the new Performance Management Framework that has recently been introduced within the Council.

4. Recommendations

4.1. Members are requested to consider the attached Strategic Risk Profile and provide any comments on its conents.

STRATEGIC RISK PROFILE 2016-20

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

Likelihood				
4				
3				
2				
1				
	1	2	3	4
	Negative Impact			

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Original score: Impact	Original score: Likelihood	Original score: Rating	Target score: Impact	Target score: Likelihood	Target score: Rating	Mitigating Actions	Action Lead	Timescale
Growing the Economy														
1) Maximising the opportunities from the Economic Leadership Board	**R001**	**Councils contribution to the 3,6,9 Vision fails to deliver the required outcomes**	Uncertainty following BREXIT leading to greater caution by Investors. Reduction In Public Sector Budgets/Funding leading to a reduction in resources Proposed projects and actions do not deliver sustainable benefits	Delay in regenerating the city and its key themes of Economy, Housing, Connectivity, Culture and Education	Economic Masterplan 3,6,9 Vision Council officers attend ELB	4	3	12	4	2	8	Develop and implement a process to monitor and review progress of the 3,6,9 Vision delivery plan. Key milestones are reflected in the Corporate Plan and monitored through project governance and performance management arrangements.	Executive Director of Place and Economy	Year one actions from the 3 6 9 Plan delivered: March 17
2) Planning City Growth (Local Plan)	**R002**	**The Local Plan produced by the Council is not accepted by the Planning Inspectorate**	The Planning Inspectorate do not accept that our growth aspirations are supported by appropriate evidence and consultation.	Land is not allocated for the appropriate type of development eg housing development. We are unable to take land out of the greenbelt Loss of New Homes Bonus if plan not agreed by March 17	National Planning Policy Framework DCLG Project Plan, Project Board and governance arrangements Regular Liaison with PINS	3	3	9	3	1	3	Undertake the appropriate research, analysis and consultation to provide the evidence base to the Planning Inspectorate to show that our Plan is sound. Key milestones are reflected in the Corporate Plan and monitored through Project Board and performance management arrangements.	Executuve Director of Place and Economy/Head of Planning & Regeneration	Local Plan passes inspection. (date TBD by Gov.)
3) Sector Growth IAMP Enterprise Zones	**R003**	**Unable to attract commercial / manufacturing interest to our development sites**	Target sectors including automotive, low carbon, and offshore engineering, do not prosper under Brexit (we are no longer seen as a route into Europe) Supporting infrastructure is not in place to attract business	Fail to grow the local economy, create jobs	Economic Masterplan 3,6,9 Vision	4	3	12	4	2	8	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the city to achieve targets and outcomes. IAMP project and Vaux project (Siglion) have robust project governance arrangements.	Executive Director of Place and Economy	IAMP Publication draft of the Area Action Plan June 17 DCO submission March 17 Enterprise Zone Phases 1B and 2 infrastructure works Construction complete November 2017
4) Sunderland as a Place to Invest	**R004**	**Failure to provide appropriate conditions to support viable / sustainable investment opportunities in the City, including effective marketing.**	Investors requirements are not satisfied in relation to; land, skilled workforce, housing, physical and digital connectivity	Fail to grow the local economy, create jobs and increase business rates.	3.6.9 Vision	4	3	12	4	2	8	Developing the appropriate infrastructure Obtaining external funding to develop infrastructure Effective marketing to encouraging a diverse range of investors	To be confirmed	To be confirmed

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale
5) Regenerating the City Centre (Key sites)	**R005**	**Failure to attract investment to support regeneration of the City Centre**	Developer uncertainty as to the return they will receive on their investments due to macro economic issues Delays in obtaining planning permission to develop the sites.	Decline of the City Centre and loss of business rates	Siglion business plan City Centre Masterplans Sunderland BID (Business Improvement District)	4	3	12		4	2	8	Masterplanning underway in further areas (Holmeside, Minster Quarter, Sheepfolds, Sunniside). Continue to engage and consult with developers and other stakeholders at the pre planning application stage to help streamline the process. Siglion projects have robust project governance arrangements. Bid submitted for balance of Station funding. Other capital projects monitored and reported. Funding team horizon scanning and preparing funding bids.	Executive Director of Place and Economy/Head of Planning & Regeneration	Vaux Building 1 handed over to Council September 2017 Holmeside Masterplan March 2017 Minster Quarter Masterplan December 2016 Station funding bid Autumn 2016.
6) More and Better Infrastructure SSTC	**R006**	**Failure to realise the economic regeneration / benefits, arising from the investment in the SSTC programme.**	The land adjoining the transport corridor is in private ownership and the Council has no direct control over investment activity	Local economy is not expanded by new and developing businesses.	SSTC programme MAKE it Sunderland	3	3	9		3	2	6	Engage with landowners and key stakeholders to support development of targeted sites. Robust givernance for SSTC2 project. SSTC3 scoping work underway to achieve project within budget. SSTC 4&5 - funding bid submitted July 2016.	Chief Operating Officer Place/Head of Infrastructure & Transport	Bridge Contraction completion date February 2018 SSTC3 Planning application Dec 16 New Road completed Nov 19
7) More and Better Housing Development	**R007**	**Housing developers are not attracted to Sunderland**	Uncertainty following BREXIT leading to greater caution by developers in opening new sites Diverse housing market requirement including student accommodation better care housing and executive homes Reduction in home owners and an increasing rental sector Delays in agreeing a Local Plan which sets out the areas available for development	Fail to improve the housing offer to retain and attract residents to Sunderland	Housing Strategy Siglion business plan	3	3	9		3	2	6	See above re Local Plan. Incentivise developers and put in place enabling infrastructure. Programme activity so that developers are ready to submit planning applications as soon as the Local Plan is adopted. SCC property disposal programme. Siglion housing sites in progress. SCC Housing Delivery Plan in preparation.	Executive Director of Place and Economy/Chief Operating Officer Place	Delivery Plan to be produced September 2016 Seaburn planning application to be submitted Sept 16
8) Regenerating the Coast Seaburn Phase 1 Roker Park restoration	**R008**	**Opportunities are not taken to regenerate the coast in a timely manner or development is restricted by lack of resources**	Failure to obtain Coastal Communities CC4 funding	Unable to increase the housing offer, develop businesses, increase visitors or add to the cultural offer of the City	Seaburn Masterplan	3	2	6		3	1	3	Develop a more robust bid, based upon feedback from our initial bid Consider actions to improve the attractiveness of the city. CCF round 4 bid has been submitted	Executive Director of Place and Economy/Planning Implementation Technical Manager	Due to hear about stage 1 CCF4 bid Sept 2016
9) Developing the Cultural Offer	**R009**	**City's cultural offer does not contribute to the city being an attractive and vibrant place to invest, work, learn, live and visit**	The Partnership is not successful in delivering cultural ambitions	Reduced opportunity to attract additional tourism, lack of contribution to the wellbeing of citizens	Cultural strategy Establish Culture company Bid for City of Culture	3	2	6		3	1	3	Establish the Culture company and develop a revised Culture Strategy Bid for National Portfolio Organistion Funding	Executive Director of People Services	April 2017 January 2017
10) Regional and Sub regional working	**R010**	**Sunderland is not fully aligned with the approach and aspirations of regional working and is therefore unable to take advantage of the opportunities presented by the North East Combined Authority (NECA) to benefit the people of Sunderland.**	Sunderland continues to carry out activities in isolation in areas where there is a regional approach supported by regional funding	Sunderland's ambitions could be at risk due to activity co-ordinated through regional strategies. Missed opportunities for investment and development of skills	NECA Corporate Plan	4	4	16		4	2	8	Officer and Members to be fully aligned with the NECA arrangements and work proactively with the NECA to develop the region whilst protecting the interests of Sunderland Our priorities and actions to be aligned with regional and sub regional activities	Chief Executive / Director of Strategy, Partnerships amd Transformation	Realignment of Sunderland position and understanding of the impacts pf recent developments December 2017

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale
Improving Education and Skills															
11) Maximising the opportunities from the Education and Skills Partnership	**R011**	**Education and Skills Strategy Delivery Plan does not drive effective development of knowledge and skills**	There is insufficient educational/vocational provision in the city to fulfil the needs of employers	City and individuals will not have the skills to take advantage of economic development	Education and Skills Partnership	4	4	16		4	3	12	Facilitate relationships between employers, education/skills providers and students Inform and influence education/skills providers regarding the priorities for employers Identifying the knowledge and skills required by employers	Chief Executive - Together for Children	To be confirmed
12) Ready for School, Ready for Work, Ready for Life aspirations and achievement	**R012**	**The Council is not able to fulfil its statutory responsibility and/or achieve desired outcomes for Children and young people**	Local authorities no longer control, direct or dictate education provision but they still have a statutory duty to "promote fulfilment of potential" There are further challenges and opportunities arising from the creation of Together for Children	Children and young people do not have the skills, attributes, qualifications and experiences to release their full potential	Commissioning and contract management arrangements	4	4	16		4	3	12	The Council's commissioning intentions are clearly set out in the contract with Together for Children Develop strong relationship and performance management arrangements to deliver the agreed outcomes Arrangements are put in place to facilitate positive relationships with and between the Council, Together for Children, maintained schools and academies	Chief Executive - Together for Children	To be confirmed
Attract and retain young people	**R013**	**More highly skilled people leave to find employment out of the region**	Young people leave the city to further their ambitions and aspirations	Increased outward migration	Economic masterplan 3,6,9 Vision Culture strategy	3	3	9		3	2	6	Understand the factors that would influence young people to remain in the City and develop action plan to address issues	Chief Executive - Together for Children	To be confirmed
Improving Health & Wellbeing															
13) Maximising the opportunities from the Health and Wellbeing Board Support the development of delivery plans for the 8 Health and Wellbeing Board (HWBB) priorities for action	**R014**	**Partner's resources and priorities are not aligned to achieving common outcomes of the Health and Wellbeing Board**	Financial pressures on public services results in a move away from prevention to short term fixes Effective early interventions are not taking place to reduce long term health problems	Health and wellbeing standards are not raised	Health & Wellbeing Board Priority Delivery Plans Joint Strategic Needs assessment	4	3	12		4	2	8	Influence Partners to adopt the Health & Wellbeing Board's Delivery Plans for its 8 Priorities	Director of Public Health	May-17
14) Health and Social Care Integration and whole-system innovation	**R015**	**Current and planned activity to integrate and commission services is not transformational enough to continually deliver required outcomes and budget savings**	Insufficient engagement and missed opportunities to utilise alternative providers in order to reduce demand. Financial pressures on NHS and Council budgets and increasing demand for services and a reduction in early interventions	Failure to achieve the benefits for citizens Continuing financial and demand pressures negative impact on key performance indicators of the Council and Health Continued inefficiencies within the system	Health & Social Care Integration Board Health and Wellbeing Board Providers Board	3	3	9		3	2	6	Successful delivery of the Vanguard action plan Delivery of efficiency savings	Executive Director of People Services	April 2017

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale
Supporting Vulnerable Children and Families															
16) Transform Key Children's Services Establish the Company	**R016**	**Safeguarding practice does not substantially improve to make children safer.**	There is not a clear understanding of what "Good" looks like. Lack of swift and appropriate decision making	Children are not adequately safeguarded	Ofsted Inspections Scrutiny Improvement Plan Together for Children, Culture and Policies.	4	4	16		4	2	8	Deliver the improvement plan that has been agreed with Ofsted Embed a culture of good performance and quality	Chief Executive - Together for Children	To be confirmed
17) Looked After Children Improve the life chances for the most vulnerable children in the city	**R017**	**Timely and sustainable solutions are not implemented to improve the life chances for the most vulnerable children in the city**	Assessments and Care Plan reviews do not provide the right help at the right time	Children remain in care for longer periods than necessary and are at a higher risk of becoming NEET	Ofsted Inspections Adoption Process Scrutiny Performance management Improvement Plan	4	4	16		4	2	8	Looked-after children have access to high quality care planning, review and support. They are supported in stable care placements and have access to and attend good schools	Chief Executive - Together for Children	To be confirmed
19) Early Help and Social Care Reduce risk to vulnerable children	**R018**	**Timely interventions are not undertaken to deliver early support to vulnerable children**	Children's needs are not clearly understood and effectively addressed Issues are often complex requiring a multi agency response	Children become increasingly at risk Increased number of Children in care	Ofsted Inspections Performance management Improvement Plan	4	4	16		4	3	12	Children and families in need of help are identified and multi-agency services act together to improve outcomes	Chief Executive - Together for Children	To be confirmed
Supporting Vulnerable Adults and Carers															
20) Adult Social Care Further develop Sunderland Care and Support Ltd	**R019**	**Unable to develop a sustainable business and there is an immature market to provide alternative delivery**	Pension, tax and other costs are not accurately quantified. Business not in line with required expectations	Unable to support vulnerable adults Savings not achieved Significant additional cost to the Council	Contract Company Board Contract management arrangements	4	4	16		4	2	8	Business plan is subject to scrutiny and challenge by appropriate specialists Consideration of opportunity to develop the market	Head of Integrated Commissioning	April 2017

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale
Building Resilient Citizens and Communities															
21) Welfare Reform mitigate the impacts of welfare reform	**R020**	**Individuals do not maximise their access to welfare benefits**	Individuals do not understand the support available following benefit reforms	Increased poverty and homelessness	Health & Wellbeing Board Priority Delivery Plans	4	3	**12**		4	2	**8**	Challenge practice and systems at a national level Work with partners to support people to help themselves to minimise impact of welfare reform	Head of Integrated Commissioning	March 2018

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **30 September 2016**

PUBLIC SECTOR AUDITOR APPOINTMENTS

Report of the Director of Corporate Services

1. Purpose of Report

1.1. In December 2015, the Committee received a report setting out the different options that are open to the Council for appointing External Auditors following the closure of the Audit Commission and the expiration of the current contract, the report is attached at Appendix 1 for information. This report reminds the Committee of the options and seeks the Committee's approval for the Director in consultation with the Chair of the Committee to make a recommendation to Council in this regard.

2. Background

2.1. The Council's contract with Mazars is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA). When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the external auditor, although the Council has until December 2017 to appoint its external auditors. In reality, this means deciding on a process and implementing it by Spring 2017 in order for the appointment to be made in good time.

2.2. The report in December 2015 set out the routes by which this can be achieved and the varying risks and opportunities, in summary they are as follows:

- <u>Make a stand alone appointment</u>
  In order to make a stand-alone appointment the Council will need to set up an Auditor Panel, the members of which must be wholly or a majority independent. For this purpose independent Members are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This could be a sub-committee of the current Audit and Governance Committee. A complex procurement process would then need to be undertaken by the Council.

- <u>Joint Auditor Panel/local joint procurement arrangements</u>
  The Council can join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Feedback from local authorities in the region has confirmed there appears to be little appetite to enter into such an arrangement.

- Opt into a sector led body arrangement
  Public Sector Audit Appointment Limited have been approved as a sector led body to procure and manage the relationship with auditors on behalf of any local authorities which decide to opt in to this arrangement. They will have the ability to award/negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

  Although this means that the Council will not be able to choose its own auditor and it will have to make a decision on whether or not to opt into this arrangement before the contract prices are known, the costs of the process will be shared across all authorities involved and offering large contract values to firms should result in better rates than from an individual local procurement exercise.

3. Next Steps

3.1. At this time the preferred approach is to opt into the sector led body arrangement, the decision on this has to be made at a full Council meeting before the end of the calendar year. As the position of other regional LA's will become clear over the next few months, and due to the tight timescales involved the Committee is asked to agree to the Director of Corporate Services in consultation with the Chair of the Committee to take a report to Council making a recommendation having taken account of the regional position.

4. Recommendations

4.1. Members are asked to agree that the Director of Corporate Services in consultation with the Chair of the Committee make a recommendation to Council.

Appendix

AUDIT AND GOVERNANCE COMMITTEE **11th December 2015**

PUBLIC SECTOR AUDITOR APPOINTMENTS - UPDATE

Report of the Director of Finance

1. Purpose of Report

1.1. This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

2. Background

2.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

2.2. The Council's contract with Mazars is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA). When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share across NHS and local government bodies.

2.3. The scope of the audit will still be specified nationally by the National Audit Office which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

3. Options for local appointment of External Auditors

3.1. The Council has until December 2017 to appoint its external auditors. In reality, this means deciding on a process and implementing it by Spring 2017 in order for the appointment to be made in good time. There are a number of options open to the Council under the Local Audit and Accountability Act 2015 (the Act):

Option 1 - Make a stand-alone appointment

3.2. In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This could be a sub-committee of the current Audit and Governance Committee.

Advantages/benefit

3.3. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

3.4. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

3.5. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 - Joint Auditor Panel/local joint procurement arrangements

3.6. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement. This option could also be exercised through the North East Purchasing Organisation.

Advantages/benefits

3.7. The costs of setting up the panel and running the procurement exercise will be shared across a number of authorities.

3.8. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

3.9. The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. It should be noted that the procurement process is largely however a technical exercise.

3.10. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement. This could be avoided by appointing a second 'fall-back' company in these cases.

Option 3 - Opt-in to a sector led body

3.11. The LGA are working on developing a sector led body which would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. Councils are being asked whether they would be interested in the option of opting into a sector led body.

Advantages/benefits

3.12. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

3.13. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

3.14. Any conflicts at individual authorities would be managed by the sector led body who would have a number of contracted firms to call upon.

Disadvantages/risks

3.15. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

3.16. In order for the sector led body to be viable and to be placed in the strongest possible negotiating position Councils will need to indicate their intention to opt-in before final contract prices are known.

4. Conclusion and Next Steps

4.1. The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018. Although it is a Council decision, the Committees views on its preferred approach are welcomed.

4.2. The Council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to Councils.

5. Recommendations

5.1. Members are requested to consider their preferred approach of either:

a) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to "opt-in"

b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.

c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities

5.2. A report is to be taken to the Council on the preferred approach.

Sunderland City Council

Item No. 8

AUDIT AND GOVERNANCE COMMITTEE **30 September 2016**

AUDITED STATEMENT OF ACCOUNTS 2015/2016

Report of the Interim Director of Corporate Services

1.0 PURPOSE OF REPORT

1.1 To present the Letter of Representation for 2015/2016, to receive the Audit Completion Report received from Mazars LLP concerning the financial statements for 2015/2016 and which also provides their opinion on both the Authority's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).

1.2 To provide an audited Statement of Accounts for 2015/2016. This has been revised to take into account the auditor's findings, for approval by members of the Committee. A complete list of the amendments is set out at Appendix A for information.

2.0 DESCRIPTION OF DECISION

2.1 Members are recommended to:

2.1.1 Note the contents of the Letter of Representation - Item 8 (i)

2.1.2 Note the contents of the Audit Completion Report - Item 8 (ii) provided by Mazars LLP.

2.1.3 Approve the Amended Audited Statement of Accounts for the financial year ended 31st March 2016 - Item 8 (iii).

3.0 BACKGROUND

3.1 Mazars LLP, who are the Authority's external auditors, are required to report on the final accounts, and report other certain matters to Members prior to an opinion being provided on the Authority's accounts.

3.2 A Letter of Representation has to be prepared by the Interim Director of Corporate Services which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 8 i** on the agenda).

3.3 Mazars LLP has audited the financial statements of the Authority in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

3.4 Once the Audit and Governance Committee has noted the contents of this communication, Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2016.

3.5 In line with Auditing standards, Mazars LLP produces an Audit Completion Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Authority as at 31st March 2016 and its income and expenditure for the year then ended. The Audit Completion Report 2015/2016 is included as **Item 8 ii** on the Agenda.

3.6 The revised Statement of Accounts 2015/2016 is set out at **Item 8 iii** on the agenda for approval.

3.7 This communication from the auditors is in addition to the Annual Audit Letter, which will continue to be presented to Cabinet, the Audit and Governance Committee and Council annually.

4.0 KEY MESSAGES

4.1 The full communication is included in the Audit Completion Report. The report is very positive and in summary shows that:

- the external auditors propose to issue an unqualified audit opinion;
- all non-trifling misstatements have been adjusted by management and those not adjusted are set out with reasons accepted by the auditor in his Annual Audit Report;
- the external auditors have not identified any material weaknesses in the accounting and internal control systems;
- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting and reference is also made in the Letter of Representation but these are not considered to be significant;
- the external auditors have not identified any matters required by international auditing standards that should be communicated to Members;
- the external auditors have not identified any other relevant matters relating to the audit that need to be brought to Members attention;
- the external auditors have reported that the Council has made, in all significant respects, proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2016 'except for' services for children in need of help and protection, children looked after, care leavers and adoption performance which were the subject

to an Ofsted inspection in July 2015 which found these services and their leadership, management and governance inadequate despite the Council's attempts to improve these services. The Auditor's position in this regard is unchanged for the financial year 2015/2016, despite the Council making significant strides to improve children's services, as they must issue a qualified value for money conclusion until Ofsted provide the Council with a positive Ofsted inspection report. Although Ofsted has acknowledged that the Council has made improvements and significant progress during the year to address the position it has not yet issued the required assurance the Council requires for the auditors to provide an unqualified VfM audit opinion.

4.2 On the basis of the amendments agreed with the external auditors, Mazars LLP will formally provide an opinion on the amended Statement of Accounts, on or before the 30th September statutory deadline, by which time the Council is required to publish its Audited Statement of Accounts for 2015/2016 and place the audited accounts on its web site appropriately signed by the Chair of this Committee and re-signed by the Interim Director of Corporate Services in line with new reporting requirements set out in the Accounts and Audit Regulations 2015.

Appendix A

Changes made to the Accounts

Description of changes made	Statements/Notes affected
Value of four schools transferred to academy status since 01/07/16 noted	Note 6 – Post Balance Sheet Events
Group CIES – Sunderland Lifestyle Partnership transactions have been moved from Planning Services line to Cultural and Related Services line	Group CIES
50% of Sunderland Lifestyle Partnership's assets have been reflected on Group Balance Sheet	Group BS and related Disclosure Note
Transposition amended re capital debtors (£0.300m)	Cash Flow Statement, Note 24 – Investing Activities, Group Cash Flow Statement, Note 4 – Investing Activities (Group Accounts)
Note 45 – Value of Decrease in fair value of fixed rate borrowing liabilities amended to correctly reflect impact of 1% increase to PWLB borrowing rates	Note 45 - Risk relating to Financial Instruments
Note 37 – Council as Lessor Operating Leases table changed to reflect figures for non-cancellable leases	Note 37 – b) Council as Lessor - Operating Leases
Related Parties Note: NELEP and Key Cities removed SLP – contract value added plus detail re loan to JV	Note 35 – Related Parties
Impairment line moved to sit under 'Accumulated Depreciation and Impairment' heading	Note 12 – PPE
Note 15 – Debtors re-profiled between Financial Instruments and other Debtors	Note 15 – Financial Instruments
Value of Sandhill View Academy's contribution has been added to PFI Note	Note 38 – PFI
Portfolio expenditure re-profiled between employee expenses and other service expenditure	Note 26 – Amounts Reported for Resource Allocation Decisions

Item No. 8(i)

Mr M Kirkham
Engagement Lead (Director)
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Date: 30th September 2016
Our ref: CFA/LA
Your ref:

Dear Mr Kirkham

Sunderland City Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Interim Director of Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and its group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's and group's related parties and all related party relationships and transactions of which I am aware.

Group statements consolidation process

I confirm that I have been provided with access to information from the Council's subsidiaries and associates that has enabled a thorough consolidation process for the preparation of the group statements.

Impairment review

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

Future commitments

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

Unadjusted misstatements

There are no unadjusted misstatements and all misstatements identified in the course of the audit have been amended in the final version of the financial statements submitted to Members for approval.

Yours faithfully

Barry Scarr

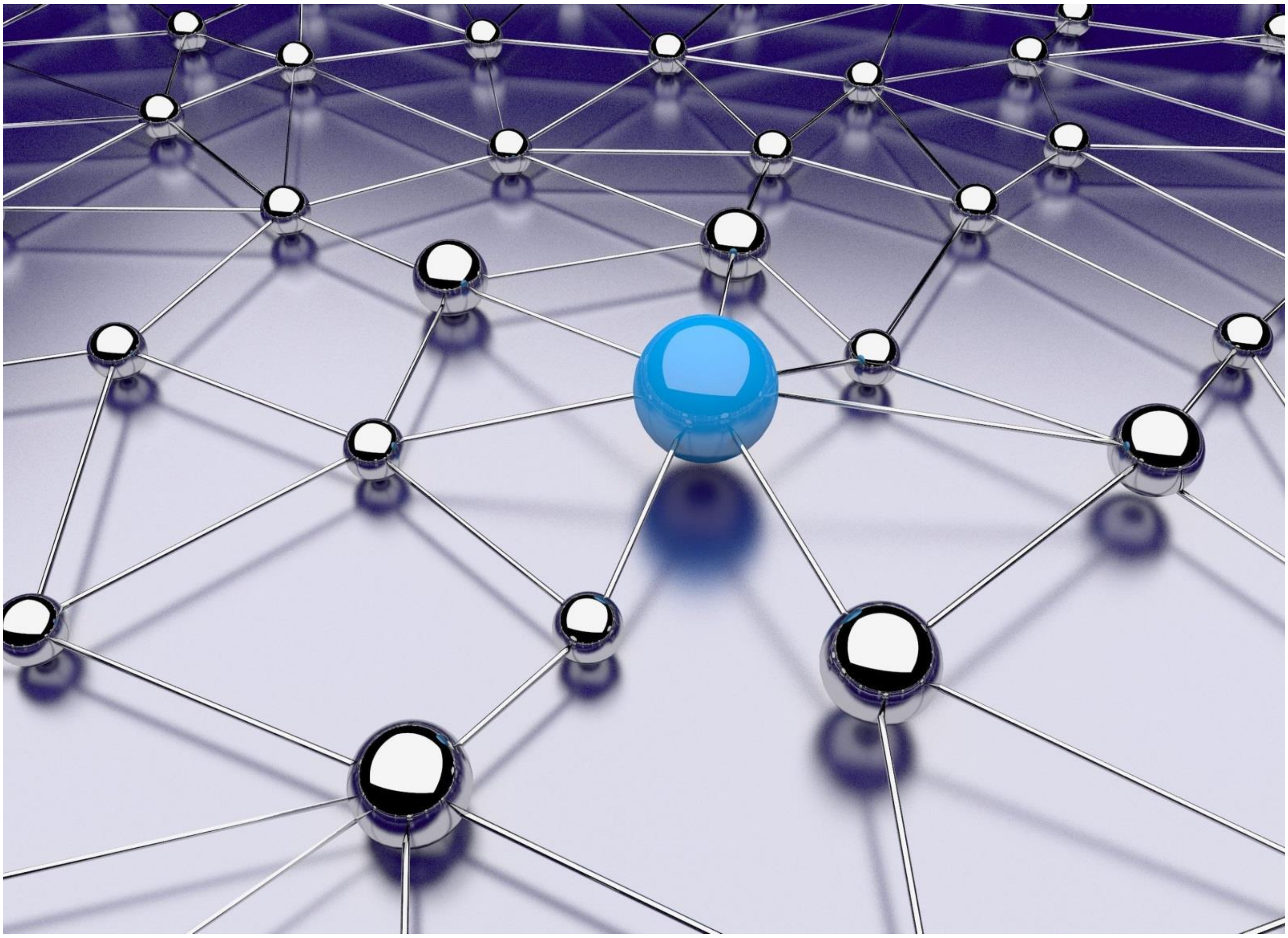
Interim Director of Corporate Services

Item No. 8(ii)

Audit Completion Report

Sunderland City Council – year ended 31 March 2016

September 2016



Sunderland City Council

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Audit and Governance Committee
Sunderland City Council
Civic Centre
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SR2 7DN

20 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit findings and conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to the Committee on 18 March 2016. We reviewed our Audit Strategy Memorandum upon receipt of your statement of accounts and concluded that the original significant audit risks were still appropriate. We then planned and completed our audit procedures accordingly.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

This document will be presented to the Audit and Governance Committee on 30 September 2016. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
Partner

Mazars LLP

Contents

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and 'Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit and Governance Committee of Sunderland City Council and forms the basis for discussion at the Audit and Governance Committee meeting on 30 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Sunderland City Council; and
- receive feedback from you on the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements identified as part of the audit in section 5.

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

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, we have not yet received and reviewed the following:

- Assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

We will provide an update to you in a follow up letter to this report should any issues arise in relation to these matters.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. This is explained further in section 6 of this report.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Well-managed finances are the foundation of the Council's ability to deliver essential services and to achieve value for money for taxpayers. The Statement of Accounts is the key medium by which the Council communicates financial performance with external stakeholders. As such it provides valuable data on how resources have been employed and what assets and liabilities are outstanding, and is a useful indicator as to the financial health of the organisation.

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2015/16 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. The statement shows a deficit for the year for the provision of services of £27.8m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2015/16 because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Narrative Statement in the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.2m.

The CIES then accounts for other items, primarily an actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a surplus of £28.9m.

Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £27.8m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2015 and 31 March 2016 these increased from £189.7m to £217.3m. Although this seems like a significant increase in usable resources, the underlying trend is that these are reducing. The closing position has been inflated by the receipt of grants of approximately £30m in advance of incurring the expenditure to which they relate.

The General Fund balance, which is available to meet unforeseen circumstances, was maintained at £7.57m, with an additional £10.4m held by schools.

Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2015/16 was £86.8m, and £83.7m of this was financed from capital grants and contributions.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £420.5m which was an increase of £28.9m or 7.4% on last year.

The most significant movements from last year relate to a reduction in the net book value of property, plant and equipment of £59.5m (mainly relating to the disposal of £52.3m of assets to the leisure joint venture), which was more than offset by a combination of a reduction in the net pension liability of £46.3m following the assessment by the actuary, a net increase in cash and short term investments of £26.8m and smaller reductions in in a number of current liabilities.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance and funds held by schools, the Council also has £11.7m in a capital receipts reserve and £40.6m of capital grants unapplied. A further £147.1m is held in earmarked reserves.

Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £117.7m is held in earmarked revenue reserves and £29.4m relates to earmarked capital reserves. Although these reserves are earmarked, they do provide the Council with some flexibility in managing in the current challenging financial environment.

Group accounts

The Council's group accounts consolidate the Council's single entity accounts with the activities of its wholly owned subsidiaries and joint ventures:

- Sunderland Care and Support (Holding Company) Ltd (wholly owned subsidiary);
- Sunderland Live Ltd (wholly owned subsidiary);
- Siglion LLP (a joint venture); and
- Sunderland Lifestyle Partnership Ltd (a joint venture).

Sunderland Lifestyle Partnership Ltd has been incorporated into the Council's group accounts for the first time in 2015/16. This is the leisure joint venture which was operational from 1 June 2015.

03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls
Description of the risk International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
How we addressed this risk We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this process we obtained information from the Audit and Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud. Our testing included: • consideration and review of accounting estimates impacting on amounts included in the financial statements; • consideration and review of any unusual or significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
Audit conclusion Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Pension entries (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We discussed with officers any significant changes to the pension estimates prior to the preparation of the financial statements.

In addition to our standard programme of work in this area, we also:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary (Aon Hewitt); and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the National Audit Office.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

Audit conclusion

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (EY) over IAS 19 pension related entries in the financial statements.

Subject to a satisfactory response from EY, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting policies and disclosures

We have reviewed Sunderland City Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting. There have been no significant changes to accounting policies from the previous year.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

Significant matters discussed with management

During the course of the audit we did encounter one complex technical matter that required discussion with management, relating to the accounting treatment of leisure assets transferred to the leisure joint venture.

The Council correctly derecognised the leisure assets (£52m valued at depreciated replacement cost) from its single-entity accounts as these assets were transferred to the joint venture company on a long term finance lease (125 years). The joint venture company prepared its accounts under Financial Reporting Standard 102 (FRS102) and included the leisure assets in its accounts at historic cost (nil), plus capital expenditure and less depreciation and impairment. This is a permissible accounting treatment under FRS102.

The issue arises on consolidation by the Council in the group accounts. The Council's single entity accounts reflect the disposal of £52m of assets, but the joint venture company in question values these same assets effectively at nil (the historic cost basis).

Following discussions with our financial reporting specialists and discussions with officers, management decided to make an adjustment in the group accounts to bring the valuation of the joint venture assets in line with a permissible valuation method under International Financial Reporting Standards (IFRS) as reflected in the Code of Practice for Local Authority Accounting. Depreciated replacement cost was the obvious method to use and information on this value was readily available.

Consequently, the Council made an adjustment to the group accounts to recognise that, on an IFRS basis rather than FRS102, the net asset value of the leisure joint venture company would increase by £52m and the Council's share of this (£26m) would be reflected in the group balance sheet. A disclosure note was added to the group accounts to set out the rationale and reasoning for this adjustment.

The adjustments made are included in the schedule of adjusted misstatements in section 5 of this report.

Significant difficulties during the audit

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

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 28 June 2016 to 8 August 2016. We received no formal questions or objections within this period.

04 Internal control recommendations

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

We have not identified any matters to report. If we had performed more extensive procedures on internal control we might have identified deficiencies to be reported. Our comments should not be regarded as a comprehensive record that there are no deficiencies or improvements that could be made.

05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £7.57m with a clearly trivial threshold of £227k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2015/16 audit, based on the final statement of accounts, remains at the same levels as reported in the Audit Strategy Memorandum.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

There were no unadjusted misstatements and management has amended all the misstatements identified and reflected the corrections in the final version of the financial statements presented to Members for approval.

Adjusted misstatements 2015/16

		Group CIES		Group Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Group Accounts: Property, Plant and Equipment			**26,145**	
	Cr: Group Accounts: Revaluation Reserve - Associates				**26,145**
	The background to this adjustment was set out on pages 7 and 8 of this report. The Council made an adjustment to its group accounts to recognise that on an IFRS basis rather than FRS102, the value of the property assets transferred to the leisure joint venture company would increase by £52m and the Council's share of this (£26m) would then be reflected in the group balance sheet. A consequential adjustment is also reflected in the group MIRS statement, increasing group unusable reserves by £26.145m. A disclosure note was also added to the group accounts to set out the rationale and reasoning for this adjustment.				
2	Dr: Group Accounts – Cultural and related Services Expenditure	**1,494**			
	Cr: Group Accounts – Planning Services Expenditure		**1,494**		
	This corrects expenditure relating to the leisure joint venture which was initially included in the planning services line of the group comprehensive income and expenditure statement rather than the cultural and related services line. This is a classification issue and purely presentational.				
3	Dr: Group Accounts – Cultural and related Services Income		**1,560**		
	Cr: Group Accounts – Planning Services Income	**1,560**			
	Similarly to (2) above, this corrects income relating to the leisure joint venture which was initially included in the planning services line of the group comprehensive income and expenditure statement rather than the cultural and related services line. This is also a classification issue and purely presentational.				

Adjusted misstatements 2015/16 (continued)

		Group cash flow statement	
		Dr £'000	Cr £'000
4	Dr: Group cash flow statement – Investing activities	**300**	
	Dr: Group cash flow statement – Adjustment to net (surplus) or deficit on the provision of services for non cash movement	**1,806**	
	Cr: Cash flow statement – Net (surplus) or deficit on the provision of services		**2,106**
	This adjustment corrects an error in the original Group Cash Flow Statement and also the correction of a cash flow statement transposition error in the calculation of cash flow statement entries in the Council's single entity Cash Flow Statement (see item 5 below).		

		Council (single-entity) cash flow statement	
		Dr £'000	Cr £'000
5	Dr: Cash flow statement – Investing activities	**300**	
	Cr: Cash flow statement – Adjustment to net deficit on the provision of services for non-cash movement		**300**
	This corrects a transposition error in the calculation of cash flow statement entries. This amendment is also reflected in the Group Cash Flow Statement in item 4 above.		

Disclosure amendments

A number of amendments were made to disclosures in the accounts:

- note 6, events after the balance sheet date, was updated by officers to explain the impact of a number of schools being set up as academies between the balance sheet date and the date the accounts are to be approved by members of 30 September 2016; and
- a number of other relatively minor errors, omissions, clarifications and typographical errors were corrected.

06 Value for money

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:
'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

In the Audit Strategy Memorandum we identified two significant risks relevant to the value for money conclusion:

- responding to financial pressures; and
- children's safeguarding services.

We detail below how we have addressed these risks and our conclusions.

Significant Value for Money risks

Responding to financial pressures

VFM risk – Responding to financial pressures
Description of the risk The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.
How we addressed this risk We reviewed budget monitoring and reporting, focusing on areas where action plans were in place to make savings and improvements, and to minimise any adverse impact on service delivery. We reviewed the plans that are being developed to deliver future savings and improvements.
Conclusion The Council has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. The level of savings is, however, challenging and effects on service delivery are now noticeable. In 2015/16, significant additional savings were delivered by the Council and there was a small underspend against budget. Further significant savings are planned for 2016/17 and beyond. The first quarter monitoring report in 2016/17 highlights good progress to date in achieving planned savings and careful monitoring of the financial position, including additional emerging financial pressures. This will be increasingly important in future as expenditure reductions could be more difficult to achieve.

Ofsted inspection of children's safeguarding services
In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators.

In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate.

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our 2014/15 VFM Conclusion. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015 'except for' the areas that were highlighted as inadequate in the Ofsted report.

We have noted that since the Ofsted report in July 2015, the Council has continued to tackle the issues raised in the Ofsted inspection:

- it has worked with a Government-appointed Commissioner for Children's Services who has advised on improvements and kept ministers informed about progress;
- an action plan has been developed and progress monitored; improvements have been made, although it has also been recognised that there is still significant work to do and challenges to address; and
- the Council is exploring an alternative service delivery model for children's services and a separate children's company (Together for Children - Sunderland) will operate in shadow form from the autumn and be fully in place from 1 April 2017.

Although Ofsted have carried out some follow up work, they have not yet carried out a full reassessment of children's safeguarding services.

The Ofsted assessment remained a significant risk that was relevant to our value for money conclusion, and the risk, our consideration of it and our conclusions are summarised below.

VFM risk – Children's safeguarding services
Description of the risk The Council does not make the required improvements to children's services, or does not make the improvements rapidly enough.
How we addressed this risk We considered the progress made by the Council in relation to children's services. Significant work has been undertaken and progress has been made, and recent reporting of serious case reviews relating to past incidents highlights the importance of the Council driving through the improvements that are being made. Ultimately, the conclusion in this area requires an expert judgment and we will only be able to revise our assessment that an 'except for' qualification is not needed when Ofsted fully update their assessment and services are no longer assessed as inadequate. Ofsted have not yet updated their full assessment.
Conclusion Ofsted have not yet updated their full assessment of children's safeguarding services and consequently, we will include an 'except for' qualification to our VFM conclusion for the second year running.

Overall conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The exception to this are the areas of children's safeguarding services that were identified as inadequate in Ofsted's report to the Council in July 2015, and the considerations of which were set out in the previous section of this report.

The wording of the Value for Money conclusion is set out in Appendix B.

The basis for our assessment of the Council's wider arrangements is set out in more detail on the following pages.

Financial management

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending, and has a strong track record of delivering savings and keeping within budget.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services. The 2015/16 revenue budget included £35.7m of savings proposals to address reduced funding and cost pressures.

The Council achieved a better than expected revenue outturn in 2015/16, and sustained a significant capital programme.

Area	Original Budget	Outturn Position	General Fund Balance at year end
Net revenue expenditure	£236.1m	£220k Underspend	£7.57m (previous year £7.57m)
Capital expenditure	£111.8m	£86.8m	n/a

While funding reductions have reduced the resources available to the Council, increased service demand in some key areas has created additional financial pressures during the year. The most significant in-year budget pressure in 2015/16 was in children's safeguarding services (£9.1m), where the Council sought to implement its improvement plans following the children's safeguarding services assessment by Ofsted.

The Council has a significant capital programme, and the outturn for 2015/16 was £86.8m, compared to an original budget of £111.8m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council also has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot continuously be used to sustain services and the underlying budget reductions identified will need to be delivered.

The Council has set its revenue budget for 2016/17, including a 4% council tax increase. The Council needs to deliver a further £46.6m of reductions in 2016/17 and potentially a further £74m in the following three years. This is against a backdrop of £207m of reductions already required in the period 2010/11 to 2015/16.

The first quarter monitoring report for 2016/17, reported to the Executive on 22 June 2016, identified that of the £46.6m savings required:

- £38.0m of savings had been realised
- £3.8m of savings not yet fully implemented, but good progress is being made on plans; and
- £5.1m of savings where delays and issues have been identified and corrective action or alternative options are being considered.

In addition, it was reported that a further £3.1m of additional financial pressures were being experienced in areas including safeguarding and adult social care. This demonstrates the continued close monitoring of the financial position by the Council, which coupled with its strong record, provides us with assurance that proper arrangements are in place for financial management.

Corporate direction and management arrangements

The Council is currently going through the approval process for a new Corporate Plan 2016 – 2020.

This sets out the Council's vision that "Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future" and the part that the Council will play in the vision that "Sunderland City Council will be the most effective community leadership council possible, in order to serve our communities and to ensure the city and its people fulfil their potential".

The table below summarises the Council's key corporate priorities.

Key Priorities	
Regenerating the city	• Growing the economy; • Improving education and skills; and • Improving health and wellbeing.
Safeguarding our residents	• Supporting vulnerable children and families: • Supporting vulnerable adults and carers; and • Building resilient communities.
Future council	• New ways of working and collaboration; and • New ways of delivering services.

The Corporate Plan builds on the Council's previous work and sets out a clear vision of its aspirations for the city and the high level actions that underpin its priorities. It places this in the context of the difficulties the Council has faced and continues to face in relation to public sector austerity and recognises the need for change, not just in the Council but in the communities it serves:

> *"We must focus on those services we need to provide and make sure we are as efficient as possible in doing so. Given the level of savings needed we must radically rethink the way we work and this will inevitably impact on the services. The frequency and standards of some services may reduce in some areas of activity, and we may need to stop offering some non-essential services altogether.*
>
> *We will also need to make sure we operate as commercially as possible in generating external income. Our aim is to do all this in a way that minimises the impact on residents, communities and businesses, and on the city itself.*
>
> *We need to think of more innovative and collaborative ways to make sure the people in the greatest need are supported. More must be done to reduce demand and build individual and community resilience through encouraging self-help and greater personal responsibility."*
>
> Extract from Corporate Plan 2016 - 2020

Whilst the Council has continued to progress its priorities over the last year, the Council has experienced significant changes in senior management, and interim arrangements have been in place in some areas, including at Chief Executive and Executive Director of Corporate Services level. In these circumstances it is clear that some direction and momentum has been lost during 2015 and early 2016.

The current Interim Chief Executive took up post in April 2016 and has proposed changes to the senior management structure that aim to realign resources with priorities. This should provide clarity for senior management on their roles and responsibilities and end a period of considerable uncertainty. The size and shape of the Council has changed in recent years and future plans, including the creation of a children's services company, suggest the potential need for further structural change to reflect the new realities.

With the focus in recent years on downsizing the organisation significantly, during 2016, the Council has also recognised the need to reinvigorate its performance management framework.

Work to date has focused on establishing monthly performance clinics at which the Chief Executive holds senior management to account for delivery of the Corporate Plan and ongoing core service delivery, as well as implementation and management of key changes and improvements.

In addition, service plans are being developed to underpin the Corporate Plan and key priorities and establish the key measures of performance that will demonstrate whether the Council is achieving its objectives. The first formal reporting to Members on performance management has taken place recently, and quarterly reporting to Members is planned throughout 2016/17 and beyond.

These measures are very encouraging and we can see the Council is establishing the ‘golden thread’ so that key priorities are evident at a corporate and strategic level through the Corporate Plan and other strategies, but are also the focus of work in directorate, service and individual performance plans, with robust monitoring at officer level and appropriate reporting and opportunity for challenge by Members.

Future challenges

Our observations on the key challenges for the future include:

- fully implementing and embedding the new management structure;
- making a reality of the key priorities in the Council Plan 2016 – 2020;
- continuing to develop and implement the performance management framework along the lines envisaged to underpin the Council’s key priorities and make sure that they are delivered effectively;
- delivering the improvements in children’s safeguarding services and make a success of the new children’s services company;
- continuing to develop the foundations that have been put in place through Council-owned companies, such as Sunderland Care and Support Ltd, and through its two joint ventures, Siglion LLP, a local asset-backed vehicle and Sunderland Lifestyle Partnership Ltd, a leisure service delivery vehicle;
- progressing delivery of the infrastructure projects that have been put in place, including the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary’s Boulevard aimed at reinvigorating the city centre;
- positioning the city to best advantage in terms of devolution, although we recognise there have been some recent setbacks in this respect; and
- managing the risks to the city of Brexit (some of the immediate risks are already well documented and have been subject to media reports), and positioning the city as well as possible to deal with any challenges and opportunities that arise.

At the time of drafting this report, the Council has recently experienced a major failure in its IT systems arising from issues in the computer room at its main data centre. The Council is currently restoring systems from its back-up site. These issues present an immediate short-term challenge and, depending on the outcomes, may also have medium to long term implications.

In the tables below we comment briefly on our assessment using the sub-criteria of the VFM conclusion.

Informed decision making

Proper arrangements	Comments on Sunderland City Council
Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	The Council operates a Cabinet with a Leader model, and this is governed by a Council Constitution including all of the normal features of a governance framework in local government. We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations. The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2015/16, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control. An Audit and Governance Committee is in place to oversee the governance framework including approval of the Council's financial statements. We attend all Audit and Governance Committee meetings and have observed some good examples of challenge and oversight, including holding officers to account in relation to improvements in children's safeguarding services, information assurance and IT issues.
Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.	We have not identified any evidence of decisions being taken that are not supported by reports that outline appropriate options and relevant considerations. All reports include references to financial, legal and performance issues where appropriate.
Reliable and timely financial reporting that supports the delivery of strategic priorities.	Financial issues are set out in reports related to individual decisions. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet. There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas. The development of the Council's vision and priorities and the reinvigoration of its performance management framework described earlier in this report provides an opportunity for the Council to better align resources to strategic priorities over the medium term.
Managing risks effectively and maintaining a sound system of internal control.	The Council has a risk management strategy and framework in place. Key corporate risks are monitored quarterly by the Audit and Governance Committee as part of its overall assurance reports. The Council's internal auditors, have given an opinion that there continues to be an adequate system of internal control. The assurance framework delivers assurance work that goes beyond traditional internal audit retrospective review of systems and includes a proactive ongoing assurance input as major initiatives and projects are being delivered.

Sustainable resource deployment

Proper arrangements	Comments on Sunderland City Council
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	The Council has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.
Managing and utilising assets effectively to support the delivery of strategic priorities.	A major part of the Council's asset management strategy involved transferring its commercial property portfolio to its joint venture local asset-backed vehicle, Siglion LLP, with the aim of accelerating regeneration schemes, including initially the Vaux site, Chapelgarth and Seaburn. Proposals for the Council's remaining asset portfolio are currently being developed.
Planning, organising and developing the workforce effectively to deliver strategic priorities.	The Council's workforce planning arrangements have been focused on two key areas: • managing the downsizing of the workforce, the headcount of which has reduced significantly arising from both reductions in staff numbers and the transfer of staff to new ventures such as Sunderland Care and Support Ltd; and • implementing the new pay, grading, terms and conditions of employment of the council's workforce, under the Workforce Transformation Project; this process has been protracted and only recently completed. The new Corporate Plan highlights that "we have already shed 59% of our non-school posts since 2010 and a further 600 posts will disappear by 2018".

Working with partners and other third parties

Proper arrangements	Comments on Sunderland City Council
Working with third parties effectively to deliver strategic priorities.	One of the most important partnerships in terms of immediate budgetary pressures is with health bodies, for example, working with the Sunderland Clinical Commissioning Group to reduce emergency admissions to hospital and provide as much support as possible in a social care setting through the Better Care Fund. The new Corporate Plan identifies four key partnerships for the Council, which are managed through boards: • Economic leadership board; • Education leadership board; • Health and wellbeing board; and • Cultural and safer Sunderland partnership board. In the Annual Governance Statement it was noted that "the Council's Code of Practice for Partnerships and supporting arrangements are currently being reviewed and new arrangements will be implemented in 2016/17."

Working with partners and other third parties (continued)

Proper arrangements	Comments on Sunderland City Council
Commissioning services effectively to support the delivery of strategic priorities.	Commissioning and procurement are closely aligned. The Council has a corporate procurement function, with a range of commissioning activity in directorates, notably children's services and adult social care. As part of our work on the VFM conclusion we consider the information in VFM profiles, which provides comparative data with other similar authorities on costs and other measures. Although there are variations in the costs within and between services, overall, the Council compares favourably with the authorities in its comparator group.
Procuring supplies and services effectively to support the delivery of strategic priorities.	The Council has procurement procedures in place and maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate procurement team to oversee procurement. Along with other authorities in the area, the Council also makes use of the North East Purchasing Organisation (NEPO) for some aspects of procurement. The Council is currently refreshing its Procurement Strategy.

Appendix A – Draft management representation letter

Sunderland City Council

30 September 2016

Dear Mr Kirkham

Sunderland City Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

I confirm as Interim Director of Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and its group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's and group's related parties and all related party relationships and transactions of which I am aware.

Group statements consolidation process

I confirm that I have been provided with access to information from the Council's subsidiaries and associates that has enabled a thorough consolidation process for the preparation of the group statements.

Impairment review

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

Future commitments

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

Unadjusted misstatements

There are no unadjusted misstatements and all misstatements identified in the course of the audit have been amended in the final version of the financial statements submitted to Members for approval.

Yours faithfully

Barry Scarr

Interim Director of Corporate Services

Appendix B – Draft audit report

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

Opinion on the Council financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Sunderland City Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Sunderland City Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Interim Director of Corporate Services and auditor
As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Interim Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2016 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters
In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

The Council 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.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate. Ofsted have not yet updated their assessment and this qualification will remain until the assessment is updated and the services are no longer assessed as inadequate.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are 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 ended 31 March 2016.

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or a material impact on the value for money conclusion.

Mark Kirkham

For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham DH1 5TS

30 September 2016

Item No. 8(iii)

Statement of Accounts

2015/2016

Contents

Introduction

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

With regard to corporate governance, the Council considers an annual review of its Local Code of Corporate Governance. The 2015/2016 review was considered by the Audit and Governance Committee in June and will be reported to Cabinet in July followed by 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's arrangements continue to be regarded as fit for purpose in accordance with the governance framework with the exception of Children's Safeguarding. A small number of areas for improvement and development, have been identified which will be acted upon during 2016/2017.

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.

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

Councillor Paul Watson Leader of the Council	Barry Scarr Interim Director of Corporate Services

Dated: 30th September 2016

Certification of the Statement of Accounts

Statement of Accounts 2015/2016 (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 2015 the Statement of Accounts for 2015/2016 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31st March 2016 and its income and expenditure for the year then ended.

B. Scarr.

Barry Scarr
Interim Director of Corporate Services

Dated: 27th June 2016

Audited Statement of Accounts 2015/2016 Certification on behalf of those charged with governance

As Chairman of the Audit and Governance Committee, I hereby acknowledge receipt of the audited Statement of Accounts for 2015/2016 by this Committee, in accordance with The Accounts and Audit Regulations 2015, and confirm that the Statement of Accounts was approved at the Audit and Governance Committee on 30th September 2016 in accordance with The Accounts and Audit Regulations 2015.

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

Dated: 30th September 2016

Audited Statement of Accounts 2015/2016 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2015/2016 in accordance with The Accounts and Audit Regulations 2015.

Barry Scarr
Interim Director of Corporate Services

Dated: 30th September 2016

Narrative Statement

An Introduction to Sunderland

Sunderland is a city by the sea, with a beautiful coastline, miles of sandy beaches, and the River Wear running through the centre. We are less than 60 minutes' drive from two international airports with even faster links to the nation's motorways and mainline rail networks, including direct services to London.

Sunderland has a proud industrial heritage, as a world leader in shipbuilding and coalmining. Its economy today is still based on manufacturing, focussed on the key sectors of automotive and advanced manufacturing.

Sunderland has 126,000 households, with a population of 277,000. The University of Sunderland has some 19,000 students, nearly 20% of which are from overseas.

Sunderland City Council provides approximately 700 services and has responsibility for a broad range of services. The Council is made up of 75 elected members, who are elected for a period of four years. Councillors represent a particular ward as well as providing community leadership for the whole city.

Here in Sunderland we value partnership working and its role in improvements and decision making for the city. We work collaboratively with colleagues in the public, private, voluntary and community sectors to ensure city level outcomes are secured.

Council's Performance

Sunderland City Council's Corporate Plan was written within the context of achieving the following vision for the city:

"*Sunderland to be a smart, sustainable city synonymous with the North East with a high performing and admired council*."

The Corporate Plan described the council's contribution to this vision for Sunderland, in support of the Sunderland Strategy produced by the Sunderland Partnership, to which the council is central.

It set out our priorities and the significant actions we would take. These, in turn, shaped the activity of our directorates, services and employees. It demonstrated how the council would focus its resources on the most important outcomes we sought for the city's People, Place and Economy.

People – raising aspirations, creating confidence and promoting opportunity
Place – leading the investment in an attractive and inclusive city and its communities
Economy – creating the conditions in which businesses can establish and thrive

Key improvements in performance in respect of these Strategic Priorities can be summarised as follows.

<table>
<tr><td>People – raising aspirations, creating confidence and promoting opportunity.</td></tr>
<tr><td>A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing.
A city with high levels of skills, educational attainment and participation
A city which is, and feels, even safer and more secure
A city that ensures people are able to look after themselves where ever possible.</td></tr>
<tr><td>
In 2015, 3% of smokers in Sunderland successfully quit at 4 weeks with support from NHS Stop Smoking Services. This proportion is higher than the England average.
Alcohol-related hospital admissions among the Sunderland population have fallen by 20% since 2011/12. This is the largest fall among all English local authority populations.
The proportion of women in Sunderland who smoke throughout pregnancy (18%) is falling, but it is still a lot higher than the England average (11%).
In the most recent year 14% of people treated for substance misuse in Sunderland successfully completed their treatment and didn't present again within the next six months. The England average is 15%.
The proportion of families expecting a child that receive a health promoting visit before the child's birth has risen from 72% to 82% in 2015/16. Locally, there is a high uptake of childhood immunisations and a downward trend in the proportion of children that are overweight at 4 or 5 years
</td></tr>
</table>

of age. Antenatal health promoting visits may be contributing towards these positive outcomes. • Good schools. 87% schools are rated as good or outstanding by Ofsted at the end of 2015/16. • 66% of Sunderland pupils achieved a 'Good Level of Development' at early years Foundation Stage (academic year 2014/15) matching the national average and an improvement on 2013/14. • 83% of Key Stage 2 pupils achieved Level 4+ Reading Test, Writing and Maths Test (academic year 2014/15) exceeding the national average and an improvement on 2013/14. • Residents feel safe. Safer Communities Survey showed that 97.0% of respondents felt very or fairly safe living in their local area of Sunderland (as at end of 2015/16). • A 15.4% reduction in anti-social behaviour, from 14,320 incidents in 2014/15 to 12,118 incidents in 2015/16. • Fewer young people becoming involved in crime, with 140 first time entrants to the youth justice system in 2015/16 compared with 168 in 2014/15. • A highly proportion of Adult Social Care users have control over their support. 93% using self-directed support as at 31 March 2016, better than the 2014/15 national average of 83.7%.

Place – leading the investment in an attractive and sustainable city.
An attractive, modern city where people choose to live. A responsible well looked after city that is adaptable to change A well connected city A city where cultural identity and vibrancy act as a significant attraction
• More homes and more of the type of homes people want. 943 net additional homes were provided in 2015/16 (907 in 2014/15) and 228 new homes built were larger (4 bed plus) family dwellings (24.0% higher than the 184 in 2014/15). • Low levels of waste sent to landfill maintained following significant previous reductions (3% at the end of 2015/16, previously 73.9% in 2008/09). Greater use of electric vehicles reflecting our commitment to a low carbon place (5,372 car charging transactions in 2015/16, an increase of 13.9% on the 4,715 in 2014/15). • Latest data for Carbon Dioxide emissions (released June 2015, relates to 2013) shows the city's Carbon Dioxide emissions were estimated at 5.9 CO_2 per capita for 2013, lower (better) than the NE total of 9.3 and the England total of 6.7 CO_2 per capita. • Construction for a 344ft Bridge crossing the River Wear, a £117 million project enabling further development of the city's transport infrastructure. • City's rich industrial heritage and cultural vibrancy cumulating in a bid for City of Culture 2021. – 285,772 visits to the Sunderland Empire Theatre in 2015/16 (only theatre between Edinburgh & Manchester large enough to host major West End shows) – 209,023 in person visits to Arts Centres (includes the Washington Arts Centre (based in a 19th Century converted farmhouse) and the National Glass Centre – a celebration of Sunderland's industrial heritage in glass making). – 351,905 in person visits to Museums (includes the Sunderland Museum and Winter Gardens – home to over 2,000 different flowers). – An increase from approx. 250,000 visitors to the Sunderland Illuminations in 2014, to approx. 300,000 in 2015.

Economy – creating the conditions in which businesses can establish and thrive
A new kind of university city A national hub of the economy A prosperous and well-connected waterfront city centre An inclusive economy for all ages
• An increase in employment in those sectors targeted for growth sectors (includes knowledge based industries with a particular niche sector in software development, low carbon employment and advanced manufacturing). • Low carbon employment increased by 6% (between 2013 (data published 2014) and 2014 (published 2015) • Employment in knowledge based industries increased by 22% (with the most significant increases seen in the category of computer programming, consultancy and related activities). • Completion of a £11.8million development project providing a new public space (Keel Square) in the City Centre celebrating the city's shipbuilding & industrial heritage.

- During the past twelve months, strategic investment projects by companies have generated 2,950 jobs and £416 million of capital expenditure. More than a million square feet of new industrial floor space was developed by these companies.
- During the year, automotive companies invested heavily in plants in the city, gearing-up for increased production. Nissan has undertaken a series of major projects, including development of a new press facility and a forthcoming paint shop. The company has also committed to building the replacement Juke here. Other automotive companies investing in the city were Vantec, Unipres and Lear Corporation.
- The financial & customer services sector has continued to provide job opportunities for the city's residents, with contact centres announcing more than 1,500 new roles during the year.
- Software & IT has also continued to grow rapidly in the city, with 32 projects generating 225 jobs – equivalent to almost a 25% increase on the total number of people working in the sector at the beginning of the year.

What's Next

Sunderland City Council's purpose is to support those people in the greatest need as a fundamental part of our contribution to the "All Together Sunderland" approach to the city's challenges.

Sunderland City Council will be the most effective community leadership council possible, in order to serve our communities and to ensure the city and its people fulfil their potential.

Our track record in achieving transformational change is strong and our Community Leadership Programme is strengthening the role and capacity of elected members as community leaders and the focus of the council to drive change and improvement in the city.

Sunderland is transforming itself from a great 20th century industrial town to a modern, vibrant and prosperous 21st century city. Sunderland City Council, working with its partners has a significant role to play in this transformation.

In these challenging times for many people in Sunderland we believe we must continue providing strong and visionary leadership, ensuring that the city, its residents, communities and businesses can seize every available opportunity for a better future. This includes working within the North East Combined Authority to make sure that Sunderland plays its part in – and benefits from – a successful North East region.

We are faced with further unprecedented budget cuts as the Government continues with its austerity programme. We cannot continue to minimise the impact of these cuts on the city by 'squeezing out efficiencies' – successful as that's been to date. We are becoming a very different organisation with a very different role.

Sunderland has great ambitions and is radically changing how it joins together the public, private, and voluntary and community sector resources within the city to create the best conditions for residents, communities and businesses to connect and succeed.

As a result of our 'All together Sunderland' approach, we expect that by 2020 Sunderland will be a welcoming, internationally recognised city where people have the opportunity to grow and fulfil their aspirations for a healthy, safe and prosperous future.

We have identified three priority areas for the period 2016-2020 within which the council is most able to positively influence outcomes for Sunderland, its residents, communities and businesses.

Each of these priority areas comprises themes under which we are able to deliver, enable or influence action delivery to support improved outcomes.

Regenerating the city	Safeguarding our residents	Future Council
Growing the economy	Supporting vulnerable children and families	New ways of working and collaboration
Improving education and skills	Supporting vulnerable adults and carers	New ways of delivering services
Improving health and wellbeing	Building resilient communities	

Our approach in respect of our priorities is underpinned by robust intelligent decision making, effective delivery and performance management arrangements to achieve the best outcomes, ensuring we seek to understand and address the inequality of health, wealth and opportunity in the city.

Ofsted Inspection

The Ofsted inspection of our services for children in need of help and protection, looked after children and care leavers was carried out between 11 May and 4 June 2015. The report was published on 20 July 2015. The inspection team found the Council's children's services to be inadequate.

A robust Learning and Improvement Plan has been developed in response to the Ofsted inspection report. The report requires the Council to respond to 27 areas for improvement. A number of other improvement actions have also been identified from the report and these are also included in the Plan, with significant additional investment provided.

The Plan is overseen by an Improvement Board chaired by a Commissioner for Children's Services appointed by the Department for Education. The multi-agency Improvement Board meets six-weekly and monitors delivery of the actions in the Plan against an agreed baseline in order to demonstrate improvement to the Department for Education, the Council and the wider community. The Chair of the Improvement Board reports to the Secretary of State for Education on the effectiveness of the implementation of the Plan.

Funding Context and Financial Planning

2015/2016 represented the sixth year of the implementation of the Government's plans to eliminate the national deficit. During that period the Government has regularly revised its forecasts. Its current stated intention is to continue with reductions in national funding up until 2019/2020 to enable a budget surplus of £10.1bn.

The government funding reductions and unavoidable cost pressures over the six year period 2010/2011 to 2015/2016 has meant Sunderland City Council has had to achieve savings of £207m.

£36m of these reductions were achieved in 2015/2016 involving re-commissioning services, reprioritising spend, maximising income, increased collaboration, use of alternative delivery models and maximising non front line service savings. Directorate improvement plans have reshaped services with the aim of protecting core services by prioritising service provision with targeting of resources rather than universal provision. Service reviews have included consideration of alternative methods of service delivery in order to identify the most effective and efficient models for service provision.

In addition to the government's funding reductions the general economic situation has continued to impact on the Council's financial position in 2015/2016:

- The very low interest rates continued to have an impact on the financial return on the Council's investments, leading to reduced levels of income available to support the Council's Revenue Budget.
- The general economic position continues to affect the level of income which can be generated from fees and charges for Council services.

Looking to 2016/2017, further reductions in Government funding and cost pressures mean that the budget has been set taking account of a further £47m of reductions, reflecting the strategic vision of the council's role in the city in the future and reflecting the Councils Community leadership role and the Improvement Framework key principles. This involves further transforming service delivery, reducing service standards and commissioned activity, and prioritising resources to support statutory and key priorities, around People, Place and Economy. Full detail of the savings plans for 2016/2017 is set out in the Budget Report to Council of 2nd March 2016.

Looking to the medium term, the Government has published indicative funding figures through to 2019/2020. Whilst figures take no account of the proposed Business Rates review and the move to 100% Retained Business Rates, the figures indicate that the Council's Core Spending Power will reduce by 2.79% over the period, five times higher than the national average reduction of 0.5%. Based on this indicative settlement and estimated cost pressures, the savings requirement for 2016/2017 to 2019/2020 is £121m. The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.

The Council continues to plan for these further significant reductions and risks through an approved Efficiency Strategy covering 2016/2017 to 2019/2020.

This strategy integrates the principles of the Community Leadership Council approach whereby the Council is committed to strengthening its Community leadership role in the city. As a democratically elected body, the Council will continue to be a champion and advocate for Sunderland communities and interest as well as a focal point for leadership for partners to work together to deliver priority outcomes. This approach includes working with partners in getting closer to communities, to understand and interpret needs and local priorities. The approach continues to focus on:

- Understanding the priorities of communities, using intelligence and evidence to focus attention on the right priorities and decisions;
- Shaping the most appropriate response to needs;
- Developing relationships with partners, and communities to promote self-help and self-reliance and maximising the contribution of communities;
- Harnessing the potential contribution from other organisations and individuals in achieving key outcomes;
- Promoting Sunderland's interests at sub-regional, regional, national or international levels.

In order to address the reductions requirement there will be a continued and iterative development of a programme of activity taking into account the strategic vision of the council's role in the future, and reflecting the Improvement Framework key principles to include consideration of:

- Ensuring resources are targeted on statutory services and protecting key priority services with a focus on need rather than want.
- Redesigning and reshaping services to deliver required outcomes at least cost. There will be a focus on commissioning, shifting from the council directly delivering services, to a role of shaping, facilitating and enabling services. This will draw on the work of the Intelligence Hub to ensure a sound evidence base for desired outcomes from commissioned activity.
- Reduced commissioning and service standards to enable key priorities to be met with appropriate services commissioned at lower cost.
- Pressing forward with new models of service delivery at reduced cost and increasing commercialisation.
- Ensuring opportunities for collaboration with partners to deliver key outcomes that matter to the city.
- A reduction in Strategic and support services which will be proportionately reduced as the Council reduces in size and headcount. Appropriate but reduced levels of strategic and support service capability will transfer with alternative delivery models as these are developed.
- Continued focus on progressing Regeneration, Funding Leverage and Commercial Opportunities.

The efficiency strategy allows for regular review of commitments against reserves to be undertaken in order to reprioritise where appropriate to give consideration to the release of such reserves to support the overall budget position and transformational costs as necessary. For 2016/2017 £8.940m of reserves are being used specifically to support the overall council position, in addition to use of reserves for existing purposes. At this stage, it is anticipated that useable reserves will decrease significantly by 2019/2020.

A range of Workforce Planning measures over the last six years has enabled the size of the workforce to be reduced in a planned and managed way. A combination of measures, including restrictions on external recruitment, internal redeployments, early retirements and a voluntary severance scheme, has meant the workforce reduced by another 7.9% (340 employees) during 2015/2016 and now stands at 3,965, excluding maintained schools. The current severance scheme has continued to demonstrate strong value for money enabling early release of planned savings for 2016/2017 and significant annual on-going savings to be secured.

Four Year Capital Programme

The Council is continuing to focus its capital programme on Economic Regeneration, with a four year programme to 2019/2020 of £252m. This will help support Sunderland to meet the aims of the Sunderland Economic Master Plan, the main objective of which is to improve Sunderland's economic prosperity.

Some examples of our major schemes are:

- New Wear Crossing (SSTC Phase 2) £68m (£117m total)

A new bridge construction across the river Wear, as part of phase 2 of the Sunderland Strategic Transport Corridor to provide a continuous route between the A19 and the port of Sunderland via the city centre. Primarily funded by Central Government with Council support.

- SSTC Phase 3 – link road £43m (£45m total)
  The third phase of the Corridor to provide a new improved link road from the New Wear Crossing to city centre. Primarily funded from the Local Growth Fund.

- Vaux Phase 1 £24m (£25m total)
  Provision of the first phase of development on the former Vaux site via the construction of a building which will provide 5,481m² (c.59,000 sq ft) of lettable business space along with strategic infrastructure including roads, utilities, parking, landscaping, public realm and external works. Funded by a mix of external funding and Council resources.

- Strategic Land and Property Acquisitions £19m (£22m total)
  Acquisitions of land and property that are of strategic value to the Council to meet key priorities for future planned developments, primarily to regenerate the city centre to support jobs and growth.

- A19 Ultra Low Carbon Enterprise Zone £10m (£24m total)
  Provision of infrastructure works including an improved road layout to support the local businesses on this Enterprise Zone development. Fully funded by external sources.

Capital Expenditure and Funding

The Council's current four year capital programme and its funding can be summarised in the table below:

Capital Expenditure and Funding	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Total**
Portfolio:	**£m**	**£m**	**£m**	**£m**	**£m**
Leader	43	27	2	2	74
Deputy Leader	2	1	0	0	3
Cabinet Secretary	3	1	1	0	5
Children's	8	5	0	0	13
Health, Housing & Adult Services	2	0	0	0	2
Public Health, Wellness & Culture	0	0	0	0	0
City Services	63	50	27	10	150
Responsive Services & Customer Care	0	0	0	0	0
Contingencies	0	5	0	0	5
Total Expenditure	**121**	**89**	**30**	**12**	**252**
Grants and Contributions	63	39	24	8	134
Capital Receipts	4	1	1	0	6
Reserves and Revenue	12	5	1	0	18
Borrowing	42	44	4	4	94
Total Funding	**121**	**89**	**30**	**12**	**252**

Capital grants and contributions from external sources are the largest proportion of funding in the programme, accounting for over half of the total funding. This is largely Government grants to support local growth and regeneration, including transport infrastructure.

Private Finance Initiative schemes – on-going position

The Council currently operates three PFI schemes:
- Sandhill View Academy and Community Learning Centre
- Highway signs and street lighting
- Energy from Waste facility (in partnership with Gateshead and South Tyneside Council)

For each of these schemes, the Council makes agreed payments which are increased each year by inflation. Payments remaining to be made under the three PFI contracts at 31 March 2016 (excluding any estimation of inflation) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2016/2017	8,787	3,709	1,171	3,853	17,520
Payable within 2 to 5 yrs	33,850	16,390	5,673	13,967	69,880
Payable within 6 to 10 yrs	42,570	24,029	9,148	12,099	87,846
Payable within 11 to 15 yrs	31,325	18,123	10,007	4,477	63,932
Payable within 16 to 20 yrs	22,495	12,658	9,431	2,008	46,592
Payable within 21 to 25 yrs	13,555	10,962	4,966	527	30,010
Total	152,582	85,871	40,396	36,931	315,780

The Council receives annual grants towards these costs from the Government and the balance is funded through the Council's revenue budget each year.

Grants which the Council will receive annually are as follows:
- Sandhill View Academy and Community Learning Centre - £1.549m
- Highway signs and street lighting – £2.185m
- Energy from Waste facility – £1.805m

Changes in Statutory Functions and planned future developments in service delivery

Better Care Pooled Budgets
The Health and Social Care Act introduced substantial changes to the way the NHS in England is organised and run, with responsibility for public health transferring to Local Authorities with effect from April 2013. Councils have also had a more significant role in the management of the Better Care Fund (BCF).

The BCF is one of the most ambitious ever programmes across the NHS and Local Government. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services.

The Council entered into a Section 75 agreement with Sunderland Clinical Commissioning Group to create a pooled budget, with an initial budget of £152m as part of its plans for the BCF from 1 April 2015. The agreement was signed in March 2015 establishing a pooled commissioning budget across health and social care.

Future Developments
The Council continues to examine the most appropriate service delivery approach for a number of services, both to generate financial savings and ensure the best possible outcomes for the reducing level of available resource. This desire to seek new and innovative solutions led the Council to enter into a unique joint venture (JV) partnership, known as Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd (SLM), who operate under the brand Everyone Active, to manage and operate the City's leisure facilities from June 2015.

Children's Company
The Local Authority has been working closely with the Department for Education since last July's Ofsted report to look at how things can be done differently to ensure the best possible outcome for children and families. Cabinet on 20th April 2016 agreed in principle to establish a company to deliver children's services on behalf of the council. Work continues to determine the scope of services, governance arrangements and Memorandum of Understanding in relation to the Children's company. It is expected that the Company will operate in shadow form from September 2016 with a go live date of April 2017.

Narrative Statement

Financial Performance of the Council 2015/2016

The estimated net revenue expenditure for 2015/2016 to be met from Government Grants and local taxpayers was approved at £236.134m. This meant that the Council's Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates was set at £1,185.96 for 2015/2016. This represented no Council Tax increase from the 2014/2015 Band D Council Tax level as a Council Tax freeze was implemented in setting the 2015/2016 budget. The Council again set the lowest Council Tax level in the whole of the North East region for 2015/2016 and has 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. Reporting during the financial year continues to reflect strong and robust financial management, continuing the Council's strong track record in this regard.

In overall terms, the Council achieved a surplus of £0.220m for the financial year. This net under spend has been transferred to the Strategic Investment Reserve to support transitional arrangements arising from implementation of the savings programmes for 2016/2017. The table below shows the general reserve balance of £7.570m has been maintained as forecast at estimate stage. This is after taking into account the transfer of funds to the Strategic Investment Reserve as reported to Cabinet as part of the outturn report. In summary terms, the outturn position takes account of the following variations to budget during 2015/2016:

- Debt charge and interest on investment savings of £3.914m, over and above that utilised to fund in year pressures. In addition to savings due to slippage in the capital programme, Cabinet agreed in February 2016 to a change to the Minimum Revenue Provision debt repayment profiling methodology. In addition to supporting the budget position going forward this has also resulted in additional savings in 2015/2016.
- Other net savings of £4.461m in respect of contingencies, additional income, other variations in non-delegated expenditure and net of provisions for known costs including transformation costs. The on-going element of contingency savings, additional income and non-delegated expenditure were factored into the 2016/17 budget position.
- Earmarking of Specific Reserves of £8.155m as reported to Cabinet as part of the outturn report.

The major in-year pressures have been detailed in the cabinet outturn report and related to:

- Children's Safeguarding – financial pressure arose in respect of Children's safeguarding from both improvement action planning and placement numbers. After taking into account agreed use of earmarked resources, the final additional contribution required for 2015/2016 was £9.1m. The Children's commissioner continues to review and oversee the improvement plans so as to provide assurance as to the on-going position, which was provided for in setting the 2016/2017 budget.
- Adult Social Care (Better Care Fund) – an additional contribution was required primarily as a result of additional demand for care packages over that provided for within the budget. This contribution totalled £9m across all Better Care Fund pooled budgets, of which the Councils share was £5.9m, reducing to £3.6m after use of specific earmarked one-off resources.
- Public Health – The Council's share of the Government's £200m in year grant reduction totalled £1.472m. Whilst the service maximised in year savings to mitigate this funding reduction, a shortfall of £0.955m remained.

The table below summarises the financial position for the year 2015/2016 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 2015/2016.

Financial position for the year 2015/2016 for General Fund Balances

	2015/2016 Original Estimate £'000	2015/2016 Revised Estimate £'000	2015/2016 Actual £'000	2014/2015 Actual £'000
Expenditure on Services	228,444	228,466	193,383	230,541
Levies and Precepts	16,988	16,988	16,988	17,293
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(912)	(646)
Transfers to / (from) Reserves *	(7,386)	(7,386)	26,898	5,436
Total Net Expenditure	238,046	238,068	236,357	252,624
Financed by:				
Revenue Support Grant and General Grants	77,153	77,175	77,351	99,815
Top Up Grant	35,948	35,948	35,948	35,274
Business Rates	44,216	44,216	43,102	39,184
Council Tax Collection Fund Receipts	78,317	78,317	80,200	79,186
Council Tax Surplus	500	500	500	500
Total Net Budget Requirement	236,134	236,156	237,101	253,959
Addition / (Use):				
General Reserve	0	0	0	0
Schools LMS Reserve	(1,912)	(1,912)	744	1,335
General Fund Balance brought forward:				
General Reserve	7,570	7,570	7,570	7,570
School LMS Reserve	9,660	9,660	9,660	8,325
General Fund Balance carried forward:				
General Reserve	**7,570**	**7,570**	**7,570**	**7,570**
School LMS Reserve	**7,748**	**7,748**	**10,404**	**9,660**

* Capital Grants unapplied reserve has increased by £35.3m, primarily as a result of government grant funding awarded by the Department for Communities and Local Government in respect of the ongoing New Wear Crossing capital

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 movement in General Fund Balances in the Movement in Reserves Statement. The movement in school balances during 2015/2016 amounted to a net return to balances of £0.744m (£1.335m net return to balances in 2014/2015), as a result of reduced spending by schools and is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement 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 2016/2017 and future years.

As a result, the balance of this reserve as at 31st March 2016 increased to £10.404m compared to £9.660m as at 31st March 2015. Further details are set out in Note 8 (page 60) to the Accounts.

Equal Pay claims

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 paid by the Council in relation to previously operated bonus schemes. Claims have been stayed by the Employment Tribunal to enable, without prejudice, settlement discussions. There are a number of grievances concerning identical issues. Following settlement discussions, a significant number of claims and grievances have been settled. Efforts are on-going to reach settlements in residual cases.

Workforce Transformation

During 2015/2016 the Council began implementation of a Workforce Transformation project. The purpose of the project was to devise and implement a new local agreement for employees that would provide a set of modern, streamlined terms and conditions of employment and a modern, flexible pay and grading structure that meets the future needs of the organisation. The project was largely implemented during 2015/2016 with some residual activity to be undertaken in the early part of 2016/2017.

Pensions

The cost of pensions to the Council continues to increase year on year and remains a major item of expenditure which the Council has to meet each year.

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 2013 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2016.

The Council continues to comply fully with this Standard and the Accounting Policy (Note 1, page 36) and the Notes to the 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 committed to making the necessary pension deficiency payments in order to address any shortfall in the pension fund identified by the Actuary, 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 of £452.740m reflected in Note 22 (page 77), as assessed by the Actuary, as at 31st March 2016, is being addressed by the Council in line with government regulations whereby a period of 18.6 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.

Balance Sheet Position

Despite the challenges facing the Council, a strong balance sheet has been maintained.

	Balance as at 31 March 2015 £m	**Balance as at 31 March 2016 £m**
Non-current assets	1,097	1,038
Net current assets	110	147
Long term liabilities and provisions	(815)	(765)
Net Assets	**392**	**420**
Represented by:		
Usable reserves*	190	217
Unusable reserves	202	203

*Included within this increase is £41.5m increase on capital reserves. In the main this is due to Capital Grants unapplied reserve increasing by £35.3m, primarily as a result of government grant funding awarded by the Department for Communities and Local Government in respect of the on-going New Wear Crossing capital project.

Group Accounts

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

The Group balance sheet position is:

	Balance as at 31 March 2015 £m	Balance as at 31 March 2016 £m
Non-current assets	1,097	1,066
Net current assets	112	149
Long term liabilities and provisions	(826)	(775)
Net Assets	**383**	**440**
Represented by:		
Usable reserves	190	217
Unusable reserves	202	229
Profit/(Loss) in subsidiaries and associates*	(9)	(6)

* The subsidiaries accounts contain liabilities relating to future retirement benefits. These liabilities have a substantial impact on the net worth of the subsidiaries as presented on their balance sheets, however, these liabilities are being addressed on an on-going basis. Arrangements for funding the deficit mean that the financial position of the company remains healthy as it has up to 18.6 years in which to address the pension fund projected deficit.

Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals during 2015/2016

Capital Expenditure for the year totalled £86.794m. Expenditure on non-current assets for 2015/2016 was £70.758m (Note 12, page 63), whilst expenditure on intangible assets was £0.508m. The remainder of £15.528m represents loans, grants, and advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue, and expenditure on property not owned by the Council.

The above total capital expenditure was financed by Government Grants and other Contributions of £83.688m, and Revenue Contributions from Reserves of £3.106m.

The Council spent £1.800m on the purchase of land and property during 2015/2016. This included strategic land acquisitions that will be used to regenerate the city centre and surrounding areas and acquisitions to allow infrastructure works to go ahead developing land around the enterprise zone area which will benefit economic growth.

The Council is involved in a number of major projects. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2015/2016, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

	Expenditure during 2015/2016 £'000	Total Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2016
New Wear Bridge Crossing (SSTC Phase 2)	30,944	117,600	ongoing
A19 Ultra Carbon Enterprise Zone	10,593	24,000	ongoing
Industrial Portfolio Improvement Works	3,590	9,787	complete
Contribution to New Sunderland College	3,000	3,000	complete
Low Carbon Enterprise Zone Transport Infrastructure	2,579	8,810	complete
Washington Leisure Centre	2,173	11,300	complete

There were three sales of surplus assets to developers over £500,000; the sale of 50 Fawcett Street and Cassaton House (£0.950m), the sale of Unit E Colima Avenue (£0.715m) and the sale of land to the East of Ryhope Road (£0.742m – £0.057m deposit received in 2014/2015). There were no other major asset disposals (over £0.500m) made during the year. In addition seven leisure complexes were transferred to the Councils joint venture partnership for a consideration of £0.500m in share capital and one school became an academy, as disclosed in and was transferred for nil consideration in accordance with government regulations. Note 5 (page 55).

Council's Borrowing and Treasury Management Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 4th March 2015 detailed the 2015/2016 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 Council is required to set borrowing limits for the following three financial years. The limits for 2015/2016 were originally set as follows:

- Authorised Limit for External Debt for 2015/2016 of £454.227m but revised to £516.048m
- Operational Boundary for External Debt for 2015/2016 of £360.045m but revised to £422.196m

These two key borrowing indicators needed to be amended during the financial year to reflect changes arising from the Joint Waste Disposal (PFI) arrangement with Gateshead and South Tyneside Councils which following the audit of the Council's accounts for 2014/2015, required the Council's share of the Joint Waste Disposal (PFI) arrangement to be included on the Council's Balance Sheet.

As a consequence, the Authorised Borrowing Limit for External Debt was revised to £516.408m from £454.227m and the Operational Boundary for External Debt was revised to £422.196m from £360.045m. As part of the Council's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis and the limits were not exceeded during 2015/2016. The highest level attained by the Council in respect of these limits, during 2015/2016, was £337.258m

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 2015/2016 is included in detail within Note 45 - Nature and Extent of Risk Arising from Financial Instruments (page 115).

The strategy for 2015/2016 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. There were high levels of volatility in the financial markets during 2015/2016 with particular concerns around low levels of inflation, weak growth in China and the Eurozone and the continuing need to stimulate growth in the UK. PWLB Certainty borrowing rates reflected this market volatility with 50 year maturity loans reaching a high of 3.58% in July 2015 and a low of 2.81% in February 2016. With borrowing rates still forecast to remain low over the short term, no new borrowing was undertaken.

The Council's economic advisers believe that the outlook for the UK economy remains uncertain in both 2016 and 2017 with key economic data, such as low growth and low inflation, not supportive of the Bank of England raising interest rates in 2016. The UK economic recovery is considered fragile and is also heavily influenced by the worldwide economic position and by geopolitical events. Many financial forecasters are of the view that the next interest rate rise will now occur in late 2017/early 2018. PWLB interest rate levels and economic forecasts are closely monitored to ensure that potential risks to the Council are minimised.

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's resources and thereby reducing the risks that inevitably exist in this complex area.

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future years' capital programmes and to help support the Council's revenue budget. The average rate of the Council's borrowing at 3.52% is in the top quartile when benchmarked against other authorities and the 0.92% rate of return achieved on investments in 2015/2016 (benchmark rate of 0.36%) represents a very good return, especially when short-term investment rates continue to remain very low, and this helps to show how proactive Treasury Management can have significant positive effects on the Council's resources.

Minimum Revenue Provision

The Council is required to repay an element of its capital financing requirement each year through a revenue charge known as the Minimum Revenue Provision (MRP). Local authorities have significant discretion in determining the level of MRP which they consider prudent and a review of the Council's MRP policy during 2015/2016 identified changes to the way in which MRP is calculated which will reduce the pressure on the revenue budget but still ensure that a prudent level of provision is set aside.

The major changes made to MRP policy were to ;

- change MRP provided on borrowing supported by the government from the regulatory method which reduces borrowing incurred by 4% each year to one in which borrowing is paid off in full over 50 years. This reflects reductions in grant support from the Government in recent years, and
- calculate MRP using an annuity method rather that the current 4% reducing balance for supported borrowing and the current equal instalments method for unsupported borrowing.

The revised MRP policy was approved by Council on 2nd March 2016. The changes reduce the level of revenue applied to provide for debt in the short to medium term which means that the level of capital expenditure financed by borrowing, the Capital Financing Requirement, will initially reduce more slowly as the amount of MRP applied each year is lower than under previous policy. The re-phasing of the MRP does not impact of the cost of actual debt to the Council, rather it re-profiles the years over which the provision for debt is made. Taking the cost of debt interest into account net reductions to the current revenue budget are estimated from 2015/2016 to 2026/2027 with an increase then arising until 2064/2065 followed by an on-going decrease. These reductions will assist the Council in meeting its efficiency targets.

Financial Indicators

Financial indicators can be calculated to assess the efficiency of the Council as well as whether it is delivering value for money. A number of key financial indicators relating to 2014/2015 and 2015/2016 are presented below:

	14/15	15/16
Working capital ratio	1.7	2.3
Long term borrowing to long term assets	0.2	0.2
Usable non-school reserves : gross spend (cost of services)	27%	32%
School balances : Dedicated Schools Grant	8%	9%
Council Tax collection rate (In Year)	96.56%	95.73%
Business Rate collection rate (In Year)	97.24%	97.16%
Net cost per head of population	£2,401	£2,321

Working capital ratio

The working capital ratio indicates whether the Council has enough resources to cover its immediate liabilities (i.e. those liabilities to be met within the next year). A ratio of less than one indicates potential liquidity problems. The Council's ratio is currently 2.3 indicating no liquidity problems.

Ratio of long term borrowing to long term assets

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets. The Council's ratio is 0.2, meaning that the Council has enough long term assets to cover its long term liabilities.

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

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure, including those earmarked for specific purposes. A higher ratio indicates that the Council has a greater ability to fund unexpected pressures from available resources. The Council has non-school reserves equivalent to 32% of gross expenditure, however, these are largely committed for specific purposes.

School balances to Dedicated Schools Grant

This shows the share of school balances held in relation to the total DSG allocation received for the year. The ratio of the Council's school balances to DSG in 2015/2016 was 0.09.

Council Tax collection rate

This shows the proportion of Council Tax collected and is an indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2015/2016 was 95.73%.

Business Rate collection rate

This shows the proportion of Business Rates collected and is another indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2015/2016 was 97.16%.

Net cost per head of population

Net expenditure per head of population is primarily a value for money indicator, but can also be used to assess financial resilience as a relatively low cost per head indicates that costs have been controlled in earlier years. Based on 2015/2016's Cost of Services, the Council's net cost per head was £2,321.

Financial Statements

This Statement of Accounts shows, in the following pages, the Council's final accounts for 2015/2016. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003 and The Accounts and Audit Regulations 2015.

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 Council 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 Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

3. **Comprehensive Income and Expenditure Statement**

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

4. **Balance Sheet**

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

5. Cash Flow Statement

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

6. Notes (including a summary of significant accounting policies and other explanatory information)

The Notes to the financial statements have three significant roles, they:

- Present information about the basis of preparation of the financial statements and the specific accounting policies used.
- Disclose information that is required by the Code that is not presented elsewhere in the financial statements.
- 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.

8. Group Accounts

The Group Accounts present the financial statements and associated notes for Sunderland City Council together with the following subsidiaries and joint venture:

- Sunderland Care and Support Ltd;
- Sunderland Live Ltd;
- Siglion LLP (Joint Venture);
- Sunderland Lifestyle Partnership Ltd (Joint Venture).

Barry Scarr
Interim Director of Corporate Services

30th September 2016

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

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

The Interim Director of Corporate Services' Responsibilities

The Interim Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2016.

Authorised for Issue Date

The unaudited accounts were certified on 24th June 2016 and the audited accounts are now authorised for issue on 30th September 2016.

Certificate of the Interim Director of 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.

Barry Scarr
Interim Director of Corporate Services

30th September 2016

Independent Auditors' Report to the Members of Sunderland City Council

Opinion on the Council financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
This report is made solely to the members of Sunderland City Council in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Sunderland City Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Interim Director of Corporate Services and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Interim Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2016 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Independent Auditors' Report to the Members of Sunderland City Council

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

Respective responsibilities of the Council and the auditor

The Council 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.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate. Ofsted have not yet updated their assessment and this qualification will remain until the assessment is updated and the services are no longer assessed as inadequate.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are 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 ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or a material impact on the value for money conclusion.

Mark Kirkham
For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham DH1 5TS

30 September 2016

Annual Governance Statement

SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is on the Council's website [here] or can be obtained from the Interim Director of Corporate Services. This Statement explains how the Council has complied with its Code in 2015/2016.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and 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 and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2016 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. 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."

The Council set out its priorities under the following clear outcomes that are derived from its vision

People – raising aspirations, creating confidence and promoting opportunity
Place – leading the investment in an attractive and inclusive city and its communities
Economy – creating the conditions in which businesses can establish and thrive.

The Corporate Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

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

The roles and responsibilities of Council members and employees are clearly documented, although the delegation arrangements need to be updated following recent senior management changes. The Council's

Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

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

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

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

A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to on-going review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The former Director of Finance was designated Chief Finance Officer and fulfilled this role through the following:

- Attendance at meetings of the Executive Management 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.

This role is now carried out by the Interim Director of Corporate Services.

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 Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;

- review the adequacy of and compliance with, the Councils Treasury Management Policy; and
- make recommendations to Cabinet or Council as appropriate.

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

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role. The Council recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and on-going evaluation of the extent to which employees understand and support the values of the Council.

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

The Council's Code of Practice for Partnerships and supporting arrangements are being reviewed and new arrangements will be implemented in 2016/17.

An Improvement Board, chaired by a Children's Commissioner, is in place to oversee improvements to Children's Safeguarding services following the inadequate rating by OFSTED.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Corporate Assurance Map which summarises assurances gathered from all available sources and in particular:

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report.
- The external auditors (Mazars) Annual Audit Letter for 2014/15 concludes that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015.

The Head of Assurance, Procurement and Projects has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The outcome of the review of effectiveness provided the necessary assurance and that no significant issues were identified, with the exception of the need to continue to improve Children's Safeguarding services. The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

Annual Governance Statement

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas to be addressed with new actions are outlined in the agreed improvement plan.

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

Paul Watson	Irene Lucas	Barry Scarr
Leader of the Council	Chief Executive	Interim Director of Corporate Services

Dated : 30th September 2016

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the Council'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 for council tax setting purposes. 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 Council. The table below shows the details for both 2014/2015 and 2015/2016 as required by the Code of Accounting Practice.

Financial Statements

Movement in Reserves Statement for 2015/2016 (including 2014/2015 comparative information)

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Authority Reserves £'000**
Balance at 31 March 2014 carried forward		15,895	149,563	10,231	7,203	**182,892**	270,272	**453,164**
Movement in reserves during 2014/2015								
Deficit on provision of services		(34,979)	0	0	0	**(34,979)**	0	**(34,979)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	(26,639)	**(26,639)**
Total Comprehensive Income and Expenditure		**(34,979)**	**0**	**0**	**0**	**(34,979)**	**(26,639)**	**(61,618)**
Adjustments between accounting basis & funding basis under regulations		45,884	0	(2,203)	(1,931)	**41,750**	(41,750)	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		10,905	0	(2,203)	(1,931)	**6,771**	(68,389)	**(61,618)**
Transfers to / (from) Earmarked Reserves		(9,570)	9,570	0	0	**0**	0	**0**
(Increase) / Decrease in 2014/2015		1,335	9,570	(2,203)	(1,931)	**6,771**	(68,389)	**(61,618)**
Balance at 31 March 2015		**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**391,546**
Movement in reserves during 2015/2016								
Deficit on provision of services		(27,787)	0	0	0	**(27,787)**	0	**(27,787)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	56,708	**56,708**
Total Comprehensive Income and Expenditure		**(27,787)**	**0**	**0**	**0**	**(27,787)**	**56,708**	**28,921**
Adjustments between accounting basis & funding basis under regulations	7	16,446	0	3,643	35,340	**55,429**	(55,429)	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		(11,341)	0	3,643	35,340	**27,642**	1,279	**28,921**
Transfers to / (from) Earmarked Reserves	8	12,085	(12,085)	0	0	**0**	0	**0**
(Increase) / Decrease in 2015/2016		744	(12,085)	3,643	35,340	**27,642**	1,279	**28,921**
Balance at 31 March 2016		**17,974**	**147,048**	**11,671**	**40,612**	**217,305**	**203,162**	**420,467**

Financial Statements

Comprehensive Income and Expenditure Statement

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

Financial Statements

Comprehensive Income and Expenditure Statement for 2015/2016 (including 2014/2015 comparative information)

2014/2015					2015/2016		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
9,355	6,504	2,851	Central services to the public		**7,931**	**4,957**	**2,974**
26,731	8,060	18,671	Cultural and related services		**23,201**	**3,404**	**19,797**
27,477	7,983	19,494	Environmental and regulatory services		**31,286**	**6,760**	**24,526**
26,323	11,367	14,956	Planning services		**24,701**	**8,324**	**16,377**
180,254	157,788	22,466	Education services		**181,004**	**155,820**	**25,184**
44,152	2,840	41,312	Children's social care		**55,255**	**2,873**	**52,382**
34,058	13,597	20,461	Highways and transport services		**32,242**	**11,463**	**20,779**
128,128	124,203	3,925	Other housing services		**129,730**	**124,253**	**5,477**
134,102	56,911	77,191	Adult social care		**104,551**	**25,808**	**78,743**
21,659	21,413	246	Public Health		**22,626**	**22,305**	**321**
21,292	13,840	7,452	Corporate and democratic core		**22,273**	**14,963**	**7,310**
2,893	0	2,893	Non distributed costs		**3,084**	**0**	**3,084**
1,917	0	1,917	Exceptional item - severance costs		**2,789**	**0**	**2,789**
4,521	0	4,521	Exceptional item - equal pay settlement/provision		**1,896**	**206**	**1,690**
662,862	424,506	238,356	**Cost of Services**	26	**642,569**	**381,136**	**261,433**
43,366	0	43,366	Other operating expenditure	9	**93,680**	**0**	**93,680**
31,942	4,883	27,059	Financing and investment income and expenditure	10	**27,950**	**7,214**	**20,736**
0	273,802	(273,802)	Taxation and non-specific grant income and expenditure	11	**0**	**348,062**	**(348,062)**
738,170	703,191	34,979	**(Surplus) or Deficit on Provision of Services**	26	**764,199**	**736,412**	**27,787**
			Items that will not be reclassified to (surplus)/deficit on Provision of Services				
		(24,251)	(Surplus) or deficit on revaluation of non-current assets	12/22a			**(1,858)**
		50,890	Re-measurements of the defined benefit liability	42			**(54,850)**
		26,639					**(56,708)**
			Items that may be reclassified to (surplus)/deficit on Provision of Services				
		0	(Surplus) or deficit on revaluation of available for sale financial assets	22h			**0**
		26,639	**Other Comprehensive Income and Expenditure**				**(56,708)**
		61,618	**Total Comprehensive Income and Expenditure**				**(28,921)**

Financial Statements

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets 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'.

31st March 2015 £'000		Notes	**31st March 2016 £'000**
942,592	Property, Plant and Equipment	12	**883,116**
12,192	Heritage Assets	13	**12,192**
61,409	Investment Property	14	**62,494**
2,010	Intangible Assets		**2,007**
21,415	Long Term Investments	15	**21,915**
57,258	Long Term Debtors	15	**56,624**
1,096,876	**Long Term Assets**		**1,038,348**
180,919	Short Term Investments	15	**161,055**
678	Inventories		**754**
47,385	Short Term Debtors	16	**37,209**
3,027	Assets Held for Sale	18	**2,833**
25,998	Cash and Cash Equivalents (In-hand & bank	15/17	**62,055**
258,007	**Current Assets**		**263,906**
(21,101)	Cash and Cash Equivalents (overdrawn)	17	**(10,465)**
(30,988)	Short Term Borrowing	15	**(29,756)**
(63,666)	Short Term Creditors	19	**(58,120)**
(21,119)	Provisions	20	**(16,479)**
(10,817)	Grant Receipts in Advance - Capital	34	**(2,148)**
(147,691)	**Current Liabilities**		**(116,968)**
(218,220)	Long Term Borrowing	15	**(218,163)**
(591,861)	Other Long Term Liabilities	15/22d	**(541,113)**
(5,565)	Provisions	20	**(5,543)**
(815,646)	**Long Term Liabilities**		**(764,819)**
391,546	**Net Assets**		**420,467**
189,663	Usable Reserves	8	**217,305**
201,883	Unusable Reserves	22	**203,162**
391,546	**Total Reserves**		**420,467**

Financial Statements

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2014/2015 £'000		Notes	**2015/2016** **£'000**
34,979	Net (surplus) or deficit on the provision of services		**27,787**
(90,200)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(141,210)**
27,527	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**124,020**
(27,694)	Net cash flows from operating activities	23	**10,597**
115,882	Investing activities	24	**(60,948)**
(39,830)	Financing activities	25	**3,658**
48,358	**Net (increase) or decrease in cash and cash equivalents**		**(46,693)**
53,255	Cash and cash equivalents at the beginning of the reporting period		**4,897**
4,897	**Cash and cash equivalents at the end of the reporting period**	17	**51,590**

Notes to the Financial Statements

Notes to the Financial Statements

Notes to the Financial Statements

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/2016 financial year and its position at the year end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit Regulations 2015, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 and the Service Reporting Code of Practice 2015/2016, supported by International Financial Reporting Standards (IFRS).

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

1.2 Accrual of Income & Expenditure

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

- Revenue from 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.
- A de-minimis level of £5,000 is applied to accruals.

1.3 Cash and Cash Equivalents

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

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

1.4 Exceptional Items

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

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 non-current assets during the year:

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

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

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

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

a) Service cost comprising:

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

b) Re-measurements comprising:

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

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

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

Discretionary Benefits

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

1.8 Events after the Balance Sheet Date

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

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

Events taking place after the date of authorisation for issue are not 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
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.

However, the Council has made loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost that the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of the soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the

Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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.

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 techniques:

- 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.

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

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

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).

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 and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Business Improvement District (BID)

A Business Improvement District (BID) scheme applies to a designated area within the City Centre. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as a principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within 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.

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

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

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

1.12 Interests in Companies & Other Entities

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

1.13 Joint Operations

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

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

1.14 Inventories

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

1.15 Investment Property

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

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

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

1.16 Leases

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

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

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

(a) The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

(b) The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

1.17 Overheads & 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 Service Reporting Code of Practice 2015/2016 (SeRCOP). The charging method varies according to the service provision, with the most appropriate basis being agreed with the customer on an annual basis, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

1.18 Internal Interest

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

1.19 Delegated Budgets

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

1.20 Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historic cost;

- Surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- 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 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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

De-Minimis Levels

The use of a de-minimis level for capital expenditure means that 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.

Impairment

Assets are assessed at each 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.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- 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 divided by the future life expectancy.

Depreciation is charged in the year following acquisition, with the exception of acquisition and enhancement of buildings that are revalued at 31st March and of disposals where depreciation is charged in the year the acquisition, enhancement or disposal takes place.

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

Asset Category	Years
Buildings	5 - 65
Infrastructure	5 - 40
Vehicles, plant and furniture	5 - 40

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

- Building structure;
- 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 revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.21 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

1.22 Provisions

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

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

1.23 Contingent Liabilities

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

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

1.24 Contingent Assets

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

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

1.25 Reserves

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

1.26 Revenue Expenditure Funded from Capital under Statute

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

1.27 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.

1.28 Heritage Assets

Heritage assets are carried in the balance sheet at valuation. However, some of the measurement rules are relaxed in relation to heritage assets.

The Council recognises collections that are maintained on behalf of the Council by Tyne and Wear Museums for artefacts with a value in excess of £10,000, the value of this art collection is based on detailed insurance valuations (based on market values). In addition assets valuations held on the Council's insurance schedule for assets classified as historic assets with a value in excess of £10,000 are recorded as heritage assets.

Community Assets donated to the Council are held at valuation as a proxy for historical cost. The Council has not recognised assets held as community assets on the introduction of IFRS changes in 2010/2011 as heritage assets, this is because the cost of revaluing elements of community assets outweighs the benefit of the disclosure. Capital schemes on community assets are now analysed and any of the expenditure in excess of £10,000 relating to Historic Assets is capitalised as Historic Assets and held at historic cost.

Revaluations, impairments or disposals are actioned against this balance sheet valuation.

1.29 Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

1.30 Fair Value Measurement

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

a) in the principal market for the asset or liability, or

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

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

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

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

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

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

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

The Code for 2016/2017 has introduced several changes in accounting policies which are required from 1st April 2016. None of these changes are expected to have a material impact on the Council's Financial Statements, however, in the 2016/2017 Financial Statements, the comparator 2015/2016 amounts presented in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must be restated to reflect the new formats and reporting requirements.

Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

These amendments clarify that entities are able to exercise their judgement when presenting their Financial Statements.

The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

The changes introduced will make substantial changes to local authority financial reporting. These changes:

- require local authorities to report on the same basis that they are organised by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement
- introduce a new Expenditure and Funding Analysis which provides a direct reconciliation between the way local authorities budget (and are funded) and the CIES in a way that is accessible to users of the accounts. This Expenditure and Funding Analysis is supported by a streamlined Movement in Reserves Statement.

Annual Improvements to IFRSs 2012 – 2014 Cycle

The IASB's annual improvement project provides a streamlined process for enhancing the quality of standards, by clarifying guidance and wording and making minor corrections. The issues considered during 2012-2014 cycle were:

- IFRS 5: Changes in methods of disposal;
- IFRS 7: Servicing Contracts;
- IFRS 7: Applicability of the amendments to IFRS 7 to condensed interim financial statements;
- IAS 19: regional market issue;
- IAS 34: Disclosure of information "elsewhere in the interim financial report".

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

These amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions where the contributions are not linked to length of service.

Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide additional guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)

These amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Revenue is also generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset, although this presumption can be rebutted in certain limited circumstances.

Note 3 – Critical Judgements in applying accounting policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Valuation Newcastle Airport – the value of the Council's investment in Newcastle Airport is based on the open market value of shares at 16th November 2012.

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

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

The items in the Council's Balance Sheet at 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £1.843m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of £26.684m of which £5.041m relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of insurance claims or the estimated average insurance settlement would each have the effect of adding £0.487m to the provision needed.*
Provision – Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses. This includes the relevant share of any historic appeals lodged, but still	Any increase or decrease in appeals lodged would impact on the overall position of the Collection Fund and future income receivable via Business Rates.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	outstanding and also any appeals likely to be lodged against the current 2010 ratings list. Therefore, a provision has been recognised for the best estimate of the amount that will be successfully appealed (i.e. that businesses have been overcharged) in relation to 2015/16 and previous years, regardless of when that appeal is raised or settled. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA as at 31 March 2016.	
Arrears	At 31st March 2016, the Council had a balance of debtors of £49.029m. A review of significant balances suggested that an impairment of doubtful debts of 28.11% (£13.783m) was appropriate. However, significant changes to the current economic climate could affect 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 £13.783m to be set aside as an allowance.*
Pension 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 Council with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the pension liability of £25.81m. However, the assumptions interact in complex ways. During 2015/2016, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £13.36m as a result of estimates being corrected as a result of experience and decreased by a further £53.62m attributable to updating of the assumptions.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for *similar* assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's's assets and	The Council uses the market approach that compares the asset to be valued with the prices obtained for other similar assets and the income approach that capitalises the potential income of the asset to measure the fair value of some of its surplus assets, investment properties and assets held for sale. The significant unobservable inputs used in the fair value measurement include management assumptions regarding sales values, market rental, yields and vacancy levels (for investment properties). Significant changes in any of the

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	liabilities. Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the council's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the council's assets and liabilities is disclosed in notes 14 and 15 below.	unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.

* 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 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £71.218m relates mainly to leisure assets that transferred on a long term lease to the Council's joint venture partnership with Sport and Leisure Management Ltd on 1st June 2015 with the Council receiving a 50% consideration of £0.500m shares in the newly formed partnership. In addition, Sandhill View Secondary School opted out of local authority control and became an academy on 1st July 2015. 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 leisure and education assets out of its accounts for a consideration of £0.500m. The accounting entries require this 'loss' to be charged to Other Operating Expenditure within the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer.

The following assets have been transferred at a loss during 2015/2016;

	Loss on Disposal £m	Date of Transfer
Schools:		
Sandhill View Academy	**19.953**	1st July 2015
Assets Transferred to Leisure Joint Venture Partnership		
Sunderland Aquatic Centre	**20.661**	1st June 2015
Washington Leisure Centre	**11.736**	
Silksworth Community Pool, Tennis and Wellness Centre	**7.197**	1st June 2015
Hetton Community Pool and Wellness Centre	**4.651**	1st June 2015
Houghton Sports Centre and Wellness	**4.113**	1st June 2015
Seaburn Leisure Centre and Wellness	**2.544**	1st June 2015
Silksworth Sports Complex	**1.387**	1st June 2015
Share Consideration in Leisure JV Partnership	**(0.500)**	1st June 2015
Non Schools:		
Other Net (Gains) and Losses	**(0.524)**	
Total	**71.218**	

Notes to the Financial Statements

Note 6 – Events after the Balance Sheet date

Non-adjusting Events after the Balance Sheet date

There are a number of events that have taken place since the accounts were certified on 27th June which are judged to be non-adjusting post balance sheet events, which need to be included in the financial statements for information.

Schools transferred to Academy Status

The following schools that were part of the Council's asset base at 31st March 2016 have since transferred to Academy status and the value of the assets that will be written out of the accounts are as follows.

- Burnside Primary School - £2.013m
- Fatfield Primary School - £5.637m
- New Silksworth Junior School – £5.175m
- New Silksworth Infant School - £1.898m

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

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Notes to the Financial Statements

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

2014/2015					**2015/2016**			
Usable			Movement in Unusable Reserves Restated		**Usable**			**Movement in Unusable Reserves**
General Fund Balance Restated	Capital Receipts Reserve	Capital Grants Unapplied			**General Fund Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	
£'000	£'000	£'000	£'000		**£'000**	**£'000**	**£'000**	**£'000**
				Adjustments primarily involving the Capital Adjustment Account:				
				<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
44,205	0	0	(44,205)	Charges for depreciation and impairment of non current assets	**41,981**	**0**	**0**	**(41,981)**
2,547	0	0	(2,547)	Revaluation losses on Property Plant and Equipment	**10,159**	**0**	**0**	**(10,159)**
(802)	0	0	802	Movements in the fair value and disposals of Investment Properties	**(1,085)**	**0**	**0**	**1,085**
468	0	0	(468)	Amortisation of intangible assets	**511**	**0**	**0**	**(511)**
(15,024)	0	0	15,024	Capital grants and contributions applied	**(18,087)**	**0**	**0**	**18,087**
14,631	0	0	(14,631)	Revenue expenditure funded from capital under statute	**13,528**	**0**	**0**	**(13,528)**
50,208	0	0	(50,208)	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	**80,832**	**0**	**0**	**(80,832)**
				<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
(14,811)	0	0	14,811	Statutory provision for the financing of capital investment	**(8,943)**	**0**	**0**	**8,943**
(4,758)	0	0	4,758	Capital expenditure charged against General Fund balances	**(3,106)**	**0**	**0**	**3,106**
				Adjustments primarily involving the Capital Grants Unapplied Account:				
(11,865)	0	11,865	0	Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	**(100,941)**	**0**	**100,941**	**0**
0	0	(13,796)	13,796	Application of grants to capital financing transferred to the Capital Adjustment Account	**0**	**0**	**(65,601)**	**65,601**

Notes to the Financial Statements

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

2014/2015					**2015/2016**			
Usable			Movement in Unusable Reserves		**Usable**			**Movement in Unusable Reserves**
General Fund Balance Restated	Capital Receipts Reserve	Capital Grants Unapplied	Restated		**General Fund Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	
£'000	£'000	£'000	£'000		**£'000**	**£'000**	**£'000**	**£'000**
				Adjustments primarily involving the Capital Receipts Reserve:				
(638)	638	0	0	Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	**(3,763)**	**3,763**	**0**	**0**
0	(2,842)	0	2,842	Use of the Capital Receipts Reserve to finance new capital expenditure	**0**	**0**	**0**	**0**
0	0	0	0	Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposal	**120**	**(120)**	**0**	**0**
3	(3)	0	0	Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	**3**	**(3)**	**0**	**0**
				Adjustments primarily involving the Deferred Capital Receipts Reserve:				
(23,460)	0	0	23,460	Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	**(458)**	**0**	**0**	**458**
0	4	0	(4)	Transfer to the Capital Receipts Reserve upon receipt of cash	**0**	**3**	**0**	**(3)**
				Adjustments primarily involving the Financial Instruments Adjustment Account:				
126	0	0	(126)	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	**125**	**0**	**0**	**(125)**

Notes to the Financial Statements

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

2014/2015					2015/2016			
Usable			Movement in Unusable Reserves		**Usable**			**Movement in Unusable Reserves**
General Fund Balance Restated	Capital Receipts Reserve	Capital Grants Unapplied	Restated		**General Fund Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	
£'000	£'000	£'000	£'000		**£'000**	**£'000**	**£'000**	**£'000**
				Adjustments primarily involving the Pensions Reserve:				
40,490	0	0	(40,490)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	**41,250**	**0**	**0**	**(41,250)**
(31,980)	0	0	31,980	Employer's pensions contributions and direct payments to pensioners payable in the year	**(32,680)**	**0**	**0**	**32,680**
				Adjustments primarily involving the Unequal Pay Back Pay Adjustment Account:				
0	0	0	0	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	**0**	**0**	**0**	**0**
				Adjustments primarily involving the Collection Fund Adjustment Account:				
(2,761)	0	0	2,761	Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	**(1,797)**	**0**	**0**	**1,797**
				Adjustments primarily involving the Accumulated Absences Account:				
(695)	0	0	695	Amount by 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	**(1,203)**	**0**	**0**	**1,203**
45,884	(2,203)	(1,931)	(41,750)	**Total Adjustments**	**16,446**	**3,643**	**35,340**	**(55,429)**

Notes to the Financial Statements
Note 8 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/2016.

	Balance at 31 March 2014 £'000	Transfers Out 2014/2015 £'000	Transfers In 2014/2015 £'000	Balance at 31 March 2015 £'000	Transfers Out 2015/2016 £'000	Transfers In 2015/2016 £'000	**Balance at 31 March 2016 £'000**
General Fund:							
General Fund Balance	7,570	0	0	7,570	0	0	**7,570**
Balances held by schools under a scheme of delegation	8,325	(1,894)	3,229	9,660	(1,810)	2,554	**10,404**
	15,895	(1,894)	3,229	17,230	(1,810)	2,554	**17,974**
Earmarked General Fund Reserves - Capital:							
Riverside Transfer	9,953	0	0	9,953	0	0	**9,953**
Capital Priorities Reserve	5,001	(793)	0	4,208	0	2,835	**7,043**
Strategic Investment Plan Reserve	7,153	(939)	21	6,235	(261)	0	**5,974**
Unutilised RCCO Reserve	2,636	(857)	10	1,789	(16)	91	**1,864**
HCA Stadium Transfer	1,158	(6)	0	1,152	(93)	0	**1,059**
Other Earmarked Capital Reserves	3,494	0	0	3,494	0	0	**3,494**
	29,395	(2,595)	31	26,831	(370)	2,926	**29,387**
Earmarked General Fund Reserves - Revenue:							
Strategic Investment Reserve	49,344	(6,331)	3,088	46,101	(7,232)	4,354	**43,223**
Medium Term Planning Smoothing Reserve	6,097	0	3,341	9,438	0	1,427	**10,865**
Street Lighting and Highways Signs PFI Smoothing Reserve	6,010	(354)	0	5,656	(260)	0	**5,396**
Insurance Reserve	5,142	(534)	50	4,658	(287)	800	**5,171**
Delegated budgets reserve - general	4,481	(4,132)	4,111	4,460	(926)	428	**3,962**
HCA Stadium Transfer	1,796	0	1,281	3,077	0	0	**3,077**
Education Redundancies Reserves	2,533	0	603	3,136	(265)	19	**2,890**
Weekly Collection Reserve	2,625	0	977	3,602	(890)	130	**2,842**
Sandhill Centre PFI Smoothing Reserve	2,590	(52)	0	2,538	(19)	0	**2,519**
Troublesome Families Reserve	1,206	0	328	1,534	0	255	**1,789**

Notes to the Financial Statements

Note 8 – Transfers to/from Earmarked Reserves

	Balance at 31 March 2014 £'000	Transfers Out 2014/2015 £'000	Transfers In 2014/2015 £'000	Balance at 31 March 2015 £'000	Transfers Out 2015/2016 £'000	Transfers In 2015/2016 £'000	**Balance at 31 March 2016 £'000**
Housing Benefit Smoothing Reserve	0	0	1,594	1,594	0	127	**1,721**
Riverside Transfer	1,852	(105)	37	1,784	(105)	25	**1,704**
DSG Surplus	1,044	(1,044)	2,638	2,638	(2,656)	1,671	**1,653**
Commercial and Economic Development Activity	1,500	0	0	1,500	0	0	**1,500**
Adult Demand Pressures Reserve	0	0	0	0	0	1,400	**1,400**
Play Areas Reserve	1,219	(173)	522	1,568	(487)	196	**1,277**
School Community Reserve	1,161	(310)	465	1,316	(276)	223	**1,263**
House Sale Income	907	(137)	409	1,179	(93)	148	**1,234**
Safeguarding Transitional Reserve	0	0	0	0	0	1,200	**1,200**
WNF-Software City	1,210	(25)	0	1,185	0	0	**1,185**
Service Pressures Reserve	1,066	0	0	1,066	0	0	**1,066**
Other Earmarked Revenue Reserves	23,418	(15,125)	18,579	26,872	(18,339)	12,191	**20,724**
Utilities Reserve	1,043	(1,043)	0	0	0	0	**0**
Transition Enablement	1,037	(1,037)	0	0	0	0	**0**
External Placements Reserve	2,887	(2,887)	0	0	0	0	**0**
Safeguarding Pressures Reserve	0	0	4,000	4,000	(4,000)	0	**0**
Safeguarding Action Plan	0	0	3,400	3,400	(3,400)	0	**0**
	120,168	(33,289)	45,423	132,302	(39,235)	24,594	**117,661**
Capital Receipts Reserve	10,231	(2,845)	642	8,028	(123)	3,766	**11,671**
Capital Grants Unapplied	7,203	(13,796)	11,865	5,272	(65,601)	100,941	**40,612**
Total Usable Reserves	182,892	(54,419)	61,190	189,663	(107,139)	134,781	**217,305**

Notes to the Financial Statements

Note 9 – Other operating expenditure

2014/2015 £'000		2015/2016 £'000
54	Parish Council Precept	**55**
17,239	Levies	**16,933**
3	Payments to the Government Housing Capital Receipts Pool	**3**
24,252	(Gain) / losses on the disposal of non current assets	**71,218**
1,818	(Gain) / losses on the derecognition of non current assets	**5,471**
43,366	**Total**	**93,680**

Note 10 – Financing and investment income and expenditure

2014/2015 £'000		2015/2016 £'000
11,813	Interest payable and similar charges	**12,569**
18,180	Net interest on the net defined benefit liability	**15,380**
(3,435)	Interest receivable and similar income	**(5,217)**
(646)	Surplus on Trading Undertakings	**(912)**
0	Deficit on Trading Undertakings	**0**
(802)	Income and expenditure in relation to investment properties and changes in their fair value	**(1,085)**
1,949	Disposals and impairments of susbidiaries	**1**
27,059	**Total**	**20,736**

Note 11 – Taxation and non-specific grant income and expenditure

2014/2015 £'000		2015/2016 £'000
(78,039)	Council tax income	**(80,700)**
(41,886)	Business rates income and expenditure	**(44,130)**
(135,089)	Non-ringfenced government grants *	**(113,299)**
(18,788)	Capital grants and contributions *	**(109,933)**
(273,802)	**Total**	**(348,062)**

* Further analysis of grants is shown within Note 34, Grant Income

Notes to the Financial Statements

Note 12 – Property, Plant and Equipment

Movement on Balances 2014/2015

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation							
At 1 April 2014	669,980	78,271	308,282	29,093	5,227	1,090,853	54,973
Additions	14,380	4,816	6,984	30,240	0	56,420	0
Recognition of PFI assets and Embedded Leases	63,571	1,147	4,183	0	0	68,901	67,753
Revaluation increases / (decreases) recognised in the Revaluation Reserve	11,601	0	0	0	1,080	12,681	5,526
Revaluation increases / (decreases) recognised in the Provision of Services	(3,427)	0	0	0	0	(3,427)	0
Derecognition recognised in the Provision of Services	(643)	(415)	0	0	(1,235)	(2,293)	0
Disposals	(55,614)	0	0	0	(81)	(55,695)	0
Assets reclassified (to) / from Assets Held for Sale	(475)	0	0	0	(1,175)	(1,650)	0
Other movements in Cost or Valuation	1,877	132	2,936	(5,144)	199	0	0
At 31 March 2015	**701,250**	**83,951**	**322,385**	**54,189**	**4,015**	**1,165,790**	**128,252**
Accumulated Depreciation and Impairment							
At 1 April 2014	59,945	45,490	93,208	0	85	198,728	14,657
Depreciation Charge	22,996	7,263	8,459	0	23	38,741	1,655
Depreciation written out to the Revaluation Reserve	(10,842)	0	0	0	(3)	(10,845)	(5,076)
Depreciation written out to the Provision of Services	(880)	0	0	0	0	(880)	0
Derecognition written out to the Provision of Services	0	(415)	0	0	(60)	(475)	0
Impairment recognised in the Provision of Services	3,962	0	1,502	0	0	5,464	0
Disposals	(7,527)	0	0	0	(8)	(7,535)	0
At 31 March 2015	**67,654**	**52,338**	**103,169**	**0**	**37**	**223,198**	**11,236**
Net Book Value							
At 31 March 2014	610,035	32,781	215,074	29,093	5,142	892,125	40,316
At 31 March 2015	**633,596**	**31,613**	**219,216**	**54,189**	**3,978**	**942,592**	**117,016**

Movement on Balances 2015/2016

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation							
At 1 April 2015	697,288	83,951	320,883	54,189	4,015	1,160,326	128,252
Additions	11,605	1,743	7,773	49,137	500	70,758	0
Recognition of PFI assets and Embedded Leases	0	318	368	0	0	686	368
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(19,952)	0	0	0	1,432	(18,520)	(1,747)
Revaluation increases / (decreases) recognised in the Provision of Services	(12,605)	0	0	0	0	(12,605)	(406)
Derecognition recognised in the Provision of Services	(5,772)	(8,789)	(2,548)	0	0	(17,109)	0
Disposals	(83,377)	(2,862)	0	0	0	(86,239)	(15,978)
Assets reclassified (to) / from Assets Held for Sale	(77)	0	0	0	(110)	(187)	0
Other movements in Cost or Valuation	15,363	339	17,811	(34,067)	554	0	0
At 31 March 2016	**602,473**	**74,700**	**344,287**	**69,259**	**6,391**	**1,097,110**	**110,489**
Accumulated Depreciation and Impairment							
At 1 April 2015	63,692	52,338	101,667	0	37	217,734	11,236
Depreciation Charge	24,051	6,529	8,658	0	23	39,261	5,042
Depreciation written out to the Revaluation Reserve	(18,896)	0	0	0	(37)	(18,933)	0
Depreciation written out to the Provision of Services	(2,446)	0	0	0	0	(2,446)	(116)
Derecognition written out to the Provision of Services	(1,299)	(8,789)	(1,550)	0	0	(11,638)	0
Impairment recognised in the Provision of Services	2,307	0	413	0	0	2,720	0
Disposals	(10,065)	(2,639)	0	0	0	(12,704)	(436)
At 31 March 2016	**57,344**	**47,439**	**109,188**	**0**	**23**	**213,994**	**15,726**
Net Book Value							
At 31 March 2015	633,596	31,613	219,216	54,189	3,978	942,592	117,016
At 31 March 2016	**545,129**	**27,261**	**235,099**	**69,259**	**6,368**	**883,116**	**94,763**

Depreciation

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

- Land and Buildings – 2 to 68 years
- Vehicles, Plant and Equipment – 5 to 20 years
- Infrastructure - 5 to 40 years

Capital Commitments

As at 31st March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/2016 and future years budgeted to cost £37.127m (as at 31st March 2014 £9.246m). The major commitments are:

- New Wear Crossing (SSTC Phase 2) – £30.474m
- SSTC Phase 3 - £2.382m
- Investment Corridor - £1.329m
- Various other schemes - £2.942m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment is revalued with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period. 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 Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on fair value using depreciated historical cost as a proxy for non-property assets that have short useful lives.

The significant assumptions applied in estimating the fair values are:

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

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

There were no transfers between levels during the year.

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

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

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historic cost	0	74,700	343,874	69,259	0	487,833
Valued at fair value as at:						
31 March 2016	119,419	0	0	0	6,391	125,810
31 March 2015	165,777	0	0	0	0	165,777
31 March 2014	140,426	0	0	0	0	140,426
31 March 2013	117,741	0	0	0	0	117,741
31 March 2012	56,803	0	0	0	0	56,803
Total Cost or Valuation	**600,166**	**74,700**	**343,874**	**69,259**	**6,391**	**1,094,390**

Note 13 – Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1st April 2014	9,125	556	1,661	11,342
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	850	0	0	850
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2015	**9,975**	**556**	**1,661**	**12,192**
Cost or Valuation				
1st April 2015	9,975	556	1,661	12,192
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2016	**9,975**	**556**	**1,661**	**12,192**

Further details of the Council's Heritage Asset holdings can be found in Note 46.

Note 14 – Investment Properties / Land

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

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

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

2014/2015 £'000		**2015/2016 £'000**
	Land held for capital appreciation valued at level 2 (other significant observable inputs) in fair value hierarchy	
60,607	Balance at the start of the year	**61,409**
(163)	Disposals	**(1,195)**
965	Net gain / (losses) from fair value adjustments	**2,280**
	Transfers:	
0	To / (From) Property, Plant and Equipment	**0**
61,409	Balance at the end of the year	**62,494**

Major gains in 2015/2016 from fair value adjustments reflect improvements to infrastructure near to sites whilst other changes reflect variations in the area of the developable land available and changes to planning status and market conditions (gains in 2014/2015 from fair value adjustments reflect changes to planning status).

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

There were no transfers between levels during the year.

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

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

Notes to the Financial Statements

Note 15 – Financial Instruments

Categories of Financial Instruments
The following categories of financial instrument are carried in the Balance Sheet.

Long Term 31 March 2015 £'000	Current 31 March 2015 £'000		**Long Term 31 March 2016 £'000**	**Current 31 March 2016 £'000**
		Investments		
0	180,919	Loans and receivables	**0**	**161,055**
16,415	0	Available-for-sale financial assets	**16,415**	**0**
5,000	0	Unquoted equity investment at cost	**5,500**	**0**
0	0	Financial assets at fair value through profit and loss	**0**	**0**
21,415	180,919	**Total Investments**	**21,915**	**161,055**
		Debtors		
57,258	25,998	Loans and receivables	**56,624**	**62,055**
0	24,516	Short term Debtors carried at cost	**0**	**19,744**
57,258	50,514	**Total included in Debtors**	**56,624**	**81,799**
0	22,869	Debtors that are not financial instruments	**0**	**17,465**
57,258	73,383	**Total Debtors**	**56,624**	**99,264**
		Borrowings		
(218,220)	(52,089)	Financial liabilities at amortised cost	**(218,163)**	**(40,221)**
0	0	Financial liabilities at fair value through profit and loss	**0**	**0**
(218,220)	(52,089)	**Total included in Borrowings**	**(218,163)**	**(40,221)**
		Other Long Term Liabilities		
(92,841)	0	PFI and finance lease liabilities	**(88,373)**	**0**
(92,841)	0	**Total included in Other Long Term Liabilities**	**(88,373)**	**0**
(499,020)	0	Other Long Term Liabilities that are not financial instruments	**(452,740)**	**0**
(591,861)	0	**Total Other Long Term Liabilities**	**(541,113)**	**0**
		Creditors		
0	(4,454)	PFI and finance lease liabilities	**0**	**(3,950)**
0	(41,635)	Short Term Creditors carried at contract amount	**0**	**(41,451)**
0	(46,089)	**Total included in Creditors**	**0**	**(45,401)**
0	(17,577)	Creditors that are not financial instruments	**0**	**(12,719)**
0	(63,666)	**Total creditors**	**0**	**(58,120)**

Unquoted Equity Instruments Measured at Cost

Siglion LLP Ltd
The Council has a 50% equity share in its Local Asset Backed Vehicle Siglion. The equity share is carried at cost of £5,000,000 and has not been valued as a fair value cannot be measured reliably. The company was formed in November 2014 with the primary purpose being to assist in the delivery of economic and regeneration benefits to Sunderland. It has no established trading history and there are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Siglion is wound up.

The draft accounts for the group for the period 1st April 2015 to 31st March 2016, show a net profit before taxation of £2.383m. Distribution of profits, relating to the period 1st January 2015 to 31st December 2015, was approved in May 2016 with the Council receiving £0.345m. The overall current net worth of the group is £12.887m.

Sunderland Lifestyle Partnership Ltd
The Council has a 50% equity share in its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd. The equity share is carried at cost of £500,000 and has not been valued at fair value, as a fair value cannot be measured reliably. The joint venture, formed in June 2016, is a private company limited by shares and is owned by the Council and SLM in equal shares (50:50) which reflects the consideration each partner has contributed towards the business. It is managed by a board of directors with an equal number of representatives from each party with the purpose of the joint venture being to; oversee Sport and Leisure Management Ltd (as the operator) in delivery of the operating contract; act as landlord of the leisure facilities; provide strategic direction to further develop sports and leisure facilities and opportunities in the City and to set an annual business plan for the joint venture and; to monitor performance of Sport and Leisure Management (as operator) against the plan. It has no established trading history and there are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Sunderland Lifestyle Partnership is wound up.

The draft accounts for the group for the period 1st June 2015 to 31st March 2016, show a net profit before taxation of £0.052m and indicates that no dividend is proposed. The overall current net worth of the group is £1.052m.

There are no material Soft Loans made by the Council

Income, Expense, Gains and Losses

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

Notes to the Financial Statements

2014/2015						**2015/2016**				
Financial Liabilities	Financial Assets			Total		**Financial Liabilities**	**Financial Assets**			**Total**
Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Assets and Liabilities at Fair Value through profit and loss	£'000		**Liabilities measured at amortised cost £'000**	**Loans and receivables £'000**	**Available for sale assets £'000**	Assets and Liabilities at Fair Value through profit and loss	**£'000**
(11,813)	0	0	0	(11,813)	Interest Expense	(12,569)	0	0	0	**(12,569)**
(11,813)	0	0	0	(11,813)	**Total expenses in Surplus or Deficit on the Provision of Services**	**(12,569)**	**0**	**0**	**0**	**(12,569)**
0	3,435	0	0	3,435	Interest Income	0	5,217	0	0	**5,217**
0	3,435	0	0	3,435	**Total income in Surplus or Deficit on the Provision of Services**	**0**	**5,217**	**0**	**0**	**5,217**
(11,813)	3,435	0	0	(8,378)	**Net Gain / (loss) for the year**	**(12,569)**	**5,217**	**0**	**0**	**(7,352)**

Fair Values of Financial Assets

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

31 March 2015	Financial assets measured at fair value			**31 March 2016**
£'000	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	**£'000**
	Available for sale:			
16,400	Equity Shareholding in Newcastle International Airport Limited	Level 2	Inputs other than quoted prices in active markets that are observable for the asset *	**16,400**
15	Other financial instruments classified as Available for Sale	Level 1	Unadjusted quoted prices in active markets for identical shares **	**14**
16,415	**Total**			**16,414**

***Equity shareholding in Newcastle International Airport Limited**
Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 18.87% interest in NALAHCL, valued at £16.400m (£16.400m in 2014/2015).The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015/16 the valuation has remained unchanged.

****Other Financial Instruments Classified as Available for Sale**
The Council holds a small number of various gilts and unit trusts with a value at cost of £0.014m (£0.015m in 2014/2016) 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 2016 was £138,978 in total (the value at 31st March 2015 was £145,361). This is not considered to be material and these investments are included at cost in the balance sheet.

Transfers between Levels of the Fair Value Hierarchy
There were no transfers between input levels 1 and 2 during the year

Changes in the Valuation Technique
There has been no change in the valuation technique used during the year for the financial instruments

There were no gains and losses included in Other Comprehensive Income and Expenditure for the current and the previous year relating to Available for Sale Financial Assets.

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)
Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by

calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, new borrowing (certainty) rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures as per interest rate notice number 124/16;
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

All the financial assets are classed as Loans and Receivables and held with Money Market Funds and Notice Accounts. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in todays terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values calculated are as follows:

31 March 2015		**Financial Liabilities**	**31 March 2016**	
Carrying Amount £'000	Fair Value Restated £'000		**Carrying Amount £'000**	**Fair Value £'000**
177,817	205,753	PWLB Debt	**177,783**	**210,589**
40,403	52,379	Non PWLB Debt	**40,380**	**54,085**
30,988	30,993	Short Term Borrowing	**29,756**	**29,762**
21,101	21,101	Bank Overdraft	**10,465**	**10,465**
92,841	92,841	Long Term PFI and Finance Lease Liability	**88,373**	**88,373**
4,454	4,454	Short Term PFI and Finance Lease Liability	**3,950**	**3,950**
41,635	41,635	Short Term Creditors	**41,451**	**41,451**
409,239	449,156	**Financial Liabilities**	**392,158**	**438,675**

The loans which make up the PFI contract liabilities are held by and are under the control of the PFI provider. The Council, therefore, does not have the option to refinance the debt.

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £210.589m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £177.783m would be valued at £210.589m. But, if the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption [charging a premium for the additional interest that will not now be paid]. The exit price for the PWLB loans including the penalty charge would be £253.481m.

31 March 2015		Financial Assets	31 March 2016	
Carrying Amount £'000	Fair Value £'000		**Carrying Amount £'000**	**Fair Value £'000**
206,252	206,460	Deposits with Money Market Funds, Banks & Building Societies	**222,666**	**222,981**
665	665	Cash in Hand	**444**	**444**
57,258	57,258	Long Term Debtors	**56,624**	**56,624**
24,516	24,516	Short Term Debtors	**19,744**	**19,744**
288,691	288,899	**Financial Assets**	**299,478**	**299,793**

The fair value of the assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2016).

At 31st March 2016 the Council holds £5.498m of funds in relation to the North Eastern Local Enterprise Partnership (£22.954m at 31st March 2015) and £0.836m of funds in relation to the Associated of North East Councils (£1.483m at 31st March 2015). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

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

2014/2015 £'000	Long Term Debtors	2015/2016 £'000
14,575	Long Term Loan Note - Newcastle Airport	**14,575**
18,500	Long Term Loan Note - Siglion	**18,500**
6,560	Property Lease Debtors	**5,757**
14,348	Advances to Tyne and Wear Fire and Rescue Authority	**13,223**
0	Loan to Leisure Joint Venture	**1,900**
3,275	Other Long Term Debtors	**2,669**
57,258	**Total**	**56,624**

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

Notes to the Financial Statements

Note 16 – Short Term Debtors

2014/2015 £'000		2015/2016 £'000
6,303	Central government bodies	**4,803**
1,620	Other local authorities	**1,280**
1,793	NHS bodies	**2,742**
37,669	Other entities and individuals	**28,384**
47,385	**Total**	**37,209**

Note 17 – Cash and cash equivalents

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

2014/2015 £'000		2015/2016 £'000
(20,436)	Cash held by the Council	**(10,021)**
25,333	Bank current accounts and Money Market Funds	**61,611**
0	Short-term deposits with banks and building societies	**0**
4,897	**Total Cash and Cash Equivalents**	**51,590**

This is presented on the Balance Sheet as follows:

2014/2015 £'000		2015/2016 £'000
25,998	Cash and Cash Equivalents (in hand & bank)	**62,055**
(21,101)	Cash and Cash Equivalents (overdrawn)	**(10,465)**
4,897	**Total Cash and Cash Equivalents**	**51,590**

Note 18 – Assets Held for Sale

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

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

2014/2015 £'000		2015/2016 £'000
1,732	Balance outstanding at start of year	**3,027**
(230)	Assets Sold	**(1,826)**
(125)	Revaluation (Losses) / Gains	**1,445**
1,650	Net transfer from non-current assets to current assets at year end	**187**
3,027	**Balance outstanding at year-end**	**2,833**

Notes to the Financial Statements

Note 19 – Short-Term Creditors

2014/2015 £'000		**2015/2016 £'000**
(12,928)	Central government bodies	**(12,130)**
(6,798)	Other local authorities	**(4,627)**
(2,324)	NHS bodies	**(2,558)**
(41,616)	Other entities and individuals	**(38,805)**
(63,666)	**Total**	**(58,120)**

Note 20 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 31 March 2015	**(5,041)**	**(21,643)**	**(26,684)**
Additional provisions made 2015/2016	(2,709)	(6,000)	(8,709)
Amounts used 2015/2016	2,364	10,463	12,827
Unused amounts reversed 2015/2016	514	30	544
Balance at 31 March 2016	**(4,872)**	**(17,150)**	**(22,022)**

Long Term provisions at 31st March 2016	(4,872)	(671)	(5,543)
Short Term Provisions at 31st March 2016	0	(16,479)	(16,479)

The nature of the individual provisions held at 31st March 2016 is detailed in the table below:

Nature of provision	2014/2015	**2015/2016**		
	£'000	Short Term £'000	Long Term £'000	**Total £'000**
Insurance provision	(5,041)	0	(4,872)	**(4,872)**
Back on the Map temporary funding - Council-led selective licensing project	(92)	(19)	0	**(19)**
Funding for known leavers	(776)	(2,873)	0	**(2,873)**
Unequal back pay provision	(14,295)	(7,809)	0	**(7,809)**
Guarantee bonds held relating to rents and highways works	(200)	(51)	(163)	**(214)**
City Centre Property costs - disputed ground rent	(57)	(57)	0	**(57)**
Investment Grants - grants committed to businesses	(374)	0	(392)	**(392)**
Provision for potential costs of successful NNDR appeals	(5,559)	(5,590)	0	**(5,590)**
Potential grant repayment	(54)	(54)	0	**(54)**
Future staffing liabilities	(116)	0	(116)	**(116)**
Potential compensation payment	(120)	(26)	0	**(26)**
	(26,684)	(16,479)	(5,543)	**(22,022)**

Note 21 – Usable Reserves

The total Usable Reserves held by the Council are £217.305m at 31st March 2016 (£189.663m at 31st March 2015) and these are detailed in the Movement in Reserves Statement. Movements in the Council's Usable Reserves are also detailed in Note 8 –Transfers to/from Earmarked Reserves.

Note 22 – Unusable Reserves

2014/2015 £'000		Note	**2015/2016 £'000**
217,888	Revaluation Reserve	22a	**192,135**
443,960	Capital Adjustment Account	22b	**421,383**
(1,130)	Financial Instrument Adjustment Account	22c	**(1,255)**
(499,020)	Pensions Reserve	22d	**(452,740)**
24,026	Deferred Capital Receipts Reserve	22e	**24,480**
3,566	Collection Fund Adjustment Account	22f	**5,363**
(3,440)	Accumulated Absence Account	22g	**(2,237)**
16,033	Available for Sale Financial Instrument Reserve	22h	**16,033**
201,883	**Total Unusable Reserve**		**203,162**

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

22a) Revaluation Reserve

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

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

The Reserve contains only revaluation gains accumulated since 1st 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.

2014/2015 £'000		**2015/2016 £'000**
217,658	**Balance at 1 April**	**217,888**
29,670	Upward revaluation of assets	**12,042**
(5,419)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	**(10,184)**
241,909	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**219,746**
6,741	Difference between fair value depreciation and historical cost depreciation	**6,240**
17,280	Accumulated gains on assets sold or scrapped	**21,371**
24,021	Amount written off to the Capital Adjustment Account	**27,611**
217,888	**Balance at 31 March**	**192,135**

22b) Capital Adjustment Account

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

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

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

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

2014/2015 £'000		**2015/2016 £'000**
479,965	**Balance at 1 April**	**443,960**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(44,205)	Charges for depreciation and impairment of non-current assets	**(41,980)**
(2,547)	Revaluation losses on Property, Plant and Equipment	**(10,159)**
(468)	Amortisation of intangible assets	**(511)**
(14,631)	Revenue expenditure funded from capital under statute	**(13,528)**
(1,818)	Gain / (Loss) on derecognition of non current assets to the Comprehensive Income and Expenditure Account	**(5,471)**
(48,390)	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	**(75,361)**
(112,059)		**(147,010)**
0	Adjusting amounts written out of the Unequal Backpay Account	**0**
24,021	Adjusting amounts written out of the Revaluation Reserve	**27,611**
(88,038)	Net written out amount of the cost of non current assets consumed in the year	**(119,399)**
	Capital financing applied in the year:	
2,842	Use of Capital Receipts to finance new capital expenditure	**0**
15,024	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**18,087**
13,796	Application of grants to capital financing from the Capital Grants Unapplied Account	**65,601**
14,811	Statutory provision for the financing of capital investment charged against the General Fund balance	**8,943**
4,758	Capital expenditure charged against the General Fund balance	**3,106**
51,231		**95,737**
802	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**1,085**
443,960	**Balance at 31 March**	**421,383**

22c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2016 will be charged to the General Fund over the next 39 years.

2014/2015 £'000		2015/2016 £'000
(1,004)	**Balance at 1 April**	**(1,130)**
0	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	**0**
(126)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	**(125)**
(126)	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	**(125)**
(1,130)	**Balance at 31 March**	**(1,255)**

22d) Pensions Reserve

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

2014/2015 £'000		**2015/2016 £'000**
(439,620)	**Balance at 1 April**	**(499,020)**
(50,890)	Remeasurement of the net defined benefit liability	**54,850**
(40,490)	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	**(41,250)**
31,980	Employer's pensions contributions and direct payments to pensioners payable in the year	**32,680**
(499,020)	**Balance at 31 March**	**(452,740)**

22e) Deferred Capital Receipts Reserve

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

2014/2015 £'000		2015/2016 £'000
570	**Balance at 1 April**	**24,026**
23,460	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	**458**
(4)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(4)**
24,026	**Balance at 31 March**	**24,480**

22f) Collection Fund Adjustment Account

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

2014/2015 £'000		**2015/2016 £'000**
805	**Balance at 1 April**	**3,566**
2,761	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	**1,797**
3,566	**Balance at 31 March**	**5,363**

22g) 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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2014/2015 £'000		**2015/2016 £'000**	**2015/2016 £'000**
(4,135)	**Balance at 1 April**		**(3,440)**
4,135	Settlement or cancellation of accrual made at the end of the preceding year	**3,440**	
(3,440)	Amounts accrued at the end of the current year	**(2,237)**	
695	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements		**1,203**
(3,440)	**Balance at 31 March**		**(2,237)**

22h) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable prices. The balance is reduced when the investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2014/2015 £'000		**2015/2016 £'000**
16,033	**Balance at 1 April**	**16,033**
0	Upward / (downward) revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	**0**
16,033	**Balance at 31 March**	**16,033**

Notes to the Financial Statements

Note 23 – Cash Flow Statement – Operating Activities

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

2014/2015 £'000		**2015/2016 £'000**
3,435	Interest received	**5,217**
(11,813)	Interest paid	**(12,569)**
0	Dividends received	**0**
(8,378)		**(7,352)**

Note 24 – Cash Flow Statement – Investing Activities

2014/2015 £'000		**2015/2016 £'000**
52,502	Purchase of property, plant and equipment, investment property and intangible assets	**69,199**
180,000	Purchase of short-term and long-term investments	**160,000**
484	Other payments for investing activities	**2,023**
(638)	Net Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(3,763)**
(90,000)	Proceeds from short-term and long-term investments	**(180,000)**
(26,466)	Other receipts from investing activities	**(108,407)**
115,882	**Net cash flows from investing activities**	**(60,948)**

Note 25 – Cash Flow Statement – Financing Activities

2014/2015 £'000		**2015/2016 £'000**
(50,049)	Cash receipts of short and long-term borrowing	**(58)**
(5,689)	Billing Authorities - Council Tax and NDR Adjustments	**(1,349)**
4,562	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**3,709**
11,346	Repayments of short and long term borrowing	**1,356**
0	Other payments for financing activities	**0**
(39,830)	**Net cash flows from financing activities**	**3,658**

Note 26 – 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 Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. 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 pension 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 portfolios.

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

Notes to the Financial Statements

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2014/2015

	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Total £'000
Fees, charges and other service income	(953)	(2,869)	(15,568)	(6,843)	(15,739)	(4,359)	(9,034)	(1,615)	(56,980)
Government grants	(961)	(128,090)	(248)	(141,657)	(4,595)	(21,234)	(8,588)	(698)	(306,071)
Other Grants, reimbursements and contributions	(350)	(2,532)	(5,494)	(9,016)	(37,018)	(1,271)	(3,903)	(969)	(60,553)
Total Income	(2,264)	(133,491)	(21,310)	(157,516)	(57,352)	(26,864)	(21,525)	(3,282)	(423,604)
Employee expenses	5,229	20,162	12,413	120,273	14,872	8,673	20,779	4,282	206,683
Other service expenditure	8,821	130,556	20,188	75,514	118,775	20,961	30,599	3,589	409,003
Depreciation, amortisation and impairment	660	2,768	7,044	19,089	666	4,563	11,471	894	47,155
Total Expenditure	14,710	153,486	39,645	214,876	134,313	34,197	62,849	8,765	662,841
Net Expenditure	12,446	19,995	18,335	57,360	76,961	7,333	41,324	5,483	239,237

Notes to the Financial Statements

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2015/2016

	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Total £'000
Fees, charges and other service income	(1,179)	(2,872)	(13,249)	(7,096)	(16,551)	(1,114)	(7,996)	(785)	(50,842)
Government grants	(1,936)	(125,870)	(129)	(138,928)	(6,978)	(22,314)	(4,783)	(1,483)	(302,421)
Other Grants, reimbursements and contributions	(556)	(2,267)	(5,385)	(9,430)	(3,400)	(1,201)	(3,715)	(1,034)	(26,988)
Total Income	(3,671)	(131,009)	(18,763)	(155,454)	(26,929)	(24,629)	(16,494)	(3,302)	(380,251)
Employee expenses	5,017	21,654	13,318	126,354	14,016	5,681	23,012	4,434	213,486
Other service expenditure	8,575	130,312	11,825	82,012	89,936	23,182	26,275	4,359	376,476
Depreciation, amortisation and impairment	977	2,985	10,261	16,175	412	4,432	14,313	3,052	52,607
Total Expenditure	14,569	154,951	35,404	224,541	104,364	33,295	63,600	11,845	642,569
Net Expenditure	10,898	23,942	16,641	69,087	77,435	8,666	47,106	8,543	262,318

Note 26 – Amounts Reported for Resource Allocation Decisions (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 the amounts included in the Comprehensive Income and Expenditure Statement.

2014/2015 £'000		**2015/2016 £'000**
239,237	Net expenditure in the portfolio analysis	262,318
(881)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(885)
238,356	**Cost of Service in the Comprehensive Income and Expenditure Statement**	**261,433**

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis

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.

Reconciliation to Subjective Analysis 2014/2015

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(56,980)	(902)	(57,882)	(646)	(58,528)
Grant income	(306,071)	0	(306,071)	(153,877)	(459,948)
Reimbursements and contributions	(60,553)	0	(60,553)	0	(60,553)
Interest and investment income	0	0	0	(3,435)	(3,435)
Income from non-domestic rates	0	0	0	(41,886)	(41,886)
Income from council tax	0	0	0	(78,039)	(78,039)
Change in fair value of investment properties	0	0	0	(880)	(880)
Total Income	(423,604)	(902)	(424,506)	(278,763)	(703,269)
Employee expenses	206,683	0	206,683	0	206,683
Other service expenses	409,003	21	409,024	0	409,024
Depreciation, amortisation and impairment	47,155	0	47,155	0	47,155
Disposals and impairments of subsidiaries	0	0	0	1,949	1,949
Interest Payments	0	0	0	30,071	30,071
Precepts and Levies	0	0	0	17,293	17,293
Payments to Housing Capital Receipts Pool	0	0	0	3	3
Gain or Loss on Disposal of Non-current Assets	0	0	0	26,070	26,070
Total Expenditure	662,841	21	662,862	75,386	738,248
Surplus or deficit on the provision of services	239,237	(881)	238,356	(203,377)	34,979

Notes to the Financial Statements

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis 2015/2016

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(50,842)	(885)	(51,727)	(912)	(52,639)
Grant income	(302,421)	0	(302,421)	(223,232)	(525,653)
Reimbursements and contributions	(26,988)	0	(26,988)	0	(26,988)
Interest and investment income	0	0	0	(5,217)	(5,217)
Income from non-domestic rates	0	0	0	(44,130)	(44,130)
Income from council tax	0	0	0	(80,700)	(80,700)
Change in fair value of investment properties	0	0	0	(1,085)	(1,085)
Total Income	(380,251)	(885)	(381,136)	(355,276)	(736,412)
Employee expenses	211,591	0	211,591	0	211,591
Other service expenses	378,371	0	378,371	0	378,371
Depreciation, amortisation and impairment	52,607	0	52,607	0	52,607
Impairment of investment in subsidiaries	0	0	0	1	1
Interest Payments	0	0	0	27,949	27,949
Precepts and Levies	0	0	0	16,988	16,988
Payments to Housing Capital Receipts Pool	0	0	0	3	3
Gain or Loss on Disposal of Non-current Assets	0	0	0	76,689	76,689
Total Expenditure	642,569	0	642,569	121,630	764,199
Surplus or deficit on the provision of services	262,318	(885)	261,433	(233,646)	27,787

Note 27 – Trading Operations

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

2014/2015				2015/2016		
Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000		**Expenditure £'000**	**Turnover £'000**	**(Surplus) / Deficit £'000**
5,621	6,233	(612)	General Highways	**5,487**	**6,261**	**(774)**
5,852	5,886	(34)	Buildings Maintenance	**6,393**	**6,531**	**(138)**
11,473	12,119	(646)		**11,880**	**12,792**	**(912)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Where these activities support other Council services, the expenditure relating to the trading operation is allocated to appropriate headings within Cost of Services. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 10).

Note 28 – Agency Services

As detailed within Related Party Transactions (Note 35), the Council provides support services to various other Authorities or Bodies.

A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of income generated from this activity is relatively low in value and has therefore not been detailed in the accounts.

Note 29 – Pooled Budgets

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

Better Care Fund

Sunderland City Council and Sunderland CCG are partners in the provision of services to support reduced hospital admissions and length of stay. 2015/2016 was the first year of this arrangement.

The principles of the Better Care Fund align with the Sunderland Joint Health and Wellbeing Strategy which aims to have a city where:

- everyone is as healthy as they can be;
- people live longer;
- people enjoy a good standard of wellbeing;
- we can see a reduction in health inequalities.

The Better Care Fund is seen as a significant enabler to achieve the overall vision for health and social care in the city. The Better Care Fund agreement will help to ensure that the following happens:

- Joint Working – shaping and managing cost effective interventions through integrated services;

- Working together – making the best use of strengths and assets to provide flexible and tailored services that respond to local conditions and focus on what matters to residents to achieve more for the city's communities.

The Better Care Fund will meet these objectives by ensuring:

- Services are commissioned to be co-ordinated around individuals and targeted to meet specific needs;
- Outcomes are improved for individuals;
- Improvements in the care experienced by individuals, their families and carers;
- Independence is optimised, by providing the right support in a timely manner, focusing on a reablement approach;
- People have high quality, tailored support which focuses on people staying out of hospital;
- Peoples care is co-ordinated and managed, with the GP at the heart of organising the care, avoiding unnecessary admissions to hospital and care homes – enabling people to regain skills and independence after episodes of ill health and/or injuries.

2014/2015 £'000		**2015/2016 £'000**
	Funding Provided to the Pooled Budget	
-	Sunderland City Council	**64,343**
-	Sunderland Clinical Commissioning Group	**103,743**
-	**Total Funding**	**168,086**
	Expenditure met from the Pooled Budget	
-	Sunderland City Council	**68,817**
-	Sunderland Clinical Commissioning Group	**99,199**
-	**Total Expenditure**	**168,016**
	Net Surplus / (Deficit) arising on the pooled budget	**70**
-	**Sunderland City Council Share of Surplus / Deficit**	**27**

Mental Capacity Act / Deprivation of Liberties

The overall aim of this pooled budget is to facilitate the provision of Mental Capacity Act coordinators, by effective coordination of resources of the parties through the pooled budget, and enabling the parties to work closely together to provide the necessary resources to ensure so far as practicable, compliance with the Mental Capacity Act 2005 (as amended) insofar as it relates to the provision of Assessments.

2014/2015 £'000		**2015/2016 £'000**
	Funding Provided to the Pooled Budget	
48	Sunderland City Council	**27**
63	Sunderland Clinical Commissioning Group	**36**
111	**Total Funding**	**63**
	Expenditure met from the Pooled Budget	
63	Sunderland City Council	**63**
0	Sunderland Clinical Commissioning Group	**0**
63	**Total Expenditure**	**63**
48	**Net Surplus / (Deficit) arising on the pooled budget**	**0**
21	**Sunderland City Council Share of Surplus / Deficit**	**0**

Note 30 – Members' Allowances

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

2014/2015 £'000		**2015/2016 £'000**
1,148	Allowances	**1,139**
18	Expenses	**13**
1,166	**Total**	**1,152**

Note 31 – Officers' Remuneration

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 2015/2016 and 2014/2015 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 Financial Statements

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 £
2014/2015								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	**209,468**	**0**	**0**	**0**	**0**	**209,468**	**33,300**	**242,768**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	**128,063**	**0**	**0**	**0**	**0**	**128,063**	**20,362**	**148,425**
Executive Director of Commercial Development *	**53,787**	**0**	**0**	**0**	**0**	**53,787**	**8,552**	**62,339**
Executive Director of Enterprise Development *	**54,384**	**0**	**0**	**0**	**0**	**54,384**	**0**	**54,384**
Executive Director of People's Services	**122,940**	**0**	**0**	**0**	**0**	**122,940**	**19,547**	**142,487**
Director of Public Health	**104,201**	**0**	**0**	**0**	**0**	**104,201**	**14,482**	**118,683**
Director of Finance	**98,252**	**0**	**0**	**0**	**0**	**98,252**	**15,719**	**113,971**
Head of Law and Governance	**85,391**	**0**	**0**	**0**	**0**	**85,391**	**13,577**	**98,968**

* Officers not in post for a full year

Notes to the Financial Statements

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 £
2015/2016								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith *	**108,686**	**0**	**0**	**185,470**	**0**	**294,156**	**331,414**	**625,570**
Director of Finance/Interim Head of Paid Service - Sonia Tognarelli	**155,393**	**0**	**0**	**131,413**	**0**	**286,806**	**319,152**	**605,958**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive *	**22,394**	**0**	**0**	**0**	**0**	**22,394**	**80,943**	**103,337**
Executive Director of People's Services	**123,190**	**0**	**0**	**104,892**	**0**	**228,082**	**216,413**	**444,495**
Executive Director of Commercial Development	**112,845**	**0**	**0**	**0**	**0**	**112,845**	**17,918**	**130,763**
Executive Director of Enterprise Development	**112,695**	**0**	**0**	**0**	**0**	**112,695**	**0**	**112,695**
Head of Legal Services	**87,146**	**0**	**0**	**0**	**0**	**87,146**	**13,780**	**100,926**
Director of Public Health	**88,895**	**0**	**0**	**0**	**0**	**88,895**	**12,708**	**101,603**

* Officers not in post for a full year

The number of other employees, whose remuneration, including compensation for loss of office if applicable, but excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown below:

2014/2015			2015/2016	
Non-Teaching Staff (restated)	Teaching Staff	**Remuneration**	**Non-Teaching Staff**	**Teaching Staff**
25	34	£50,000 - £54,999	37	40
9	19	£55,000 - £59,999	14	13
3	18	£60,000 - £64,999	6	17
7	14	£65,000 - £69,999	9	12
1	7	£70,000 - £74,999	3	13
9	5	£75,000 - £79,999	11	6
3	1	£80,000 - £84,999	4	1
4	1	£85,000 - £89,999	3	2
1	1	£90,000 - £94,999	1	0
4	0	£95,000 - £99,999	1	0
0	0	£100,000 - £104,999	1	0
0	0	£110,000 - £114,999	1	0
0	0	£115,000 - £119,999	1	0
0	0	£120,000 - £124,999	0	0
0	0	£125,000 - £129,999	0	0
0	0	£130,000 - £134,999	0	0
1	0	£135,000 - £139,999	2	0
0	1	£140,000 - £144,999	0	1

Note 32 – 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 inspections and to non-audit services provided by the Council's external auditors.

2014/2015 £'000		**2015/2016 £'000**
181	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	**136**
0	Fees payable to external auditors in respect of statutory inspections	**0**
10	Fees payable to external auditors for the certification of grant claims and returns for the year	**9**
11	Fees payable in respect of other services provided by external auditors during the year	**3**
(18)	Rebate received relating to audit services in prior years	**0**
184	Total Costs	**148**

Note 33 – Dedicated Schools' Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/2016 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2015/2016 before Academy recoupment			198,930
Academy figure recouped for 2015/2016			83,591
Total DSG after Academy recoupment for 2015/2016			115,339
Plus			
Brought forward from 2014/2015			2,638
Less			
Carry forward to 2016/2017 agreed in advance			0
Agreed initial budgeted distribution in 2015/2016	11,303	106,674	117,977
In Year Adjustments	0	154	154
Final budgeted distribution in 2015/2016	11,303	106,828	118,131
Less			
Actual central expenditure	9,841		9,841
Less			
Actual ISB deployed to schools		106,637	106,637
Plus			
Local authority contribution for 2015/2016	0	0	0
Carry forward to 2016/2017	**1,462**	**191**	**1,653**

Note 34 – Grant Income

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

2014/2015 £'000		**2015/2016 £'000**
	Capital Grant Receipts in Advance	
958	Department for Education	**670**
5	Department of Health	**4**
5,350	Communities and Local Government	**52**
1,259	Department for Transport	**318**
0	Nexus	**83**
2,939	Homes and Communities Agency	**799**
135	Heritage Lottery Fund	**51**
81	Department of Energy and Climate Change	**81**
90	Arts Council	**90**
10,817	**Total**	**2,148**

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

2014/2015 £'000		**2015/2016 £'000**
	Credited to Taxation and Non Specific Grant Income and Expenditure	
	Revenue Grants:	
93,968	Revenue Support Grant	**69,895**
35,274	Top Up Grant	**35,948**
2,482	New Homes Bonus	**3,423**
964	Council Tax Freeze Grant	**989**
51	Local Services Support Grant	**39**
2,350	Section 31 Grant	**3,005**
135,089		**113,299**
	Capital Grants:	
5,101	Communities and Local Government (including European)	**90,648**
7,231	Department for Transport	**12,136**
0	Nexus	**3,517**
3,340	Department for Education	**2,107**
89	Heritage Lottery Fund	**399**
0	Arts Council	**257**
1,538	Homes and Communities Agency	**181**
696	Environment Agency	**115**
793	Other Capital Grants and Contributions	**573**
18,788		**109,933**
153,877	**Total**	**223,232**

2014/2015 £'000			2015/2016 £'000
	Credited to Services		
	Revenue Grants:		
5,539	Communities and Local Government:	PFI	**5,538**
0		Care Act Grant	**1,404**
893		Strengthening Families Grant	**866**
0		Independent Living Fund	**708**
764		European Grants	**636**
727		New Burdens	**588**
0		Transformation Challenge Grant	**500**
143		Recycling Reward Scheme	**117**
0		Sunderland, a City by the Sea	**117**
120		Extended Rights to Free Travel	**61**
1,481		Weekly Collection Grant	**0**
1,202		Welfare Reform Social Fund	**0**
82		other grants	**59**
126,145	Department for Work and Pensions:	Housing Benefit	**124,941**
0		Welfare Reform Additional Burdens	**102**
0		Universal Credits	**53**
35		other grants	**86**
21,234	Department of Health:	Public Health	**22,314**
283		Local Reform and Community	**211**
0		Deprivation of Liberties	**167**
120		Helping People Home Grant	**40**
125		Care Bill Implementation	**0**
120,961	Department for Education:	Dedicated Schools	**115,621**
10,062		Pupil Premium	**9,307**
1,449		Universal Free School Meals	**2,620**
3,222		Education Services	**2,535**
587		PE and Sport	**594**
266		Adoption Reform	**175**
0		Summer Schools Pupil Premium	**103**
0		New Burdens	**59**
2,149		16-19 Bursary	**0**
308		other grants	**287**
1,067	Skills Funding Agency		**4,500**
846	Youth Justice Board		**690**
316	Arts Council		**397**
171	Northern Arts		**166**
151	Home Office		**128**
276	Other Grants		**232**
300,724			**295,922**
	Grants applied to revenue expenditure funded from capital under statute:		
984	Department for Education		**954**
2,090	Department of Health		**2,845**
4,545	Communities and Local Government		**5,080**
482	Other Capital Grants		**215**
8,101			**9,094**
308,825	**Total**		**305,016**

Note 35 – Related Parties

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

Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 26 on reporting for resource allocation decisions and further detailed in Note 34.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/2016 is shown in Note 30. In respect of the 2015/2016 financial year a number of Council members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £0.241m made by the Council in 2015/2016 (£1.286m in 2014/2015), of which £0.024m (£0.876m for 2014/2015) relates to payments to companies and £0.217m (£0.410m for 2014/2015) to voluntary organisations.

The figures stated above do not include transactions with Sunderland Care and Support Ltd or Sunderland Live Ltd as transactions between these companies and the Council have been separately identified as part of the production of Group Accounts for 2015/2016.

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

Officers

In respect of the 2015/2016 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 Council.

Entities Controlled or Significantly Influenced by the Council

Sunderland Care & Support (Holding Company) Ltd

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

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

- Reablement at home
- Farnborough Court Intermediate Care Centre

- Sunderland Telecare
- Community Equipment Service and Handyperson Service
- Day services
- Supported living schemes
- Registered residential services
- Short break services
- Independence at home (outreach) services
- Sunderland Shared Lives
- See and Solve Solutions
- Sunderland Home Improvement Agency

The value of the contract for the period was £39.287m. The pre audit operating loss for the period, before tax, amounted to £0.359m for the two companies.

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

Sunderland Live Ltd

Sunderland Live Ltd was formed in April 2013 as a local authority trading company to deliver the Council's core events programme as well as additional events as requested by both the Council and other clients in both the public and private sector. The company's aim is to continually develop its high-quality events programme that benefits the local economy and increases the city's profile. To this end, the flagship Sunderland International Airshow attracted just short of an estimated 1 million visitors to the seafront over 3 days in July, helping to create vibrancy and things to see, do and take part in for residents and non-residents alike.

The value of the contract for the period was £1.044m. The audited operating loss for the period, before tax, amounted to £0.042m.

Siglion LLP

On 7th November 2014 the Council and Carillion (Maple Oak) Limited formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50% of the LLP. Siglion has a wholly owned subsidiary (Siglion Nominee Limited) and Siglion and Siglion Nominee Limited have formed two further LLPs. These are Siglion Investments LLP and Siglion Developments LLP. Igloo Regeneration Ltd has been appointed to deliver a range of services including development management in relation to a number of regeneration sites and following the acquisition from the Council of a number of investment properties including ground leases, retail properties, industrial properties and managed workspaces, strategic asset management. In consideration of this transaction, the Council received loan notes totalling £23.5m. These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up, whilst Loan Note B is similarly not anticipated to be repaid until Siglion is wound up but may be repaid and hence the value reduce over time as investment properties are disposed of. Siglion's primary purpose is to assist in the delivery of economic and regeneration benefits to Sunderland through its objectives of:

- Improving the concentration of new economic activity in the city centre;
- Creating a city centre that supports such higher value job creation;
- Bringing dormant sites back into use;
- Offering a wider choice of housing to the market; and
- Positioning Sunderland as a place to invest.

The draft accounts for the group for the period 1st April 2015 to 31st March 2016, show a net profit before taxation of £2.383m. Release of dividends, relating to the period 1st January 2015 to 31st December 2015, were approved in May 2016 with the Council receiving £0.345m. The overall current net worth of the group is £12.887m.

Sunderland Lifestyle Partnership Ltd

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

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

The purpose of the JV is to:

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

The key objectives in forming this partnership are:

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

The value of the contract for the period was £3.121m.

In order to help the Joint Venture to fund initial capital works, both the Council and SLM have provided loans to the Joint Venture (£2.000m and £0.700m respectively), and SLM has also provided an equity investment of £0.500m. The Council's loan is repayable over 20 years with the first principal repayment payable during 2016/2017 and the final principal repayment payable during 2035/2036. £2.000m is outstanding at the end of 2015/2016.

The draft accounts for the group for the period 1st June 2015 to 31st March 2016, shows a net profit before taxation of £0.052m and indicates that no dividend is proposed. The overall current net worth of the group is £1.052m.

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council originally held a shareholding of 1,845 shares representing an 18.45% interest in this company. These shares are not held for trading outside of the LA7.

On 16th November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors Ltd. As a result, the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.400m using the open market value of the shares.

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation but no such events have occurred during 2015/2016 with the result that the valuation has remained unchanged.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31st December 2015 (no dividend was received for the year ended 31st December 2014).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £2.300m and a profit after tax of £4.556m for the year ended 31st December 2015. In the previous year, the Group made a profit before tax of £0.496m and a profit after tax of £0.277m.

Port of Sunderland

The Port of Sunderland is owned and operated by Sunderland City Council therefore transactions relating to the City's Port activities are included within the financial statements.

The Port turnover has improved from 2014/2015 by £0.130m to £5.230m for the 2015/2016 financial year. Investment in recent years in the Port's asset base and the securing of new cargo activity through the Port has generated this increase in turnover and also an increase in profit. The overall net surplus for the 2015/2016 financial year totalled £0.377m, (2014/2015 surplus £0.241m).

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 twelve representatives on the Board of seventeen 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 £0.427m in 2015/2016, (£0.420m in 2014/2015).

In 2015/2016, the turnover of the Trust was over £25,000, however, under company law audited accounts are not required. The Trust made a small surplus of £26 in 2015/2016 (surplus of £22 for 2014/2015) which will increase its reserves to meet future costs. Its reserves as at 31 March 2016 now stand at £7,182 (£7,156 as at 31 March 2015). In 2015/2016 the Council made a contribution of £12,445 (£11,737 for 2014/2015) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building for which the Trust has no liability. A copy of the Trust accounts can be obtained from the Interim Director of Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

Notes to the Financial Statements

Beamish Museum Companies

The Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. However, the Joint Committee was dissolved with effect from 1st April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28th March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1st April 2014. 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 made a contribution of £18,000 towards the running costs of the Museum in 2015/2016 (£18,000 in 2014/2015).

Beamish Museum (BM) is a charitable company limited by guarantee and is responsible for capital development and the management and operation of the Museum. Beamish Museum Trading Limited (BMTL), a subsidiary of BM, manages all of the retailing and catering operations of the Museum. In the draft accounts for 2015/2016, the BM and BMTL group made an operating loss of £0.438m. The restated figures for 2014/2015 showed an operating profit of £23.524m (£0.664m profit excluding £22.860m of assets transfer). The group had net assets of £21.906m (2014/2015 restated net assets of £21.837m). The Council receives no income or contributions from the above reported arrangements.

Copies of the BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish Museum, 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 Limited, Beamish Museum Trading Limited, Empire Theatre Trust Company Limited, Hetton Town Council, Sunderland Care and Support Ltd, Sunderland Live Ltd, Academies, Voluntary Aided Schools, Sunderland Lifestyle Partnership Ltd and Pooled Budget Arrangements with Sunderland Clinical Commissioning Group,

Note 36 – Capital Expenditure and Capital Financing

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

2014/2015 £'000		**2015/2016 £'000**
270,602	Opening Capital Financing Requirement	**359,748**
1,145	Recognition of Embedded Lease Assets	**318**
67,754	Recognition of PFI Assets	**368**
	Capital Investment	
56,420	Property, Plant and Equipment	**70,758**
0	Investment Properties	**0**
0	Long Term Debtors	**2,000**
427	Intangible Assets	**508**
14,631	Revenue Expenditure Funded from Capital under Statute	**13,528**
	Sources of Finance	
(2,842)	Capital Receipts	**0**
(28,820)	Government grants and other contributions	**(83,688)**
	Sums set aside from:	
(4,758)	Direct revenue contributions	**(3,106)**
(14,811)	MRP	**(8,943)**
359,748	Closing Capital Financing Requirement	**351,491**
	Explanation of movements in year	
(7,207)	(Decrease) in underlying need to borrow (supported by government financial assistance)	**(1,319)**
31,870	Increase / (decrease) in underlying need to borrow (unsupported by government financial assistance)	**(2,710)**
797	Increase / (decrease) in underlying need to borrow (finance leases)	**(102)**
63,686	Increase / (decrease) in underlying need to borrow (PFI contracts)	**(4,126)**
89,146	Increase / (decrease) in Capital Financing Requirement	**(8,257)**

Note 37 – Leases

a) Council as Lessee

Finance Leases

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

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

2014/2015 £'000		**2015/2016 £'000**
9,962	Other Land & Buildings	**9,215**
797	Vehicles, Plant, Furniture and Equipment	**696**
10,759		**9,911**

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

2014/2015 £'000		**2015/2016 £'000**
	Finance Lease Liabilities (net present value of minimum lease payments):	
365	Current	**241**
6,992	Non-current	**6,211**
0	Finance costs payable in future years	**0**
7,357	Minimum lease payments	**6,452**

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

Minimum Lease Payments 2014/2015 £'000	Finance Lease Liabilities 2014/2015 £'000		**Minimum Lease Payments 2015/2016 £'000**	**Finance Lease Liabilities 2015/2016 £'000**
365	365	Not later than one year	**241**	**241**
508	508	Later than one year and not later than five years	**526**	**526**
6,484	6,484	Later than five years	**5,685**	**5,685**
7,357	7,357		**6,452**	**6,452**

Operating Leases

The Council 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:

2014/2015 £'000		**2015/2016 £'000**
10	Not later than one year	**0**
0	Later than one year but not later than five years	**0**
0	Later than five years	**0**
10		**0**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.017m (2014/2015 £0.060m).

The Council has use of a small number of properties by entering into operating leases. The annual payment in 2015/2016 was £0.403m (2014/2015 £0.426m). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

2014/2015 £'000		**2015/2016 £'000**
25	Not later than one year	**25**
12	Later than one year but not later than five years	**12**
389	Later than five years	**366**
426		**403**

b) Council as Lessor

Operating Leases

The Council 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:

2014/2015 Restated £'000		**2015/2016** **£'000**
4,526	Not later than one year	**5,656**
10,816	Later than one year but not later than five years	**13,435**
170,346	Later than five years	**179,425**
185,688		**198,516**

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

Note 38 – Private Finance Initiatives and Similar Contracts

The Council currently operates three PFI schemes:

- Sandhill View Academy and Community Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library. The Council receives annual grant of £1.549m towards the cost of this 25 year scheme. Sandhill View transferred to Academy status on 1st July 2015 and part of the asset operated by the Academy on a long-term lease transferred from the Council's Balance Sheet. The Council still retains the long-term liability to the facility provider with the cost relating to the part of the asset transferred being subsequently recovered from the Academy (£0.790m in 2015/2016).

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

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

Property, Plant and Equipment

The assets used to provide services under the two existing PFI schemes are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment in Note 12.

Payments

The Council makes agreed payments which are increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the three PFI contracts at 31 March 2016 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2016/2017	8,787	3,709	1,171	3,853	17,520
Payable within 2 to 5 years	33,850	16,390	5,673	13,967	69,880
Payable within 6 to 10 years	42,570	24,029	9,148	12,099	87,846
Payable within 11 to 15 years	31,325	18,123	10,007	4,477	63,932
Payable within 16 to 20 years	22,495	12,658	9,431	2,008	46,592
Payable within 21 to 25 years	13,555	10,962	4,966	527	30,010
Total	152,582	85,871	40,396	36,931	315,780

The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets financed by the contractor. This liability is written down over the life of the contract by charging part of the annual payments to the contractor against the initial liability. The movement on this liability in year is as follows:

2014/2015 £'000		**2015/2016 £'000**
30,074	Balance outstanding at the start of the year	**89,936**
69,220	Additions	**0**
(9,358)	Payments during the year	**(4,065)**
89,936	Balance outstanding at the year end	**85,871**

Note 39 – Impairment Losses

During 2015/2016, the Council recognised impairment losses totalling £2.720m (£5.464m in 2014/2015). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are demolition and improvement works at regeneration sites within the city (£0.721m) and works to various schools (£0.674m).

Note 40 – Termination Benefits

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

The Council terminated the contracts of a number of employees in 2015/2016, incurring liabilities of £7.090m (£4.050m in 2014/2015). This included a limited number of compulsory redundancies (£0.365m relating to 34 employees). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
2014/2015											
£0 - £20	87	565	332	897	43	294	29	323	859	361	1,220
£20 - £40	37	408	631	1,039	11	254	21	275	662	652	1,314
£40 - £60	9	31	397	428	0	0	0	0	31	397	428
£60 - £80	7	85	395	480	0	0	0	0	85	395	480
£80 - £100	3	141	138	279	0	0	0	0	141	138	279
£100 - £150	1	30	73	103	0	0	0	0	30	73	103
£200 - £250	1	74	152	226	0	0	0	0	74	152	226
Total	145	1,334	2,118	3,452	54	548	50	598	1,882	2,168	4,050
2015/2016											
£0 - £20	124	1,293	42	1,335	64	374	34	408	1,667	76	1,743
£20 - £40	42	933	197	1,130	14	294	90	384	1,227	287	1,514
£40 - £60	11	301	257	558	1	10	30	40	311	287	598
£60 - £80	11	188	563	751	0	0	0	0	188	563	751
£80 - £100	3	91	177	268	0	0	0	0	91	177	268
£100 - £150	7	202	625	827	0	0	0	0	202	625	827
£150 - £200	1	15	142	157	0	0	0	0	15	142	157
£300 - £350	1	105	202	307	0	0	0	0	105	202	307
£400 - £450	1	131	295	426	0	0	0	0	131	295	426
£450 - £500	1	185	314	499	0	0	0	0	185	314	499
Total	202	3,444	2,814	6,258	79	678	154	832	4,122	2,968	7,090

Note 41 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

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

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teacher's Pension Scheme, the Council's own contributions equated to approximately 62.1% for 2015/2016.

In 2015/2016, the Council paid £7.000m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2014/2015 were £6.689m and 14.1%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £7.187m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 42.

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

NHS Staff Pension Scheme

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

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contribution into the NHS Pension Scheme for staff employed by the Council, the Council's own contributions equated to approximately 57.3% for 2015/2016.

In 2015/2016, the Council paid £0.082m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2014/2015 were £0.087m and 14.0%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £0.100m.

Note 42 – Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

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

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

Discretionary Post-Retirement Benefits

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

Transactions Relating to Post-employment Benefits

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.

Notes to the Financial Statements

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2014/2015 £m	**2015/2016 £m**	2014/2015 £m	**2015/2016 £m**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	20.07	**23.21**	0.00	**0.00**
Past service costs	2.24	**2.66**	0.00	**0.00**
(Gain)/loss from settlements	0.00	**0.00**	0.00	**0.00**
Financing and Investment Income and Expenditure				
Net interest expense	16.23	**14.06**	1.95	**1.32**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	38.54	**39.93**	1.95	**1.32**
Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(69.84)	**14.74**	0.00	**0.00**
Actuarial gains and losses arising on changes in demographic assumptions	0.00	**0.00**	0.00	**0.00**
Actuarial gains and losses arising on changes in financial assumptions	131.17	**(53.62)**	2.69	**(1.07)**
Actuarial gains and losses arising from liability experience	(8.03)	**(13.36)**	(5.10)	**(0.75)**
Net increase in assets / liabilities arising from disposals	0.00	**(0.79)**	0.00	**0.00**
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	91.84	**(13.10)**	(0.46)	**(0.50)**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	9.90	**10.46**	(1.39)	**(1.89)**
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	28.64	**29.47**	3.34	**3.21**
Retirement payments payable to pensioners	39.66	**38.91**	0.00	**0.00**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2014/2015 £m	**2015/2016 £m**	2014/2015 £m	**2015/2016 £m**
Present value of the defined benefit obligation	1,440.27	**1,401.53**	44.32	**40.61**
Fair value of plan assets	985.57	**989.40**	0.00	**0.00**
Sub-total	(454.70)	**(412.13)**	(44.32)	**(40.61)**
Other movements in the liability (asset)	0.00	**0.00**	0.00	**0.00**
Net liability arising from defined benefit obligation	(454.70)	**(412.13)**	(44.32)	**(40.61)**

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2014/2015 £m	**2015/2016 £m**	2014/2015 £m	**2015/2016 £m**
Opening balance at 1 April	1,274.29	**1,440.27**	48.12	**44.32**
Current service cost	20.07	**23.21**	0.00	**0.00**
Interest cost	54.09	**45.30**	1.95	**1.32**
Contributions by scheme participants	6.10	**6.15**	0.00	**0.00**
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	0.00	**0.00**	0.00	**0.00**
Actuarial gains/losses arising from changes in financial assumptions	131.17	**(53.62)**	2.69	**(1.07)**
Actuarial gains/losses arising from liability experience	(8.03)	**(13.36)**	(5.10)	**(0.75)**
Net increase in liabilities arising from disposals	0.00	**(10.17)**	0.00	**0.00**
Past service costs (including curtailments)	2.24	**2.66**	0.00	**0.00**
Liabilities assumed on entity combinations	0.00	**0.00**	0.00	**0.00**
Benefits paid	(39.66)	**(38.91)**	(3.34)	**(3.21)**
Liabilities extinguished on settlements	0.00	**0.00**	0.00	**0.00**
Closing balance at 31 March	1,440.27	**1,401.53**	44.32	**40.61**

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2014/2015 £m	**2015/2016 £m**	2014/2015 £m	**2015/2016 £m**
Opening fair value of scheme assets	882.79	**985.57**	0.00	**0.00**
Interest income	37.86	**31.24**	0.00	**0.00**
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	69.84	**(14.74)**	0.00	**0.00**
Net increase in liabilities arising from disposals	0.00	**(9.38)**	0.00	**0.00**
The effect of changes in foreign exchange rates	0.00	**0.00**	0.00	**0.00**
Contributions from employer	28.64	**29.47**	3.34	**3.21**
Contributions from employees into the scheme	6.10	**6.15**	0.00	**0.00**
Benefits paid	(39.66)	**(38.91)**	(3.34)	**(3.21)**
Settlements	0.00	**0.00**	0.00	**0.00**
Closing balance at 31 March	985.57	989.40	0.00	0.00

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	2014/2015			**2015/2016**		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	**Total %**
Equities	58.2	8.2	66.4	**57.5**	**8.6**	**66.1**
Property	0	9.5	9.5	**0**	**10.4**	**10.4**
Government Bonds	3.7	0.0	3.7	**3.7**	**0.0**	**3.7**
Corporate Bonds	11.7	0.0	11.7	**11.6**	**0.0**	**11.6**
Cash	2.4	0.0	2.4	**2.6**	**0.0**	**2.6**
Other	4.2	2.1	6.3	**3.1**	**2.5**	**5.6**
Total assets	80.2	19.8	100.0	**78.5**	**21.5**	**100.0**

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefit liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 1 April 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2014/2015	**2015/2016**	2014/2015	**2015/2016**
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.1 years	**23.2 years**	23.1 years	**23.2 years**
Women	24.7 years	**24.8 years**	24.7 years	**24.8 years**
Longevity at 65 for future pensioners				
Men	25.1 years	**25.3 years**	n/a	**n/a**
Women	27.0 years	**27.1 years**	n/a	**n/a**
RPI	2.9%	**2.9%**	2.9%	**2.9%**
CPI	1.8%	**1.8%**	1.8%	**1.8%**
Rate of increase in salaries	3.3%	**3.3%**	n/a	**n/a**
Pension account revaluation rate	1.8%	**1.8%**	n/a	**n/a**
Rate of increase in pensions	1.8%	**1.8%**	1.8%	**1.8%**
Rate for discounting scheme liabilities	3.2%	**3.4%**	3.1%	**3.4%**
Long-term expected rate of return on assets in the scheme	3.2%	**3.4%**	3.1%	**3.4%**

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

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	**37.20**	**37.34**
Rate of increase in salaries (increase or decrease by 0.1%)	**6.86**	**6.77**
Rate of increase in pensions (increase or decrease by 0.1%)	**19.39**	**19.10**
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	**25.81**	**26.30**

The Council anticipates making £27.81m expected contributions to the scheme in 2016/2017.

The weighted average duration of the defined benefit obligation for scheme members is 18.6 years, 2015/2016 (18.6 years in 2014/2015).

Note 43 – Contingent Liabilities

The City Council, together with the other Tyne and Wear district councils, 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. Also in addition 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 agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over a 10 year repayment period. The Council's share of the potential liabilities (based upon the last Actuarial Valuation) in the unlikely event that all of the bodies should fail would be in excess of approximately £1.1m in total.

The City Council acts as a guarantor for the No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees. The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to 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.

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 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 paid by the Council in relation to previously operated bonus schemes. Claims have been stayed by the Employment Tribunal to enable, without prejudice, settlement discussions. There are a number of grievances concerning identical issues. Following settlement discussions, a significant number of claims and grievances have been settled. Efforts are on-going to reach settlements in residual cases.

The Environment Agency has confirmed that the Council 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 cannot yet be accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. Arrangements were put in hand to instruct an independent third party to undertake a detailed investigation of the site, in order to obtain a clearer understanding of the condition of the land. The investigation has now been undertaken and a final report is awaited. The position is being kept under regular review and it is considered prudent to continue to treat this as a contingent liability.

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (overtime which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). The Council has settled a very small number of claims it has received under this ruling during 2015/16 which in total has cost £1,275 including court costs. This continues to have an on-going implication for the Council but it is unclear as to the number of any potential outstanding claims although the scale and the amounts involved are considered minimal especially as any new claims are now restricted to a maximum two year period following government legislation. On this basis it is considered appropriate that this issue is still recognised as a contingent liability.

Note 44 – Contingent Assets

VAT

The Council has an outstanding VAT claim lodged with HM Revenue and Customs (HMRC) in relation to overpaid output tax and the payment of compound interest, which has been refuted by HMRC. The probability of a successful conclusion for recovery of this claim is based upon complex on-going litigation with HMRC, and therefore the value of the claim is not quantifiable. The Council has reflected its claim as a contingent asset pending a final decision by the courts.

Section 106 Agreements

The Council entered into an agreement with Persimmon Homes Ltd to make phased payment contributions to local educational facilities; a locally equipped play area and environmental improvements in the local area 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 Coaley Lane, Houghton-le- spring, the timing of which is uncertain. The approximate value of the agreement is £1.058m.

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 £1.253m and the Council received its first stage payment of £0.215m in July 2015 which effectively reduces the estimated amount outstanding to £1.038m.

The Council entered into an agreement with Persimmon Homes Ltd to make phased payment contributions to affordable offsite housing, ecology and a locally equipped play area at Gillas Lane, Houghton-le-Spring 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 Gillas Lane, Houghton-le-Spring, the timing of which is uncertain. The total value of the agreement is £0.476m and the Council received its first stage payment of £0.146m in March 2015 which effectively reduces the estimated amount outstanding to £0.33m.

The Council entered into an agreement with Persimmon Homes Ltd to make phased payment contributions to local educational facilities; a locally equipped play area at Kirklees playing field and highways improvements in the local area 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 north of Redburn Row, Houghton-le- spring, the timing of which is uncertain. The approximate value of the agreement is £0.329m.

The Council entered into an agreement with Stirling Investment Properties LLP and Stirling Capital S.A.R.L. to make phased payment contributions to educational facilities and a locally equipped play area 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 Castletown Way / Riverside Road, the timing of which is uncertain. The total value of the agreement is £0.324m.

The Council entered into an agreement with Durham Chapter and Croxdale Farms Limited to make phased payment contributions to local educational facilities; a locally equipped play area at Elemore View play area and cycleway 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 Markle Grove, Hetton-le-Hole, the timing of which is uncertain. The approximate value of the agreement is £0.242m.

The Council entered into an agreement with St Modwen Developments Ltd to make phased payment contributions to educational facilities. The monies will be paid to the Council upon phased sale of properties at the development of land at Lisburn Terrace / Pallion New Road, the timing of which is uncertain. The total value of the agreement is £0.345m and the Council received its first stage payment of £0.122m in May 2013 which effectively reduces the estimated amount outstanding to £0.223m.

The Council also has a number of other smaller Section 106 Agreements in place which may generate contributions from the various developers involved, once certain trigger points in the phased developments occur. These developments are actively monitored by the Council during each financial year in order to safeguard the amounts due.

Note 45 - Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit Risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity Risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

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

Credit Risk

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

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

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

Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)	20	# 20 years

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £222.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but the Council expects full repayment on the due date of deposits placed with its counterparties and there was no evidence at the 31 March 2016 that a default was likely to crystallise.

Deposit protection arrangements will limit any losses that might arise. The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on past experience and current market conditions.

	Amount at 31 March 2016 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2015 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2016 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2015 £'000
Bonds and other securities	0	0	0	0	0
Customers	10,928	7.26	0	794	952
Financial Assets	**10,928**		**0**	**794**	**952**

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

The Council does not generally allow credit for customers, such that £10.928m is beyond its due date for payment. The past due amount can be analysed by age as follows:

31 March 2015 Restated £'000		**31 March 2016 £'000**
6,599	Less than 3 months	**9,878**
265	Three to six months	**175**
442	Six months to one year	**559**
289	More than one year	**316**
7,595		**10,928**

Liquidity Risk

The Council manages its liquidity position through risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed. If unexpected movements happen the Council has ready access to a facility to borrow from the Public Works Loan Board and from money markets. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities borrowing is as follows:

31 March 2015 £'000	Loans Oustanding	**31 March 2016 £'000**
30,988	Less than 1 year	**29,756**
50	Maturing in 1-2 years	**4,050**
14,149	Maturing in 2-5 years	**14,148**
14,251	Maturing in 5-10 years	**10,228**
15,063	Maturing in 10-20 years	**15,040**
5,013	Maturing in 20-30 years	**15,010**
38,000	Maturing in 30-40 years	**47,000**
96,500	Maturing in 40-50 years	**77,500**
35,194	Maturing in more than 50 years	**35,187**
249,208	**Total**	**247,919**

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

Market Risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

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

According to this assessment strategy, at 31 March 2016, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2015 £'000		31 March 2016 £'000
(476)	Increase in interest payable on variable rate borrowings	**(376)**
1,883	Increase in interest received on variable rate borrowings	**2,731**
1,407	**Impact on Surplus or Deficit on the Provision of Services**	**2,355**
(701)	Decrease in fair value of fixed rate investment assets	**(559)**
(701)	**Impact on Other Comprehensive Income and Expenditure**	**(559)**
43,684	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**44,862**

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

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16,400,181 (2014/2015 £16,400,181) in Newcastle Airport which is not listed on the stock exchange, a £5,000,000 equity share in its Local Asset Backed Vehicle, Siglion, and a £500,000 equity share in its Leisure Joint Venture, Sunderland Lifestyle Partnership. Whilst these holdings are generally illiquid and are not anticipated to be sold the Authority is consequently exposed to losses arising from movements in the prices of the shares. The Airport shares were re-valued in 2012/2013 as a result of a change in strategic partner for the Airport during the re-financing process, which provided a ‘market’ price on which to base the valuation of the shares held by the council.

As the shareholdings have arisen in the acquisition of specific interests, the Authority is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for ‘open book’ arrangements with the company concerned so that the authority can monitor factors that might cause a fall in the value of specific shareholdings. The Newcastle Airport shares are classified as ‘available for sale’, meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. A general shift of 5% in the general price of shares in Newcastle Airport (positive or negative) would thus have resulted in a £820,009 gain or loss being recognised in the Other Comprehensive Income and Expenditure for 2015/2016.

The Council also holds a small number of various gilts and unit trusts with a value at cost of £14,301 (2014/2015 £14,910) 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 Other Comprehensive Income and Expenditure.

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 46 – Heritage Assets: Summary of Transactions

	2014/2015 £'000	**2015/2016** **£'000**
Cost of Acquisitions of Heritage Assets		
Collections held by Tyne & Wear Museums	0	**0**
Statues, Monuments and Public Art	0	**0**
Other Historic Assets	0	**0**
Total Cost of Purchases	0	**0**
Value of Assets Aquired by Donation		
Collections held by Tyne & Wear Museums	0	**0**
Statues, Monuments and Public Art	0	**0**
Other Historic Assets	0	**0**
Total Donations	0	**0**
Proceeds from Disposal		
Collections held by Tyne & Wear Museums	0	**0**
Statues, Monuments and Public Art	0	**0**
Other Historic Assets	0	**0**
Total Proceeds	0	**0**
Carrying Value	850	**0**
Proceeds	0	**0**

Note 47 – Heritage Assets: Further Information on the Council's Holdings

Collections maintained by Tyne & Wear Museums
Sunderland City Council own a number of artefacts that are managed by Tyne & Wear Museums with a value in excess of £10,000.

Statues, Monuments and Public Art
The values of statues, monuments and public art where the value can be separately identified have been classified as heritage assets. In the future all capital expenditure in excess of £10,000 on such items will be classified as heritage assets.

Other Historic Assets
Other objects held by the Council with a value in excess of £10,000 that can be classified as historic assets. Items include, for example, the book of remembrance, copy of the Lindisfarne gospels and miners' banners.

Note 48 – 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 2016 the Council was responsible for 42 of these funds, relating to People's Services, details of which are shown below.

	Balance at 01/04/2015 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	**Balance at 31/03/2016** **£'000**
People's Services Trust Funds	131	125	1	0	**257**

Collection Fund Account

Collection Fund Account for Year Ended 31 March 2016

2014/2015					2015/2016		
Council Tax £'000	Business Rates £'000	Total £'000		Note	**Council Tax £'000**	**Business Rates £'000**	**Total £'000**
			Income				
89,435	0	89,435	Council Tax Payers	1	91,813	0	91,813
0	90,145	90,145	Income from Business Ratepayers	2	0	90,063	90,063
89,435	90,145	179,580			91,813	90,063	181,876
			Expenditure				
			Apportionment of Previous Years' Surplus				
500	0	500	Sunderland City Council		500	0	500
31	0	31	Tyne and Wear Fire and Rescue Authority		31	0	31
36	0	36	Police and Crime Commissioner for Northumbria		36	0	36
567	0	567			567	0	567
			Precepts, Demands and Shares:				
76,607	39,002	115,609	Sunderland City Council		78,317	43,187	121,504
4,723	796	5,519	Tyne and Wear Fire and Rescue Authority		4,925	881	5,806
5,591	0	5,591	Police and Crime Commissioner for Northumbria		5,830	0	5,830
0	1,076	1,076	Central Government - Transitional Protection Payable		0	199	199
0	39,781	39,781	Central Government - Share		0	44,033	44,033
86,921	80,655	167,576			89,072	88,300	177,372
			Charges to Collection Fund				
0	669	669	Disregarded Amounts - Enterprize Zones		0	743	743
0	334	334	Cost of Collection - Business Rates		0	337	337
804	1,151	1,955	Write Offs	3	490	1,062	1,552
85	23	108	Provision for Bad Debts	3	(466)	(267)	(733)
0	3,579	3,579	Provision for Business Rate Appeals	4	0	63	63
889	5,756	6,645			24	1,938	1,962
1,058	3,734	4,792	**(Deficit) / Surplus for the Year**		**2,150**	**(175)**	**1,975**
2,782	(3,362)	(580)	Balance brought forward as at 1 April		3,840	372	4,212
3,840	372	4,212	**Fund Balance Carried Forward as at 31 March**		**5,990**	**197**	**6,187**
			Fund allocated to				
3,384	182	3,566	Sunderland City Council		5,267	96	5,363
209	4	213	Tyne and Wear Fire and Rescue Authority		331	2	333
247	0	247	Police and Crime Commissioner for Northumbria		392	0	392
0	186	186	Central Government		0	99	99
3,840	372	4,212			**5,990**	**197**	**6,187**

Collection Fund Account

The Collection Fund 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 business rates.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to council tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Sunderland, the council tax precepting bodies are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

In 2013/2014, the local government finance regime was revised with the introduction of the retained business rates scheme. Whilst the main aim of the scheme is to give Councils a greater incentive to grow businesses, it also increases the financial risk due to non-collection and the volatility of the business rates tax base.

The scheme allows the Council to retain a proportion of the business rates received. The Sunderland share is 49% with the remainder paid to precepting bodies. For Sunderland the business rates precepting bodies are Central Government (50% share) and Tyne and Wear Fire and Rescue Authority (1% share).

Business rates surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

Notes to the Collection Fund Account

Note 1 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base.

The basic amount of Council Tax for a Band D property, £1,348.91 for 2015/2016 (£1,345.73 for 2014/2015), is multiplied by the proportion specified for the particular band to give an individual amount due.

The Council Tax Base for 2015/2016 was 66,000 (64,559 in 2014/2015). The increase between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions.

The Tax Base for 2015/2016 was approved by Cabinet on 14th January 2015 and was calculated as follows:

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	182	5/9	101
A	77,598	6/9	51,732
B	17,394	7/9	13,529
C	16,068	8/9	14,283
D	8,194	1	8,194
E	3,007	11/9	3,675
F	1,019	13/9	1,472
G	616	15/9	1,027
H	16	18/9	32
Net effect of premiums and discounts			(26,698)
			67,347
Anticipated Collection Rate			98%
Tax Base for the Calculation of Council Tax			66,000

Note 2 – Income from Business Ratepayers

The Council collects Business Rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

The business rates share payable for 2015/2016 was estimated before the start of the financial year as £44.033m to Central Government, £0.881m to Tyne and Wear Fire and Rescue Authority and £43.187m to Sunderland Council. These sums have been paid in 2015/2016 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each council identifying the expected level of retained business rates and a top up or tariff amount to ensure that all councils receive their baseline amount. Tariffs due from councils payable to Central Government are used to finance the top ups to those councils who do not achieve their targeted baseline funding. In this respect Sunderland received a top up grant to the General Fund in 2015/2016 to the value of £35.948m.

The total income from business rates payers collected in 2015/2016 was £90.063m (£90.145m in 2014/2015). This sum includes £0.199m of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to Central Government to £44.232m.

In addition to the top up, a 'safety net' figure is calculated at 92.5% of the baseline amount which ensures that authorities are protected to this level of business rates income. The Council does not qualify for a safety net payment for 2015/2016.

For 2015/2016, the total business rates rateable value at the year-end is £224.355m (£222.151m in 2014/2015). The national multipliers for 2015/2016 were 48.0p (47.1p for 2014/2015) for qualifying small businesses, and the standard multiplier being 49.3p (48.2p for 2014/2015) for all other businesses.

Note 3 – Council Tax/Business Rates Bad Debt Provision

The Collection Fund provides for bad debts on arrears on the basis of prior years' experience, and a formulaic approach to outstanding debt levels.

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. Most of these sums relate to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts and as such have already been accounted for in a previous period.

The level of bad debt provision and the relevant preceptors share is as follows:

2014/2015				**2015/2016**		
Council Tax £'000	Business Rates £'000	Total £'000		**Council Tax £'000**	**Business Rates £'000**	**Total £'000**
5,394	5,641	11,035	Balance as at 1 April	5,479	5,664	11,143
(804)	(1,151)	(1,955)	Write Offs	(490)	(1,062)	(1,552)
889	1,174	2,063	Contribution to provision	24	795	819
5,479	5,664	11,143	Balance as at 31 March	5,013	5,397	10,410
			Balance allocated to:			
4,829	2,775	7,604	Sunderland City Council	4,408	2,645	7,053
0	2,832	2,832	Central Government	0	2,698	2,698
298	57	355	Tyne and Wear Fire and Rescue Authority	277	54	331
352	0	352	Police and Crime Commissioner for Northumbria	328	0	328
5,479	5,664	11,143		5,013	5,397	10,410

Note 4 – Business Rate Provision for Valuation Appeals

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2016. .

The level of appeals provision and the relevant preceptors share is as follows:

Notes to the Collection Fund Account

2014/2015 £'000		2015/2016 £'000
7,765	Balance as at 1 April	11,344
(3,862)	Use of provision	(2,949)
7,441	Contribution to provision	3,012
11,344	Balance as at 31 March	11,407
	Balance allocated to:	
5,559	Sunderland City Council	5,589
5,672	Central Government	5,704
113	Tyne and Wear Fire and Rescue Authority	114
11,344		11,407

Group Accounts Foreword

The Council's standard financial statements consider the Council only as a single entity thus a full picture of the Council's economic activity and financial position is not presented in the Council's single entity financial statements.

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

Sunderland Care & Support (Holding Company) Ltd

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

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

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

The value of the contract for the period is £39.287m. The pre audit operating loss for the period, before tax, amounted to £0.359m for the two companies.

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

Sunderland Live Ltd

Sunderland Live Ltd was formed in April 2013 as a local authority trading company (LATC) to deliver the Council's core events programme as well as additional events as requested by both the Council and other clients in both the public and private sector. The company's aim is to continually develop its high-quality events programme that benefits the local economy and increases the city's profile. To this end, the flagship Sunderland International Airshow attracted just short of an estimated 1 million visitors to the seafront over three days in July, helping to create vibrancy and things to see, do and take part in for residents and non-residents alike.

The primary objectives of Sunderland Live Ltd are to:

- maintain consistently high public satisfaction for the existing events programme;
- increase the provision of events within Sunderland in line with PLACE marketing objectives;
- maintain the existing events programme whilst reducing the on-going cost to the Council.

The Company looks to reduce the on-going cost of its core events programme by maximising income opportunities through business partnerships, sponsorship, hospitality and other potential income streams whilst realising efficiencies in the way that the programme is delivered. A new Chief Executive was appointed towards the end of 2015/16 and she will be looking to develop the commerciality of Sunderland Live Ltd as well as further ensuring the quality of its events programme.

The value of the contract for the period was £1.044m. The audited operating loss for the period, before tax, amounted to £0.042m.

Siglion LLP

On 7th November 2014 the Council and Carillion (Maple Oak) Ltd formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50% of the LLP. Siglion has a wholly owned subsidiary (Siglion Nominee Ltd) and Siglion and Siglion Nominee Ltd have formed two further LLPs. These are Siglion Investments LLP and Siglion Developments LLP. Igloo Regeneration Ltd has been appointed to deliver a range of services including development management in relation to a number of regeneration sites and following the acquisition from the Council of a number of investment properties including ground leases, retail properties, industrial properties and managed workspaces, strategic asset management. In consideration of this transaction, the Council received loan notes totalling £23.5m. These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up, whilst Loan Note B is similarly not anticipated to be repaid until Siglion is wound up but may be repaid and hence the value reduce over time as investment properties are disposed of. Siglion's primary purpose is to assist in the delivery of economic and regeneration benefits to Sunderland through its objectives of:

- Improving the concentration of new economic activity in the city centre;
- Creating a city centre that supports such higher value job creation;
- Bringing dormant sites back into use;
- Offering a wider choice of housing to the market; and
- Positioning Sunderland as a place to invest.

The draft accounts for the group for the period 1st April 2015 to 31st March 2016, show a net profit before taxation of £2.383m. Release of dividends, relating to the period 1st January 2015 to 31st December 2015, were approved in May 2016 with the Council receiving £0.345m. The overall current net worth of the group is £12.887m.

Sunderland Lifestyle Partnership Ltd

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

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

The purpose of the JV is to:

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

Group Accounts Foreword

The key objectives in forming this partnership are:

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

The draft accounts for the group for the period 1st June 2015 to 31st March 2016, shows a net profit before taxation of £0.052m and indicates that no dividend is proposed. The overall current net worth of the group is £1.052m.

Preparation of Group Accounts

The group accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Local Government Act 2003 and The Accounts and Audit Regulations 2015.
In preparing the group accounts all statutory main group statements have been incorporated, along with specific notes where balances are materially different from those within the Council's accounts.

The financial statements required under the Code are detailed below:

1. Movement in Reserves Statement (MiRS)

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

2. Comprehensive Income and Expenditure Statement

This reports the net cost for the year of all group functions and demonstrates how that cost has been met from general government grants and income from local taxpayers.

3. Balance Sheet

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

4. Cash Flow Statement

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

5. Notes to the Accounts

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the group'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 group. The table below shows the details for both 2014/2015 and 2015/2016 as required by the Code of Accounting Practice.

Group Movement in Reserves Statement

	Council						Subsidiaries	Group
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Council's share of group reserves**	**Total Group Reserves**
	£'000	£'000	£'000	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2014 carried forward	15,895	149,563	10,231	7,203	**182,892**	**270,272**	**(5,990)**	**447,174**
Movement in reserves during 2014/2015								
Deficit on provision of services	(34,979)	0	0	0	**(34,979)**	**0**	**1,571**	**(33,408)**
Other Comprehensive Income & Expenditure	0	0	0	0	**0**	**(26,639)**	**(4,112)**	**(30,751)**
Total Comprehensive Income & Expenditure	**(34,979)**	**0**	**0**	**0**	**(34,979)**	**(26,639)**	**(2,541)**	**(64,159)**
Adjustments between accounting basis & funding basis under regulations	45,884	0	(2,203)	(1,931)	**41,750**	**(41,750)**	**0**	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves	10,905	0	(2,203)	(1,931)	**6,771**	**(68,389)**	**(2,541)**	**(64,159)**
Transfers to / (from) Earmarked Reserves	(9,570)	9,570	0	0	**0**	**0**	**0**	**0**
(Increase) / Decrease in 2014/2015	1,335	9,570	(2,203)	(1,931)	**6,771**	**(68,389)**	**(2,541)**	**(64,159)**
Balance at 31 March 2015	**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**(8,531)**	**383,015**
Movement in reserves during 2015/2016								
Deficit on provision of services	(27,787)	0	0	0	**(27,787)**	**0**	**(379)**	**(28,166)**
Other Comprehensive Income & Expenditure	0	0	0	0	**0**	**56,708**	**2,776**	**59,484**
Total Comprehensive Income & Expenditure	**(27,787)**	**0**	**0**	**0**	**(27,787)**	**56,708**	**2,397**	**31,318**
Adjustments between accounting basis & funding basis under regulations	16,446	0	3,643	35,340	**55,429**	**(55,429)**	**0**	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves	(11,341)	0	3,643	35,340	**27,642**	**1,279**	**2,397**	**31,318**
Transfers to / (from) Earmarked Reserves	12,085	(12,085)	0	0	**0**	**0**	**0**	**0**
Restatement of Unusable Reserves					**0**	**0**	**26,145**	**26,145**
(Increase) / Decrease in 2015/2016	744	(12,085)	3,643	35,340	**27,642**	**1,279**	**28,542**	**57,463**
Balance at 31 March 2016	**17,974**	**147,048**	**11,671**	**40,612**	**217,305**	**203,162**	**20,011**	**440,478**

Group Comprehensive Income and Expenditure Statement

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

This statement includes an adjustment between the group accounts and the single entity accounts of £27.293m (£32.195m in 2014/2015). This figure represents the purchase and sale of services between all group members.

Group Comprehensive Income and Expenditure Statement

2014/2015					2015/2016		
Gross Expenditure restated £'000	Gross Income restated £'000	Net Expenditure restated £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
9,354	6,504	2,850	Central services to the public		7,931	4,957	2,974
27,446	8,761	18,685	Cultural and related services		25,090	5,424	19,666
27,477	7,940	19,537	Environmental and regulatory services		31,286	6,688	24,598
26,931	11,694	15,237	Planning services		26,002	9,903	16,099
180,254	157,788	22,466	Education services		181,003	155,820	25,183
44,152	2,840	41,312	Children's social care		55,234	2,873	52,361
34,058	13,574	20,484	Highways and transport services		32,242	11,446	20,796
128,128	124,203	3,925	Other housing services		129,730	124,253	5,477
131,208	60,108	71,100	Adult social care		111,895	36,095	75,800
21,659	21,413	246	Public Health		22,626	22,305	321
21,267	11,084	10,183	Corporate and democratic core		22,213	12,399	9,814
2,893	0	2,893	Non distributed costs		3,084	0	3,084
1,917	0	1,917	Exceptional item - severance costs		2,789	0	2,789
4,521	0	4,521	Exceptional item - equal pay settlement/provision		1,896	206	1,690
661,265	425,909	235,356	**Cost of Services**		653,021	392,369	260,652
43,366	0	43,366	Other operating expenditure		93,680	0	93,680
33,795	5,285	28,510	Financing and investment income and expenditure	11	28,673	7,028	21,645
(22)	273,802	(273,824)	Taxation and non-specific grant income and expenditure		251	348,062	(347,811)
738,404	704,996	33,408	**(Surplus) or Deficit on Provision of Services**		775,625	747,459	28,166
0	0	0	Tax expenses of subsidiaries		0	0	0
738,404	704,996	33,408	**Group (Surplus) / Deficit**		775,625	747,459	28,166
			Items that will not be reclassified to (surplus)/deficit on Provision of Services				
		(24,262)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				(2,504)
		55,013	Re-measurements of the defined benefit liability				(56,980)
		30,751					(59,484)
			Items that may be reclassified to (surplus)/deficit on Provision of Services				
		0	(Surplus) or deficit on revaluation of available for sale financial assets				0
		30,751	**Other Comprehensive Income and Expenditure**				(59,484)
		64,159	**Total Comprehensive Income and Expenditure**				(31,318)

Group Comprehensive Income and Expenditure Statement

Reconciliation of the Single Entity Comprehensive Income and Expenditure Statement to the Group Comprehensive Income and Expenditure Statement

This table shows how the group entities have contributed to the overall (surplus) / deficit shown in the group income and expenditure account.

2014/2015 £'000		2015/2016 £'000
61,618	(Surplus) / deficit on the Council's single entity Income and Expenditure Account	(28,921)
	Add (surplus) / deficit attributable to subsidiaries:	
3,747	Sunderland Care and Support Ltd	(1,156)
(1,184)	Care and Support Sunderland Ltd	0
230	Sunderland Live Ltd	(23)
	Add (surplus) / deficit attributable to joint venture:	
(252)	Siglion LLP	(1,192)
0	Sunderland Lifestyle Partnership Ltd	(26)
64,159	**Total**	(31,318)

Group Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by reserves held by the group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the group may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Group Balance Sheet

31st March 2015 restated £'000		Notes	31st March 2016 £'000
942,592	Property, Plant and Equipment		909,261
12,192	Heritage Assets		12,192
61,409	Investment Property		62,494
2,010	Intangible Assets		2,007
16,415	Long Term Investments		16,415
5,252	Investments in Associates		6,970
57,258	Long Term Debtors		56,624
1,097,128	**Long Term Assets**		1,065,963
180,919	Short Term Investments		161,055
678	Inventories		754
47,024	Short Term Debtors	6	38,978
3,027	Assets Held for Sale		2,833
27,839	Cash and Cash Equivalents (In-hand & bank)	2	63,686
259,487	**Current Assets**		267,306
(21,101)	Cash and Cash Equivalents (overdrawn)	2	(10,465)
(30,988)	Short Term Borrowing		(29,756)
(62,981)	Short Term Creditors	7	(59,444)
(21,119)	Provisions		(16,479)
(10,817)	Grant Receipts in Advance - Capital		(2,148)
0	Corporation Tax Liability		0
(147,006)	**Current Liabilities**		(118,292)
(218,220)	Long Term Borrowing		(218,163)
(509,968)	Defined Benefit Pension Scheme Liability	9	(462,420)
(92,841)	Other Long Term Liabilities		(88,373)
(5,565)	Provisions		(5,543)
(826,594)	**Long Term Liabilities**		(774,499)
383,015	**Net Assets**		440,478
17,230	General Fund		17,974
159,133	Earmarked General Fund Reserves		147,048
8,028	Capital Receipts Reserve		11,671
5,272	Capital Grants Unapplied		40,612
252	Profit and Loss - Investments in Associates		1,470
(8,376)	Profit and Loss - Sunderland Care and Support Ltd		(7,220)
0	Profit and Loss - Care and Support Sunderland Ltd		0
(407)	Profit and Loss - Sunderland Live Ltd		(384)
181,132	**Usable Reserves**		211,171
217,888	Revaluation Reserve		192,135
0	Revaluation Reserve - Associates		26,145
443,960	Capital Adjustment Account		421,383
(1,130)	Financial Instrument Adjustment Account		(1,255)
(499,020)	Pensions Reserve		(452,740)
24,026	Deferred Capital Receipts Reserve		24,480
3,566	Collection Fund Adjustment Account		5,363
(3,440)	Accumulated Absence Account		(2,237)
16,033	Available for Sale Financial Instruments Reserve		16,033
201,883	**Unusable Reserves**		229,307
383,015	**Total Reserves**		440,478

Group Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the reporting period. The statement shows how the group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the group are funded by way of taxation and grant income or from the recipients of services provided by the group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute towards the group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the group.

2014/2015 £'000		Notes	2015/2016 £'000
33,408	Net (surplus) or deficit on the provision of services		28,166
(84,181)	Adjust net (surplus) or deficit on the provision of services for non cash movement		(141,379)
27,527	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		124,020
(23,246)	Net cash flows from operating activities		10,807
115,882	Investing activities	4	(60,948)
(39,830)	Financing activities	5	3,658
52,806	**Net (increase) or decrease in cash and cash equivalents**		(46,483)
59,544	Cash and cash equivalents at the beginning of the reporting period		6,738
6,738	**Cash and cash equivalents at the end of the reporting period**	2	53,221

Notes to the Group Financial Statements

Note 1 – Accounting Policies

The group accounting policies are largely the same as those specified within the Council only statement, however there are some slight divergences from these policies within the group as well as issues applicable to the subsidiary companies only. These are detailed below:

- **Deferred Tax**
  Deferred tax is recognised in respect of an obligation to pay more tax in the future or a right to pay less tax in the future as at the Balance Sheet date. This represents differences between the company's taxable profits and its results as stated in the financial statement.

  Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to be resolved, based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

- **Pensions**
  The group accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

  It should be noted that the Financial Statements for Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position for these companies would not be significantly different under IAS19.

- **Group Transactions**
  The Council both commissions services from and provides support services to the subsidiary companies. All transactions between members of the group have been treated as arm's length.

- **Consolidation of Subsidiaries**
  Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

- **Consolidation of Joint Ventures**
  Joint Ventures have been consolidated using the equity method. An investment is brought into the group balance sheet and adjusted by the Council's share in the joint venture's net asset movement. The Council's share of the joint venture's operating results for the year is included within the group income and expenditure account.

- **Capital Expenditure**
  The de-minimus level for capital expenditure for the subsidiary companies is £5,000 which is lower than that of the Council.

- **Accounting Standards**
  The accounts for the subsidiary companies have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Notes to the Group Financial Statements

Note 2 – Group Cash and Cash Equivalents

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

2014/2015 Restated £'000		2015/2016 £'000
27,839	Cash and Cash Equivalents (in hand & bank)	63,686
(21,101)	Cash and Cash Equivalents (overdrawn)	(10,465)
6,738	**Total Cash and Cash Equivalents**	53,221

Note 3 – Group Cash Flow Statement – Operating Activities

The net cash flows for operating activities include the following items in respect of interest transactions according to the requirements of the code:

2014/2015 £'000		2015/2016 £'000
3,837	Interest received	5,218
(11,813)	Interest paid	(12,569)
0	Dividends received	0
(7,976)		(7,351)

Note 4 – Group Cash Flow Statement – Investing Activities

2014/2015 £'000		2015/2016 £'000
52,502	Purchase of property, plant and equipment, investment property and intangible assets	68,899
180,000	Purchase of short-term and long-term investments	160,000
484	Other payments for investing activities	2,023
(638)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,763)
(90,000)	Proceeds from short-term and long-term investments	(180,000)
(26,466)	Other receipts from investing activities	(108,407)
115,882	**Net cash flows from investing activities**	(61,248)

Note 5 – Group Cash Flow Statement – Financing Activities

2014/2015 £'000		2015/2016 £'000
(50,049)	Cash receipts of short and long-term borrowing	(58)
(5,689)	Other receipts from financing activities	(1,349)
4,562	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,709
11,346	Repayments of short and long term borrowing	1,356
0	Other payments for financing activities	0
(39,830)	**Net cash flows from financing activities**	3,658

Note 6 – Group Short Term Debtors

2014/2015 Restated £'000		2015/2016 £'000
9,084	Central government bodies	6,842
1,620	Other local authorities	1,280
2,031	NHS bodies	3,804
34,289	Other entities and individuals	27,052
47,024	**Total**	38,978

Note 7 – Group Short Term Creditors

2014/2015 Restated £'000		2015/2016 £'000
(14,484)	Central government bodies	(12,923)
(6,804)	Other local authorities	(4,627)
(2,324)	NHS bodies	(3,011)
(39,369)	Other entities and individuals	(38,883)
(62,981)	**Total**	(59,444)

Note 8 – Property Plant and Equipment

On 1st June 2015 the Council transferred a number of leisure assets to its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd.

As these assets were transferred under a long term lease, the Council has written these assets out of its accounts, reducing assets by £52.289m. Under the accounting requirements applicable to Sunderland Lifestyle Partnership, the Joint Venture has accounted for these assets at the present value of the minimum lease payments.

In order to comply with the Council's accounting requirements, within the Council's Group Statements, the Council's share of these assets (50%) has been re-instated at a valuation of £26.145m.

Note 9 – Group Reserves

Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

It should be noted that the Financial Statements for Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position for these companies would not be significantly different under IAS19.

The Pensions Reserves within the subsidiary companies are subsets of the Profit and Loss Reserves for those companies and therefore are shown on the Balance Sheet within Usable Reserves. The Pension Reserve held by the Council is shown on the Balance Sheet under Unusable Reserves. The table below presents the Pension Reserve activity for each member of the group.

Notes to the Group Financial Statements

2014/2015 Council £'000	CSSL £'000	SCAS £'000	S Live £'000	Total Group restated £'000		2015/2016 Council £'000	SCAS £'000	S Live £'000	Total Group £'000
(439,620)	(327)	(5,900)	(231)	(446,078)	**Balance at 1 April**	(499,020)	(10,640)	(312)	(509,972)
(50,890)	(22)	(4,000)	(101)	(55,013)	Remeasurement of the net defined benefit liability/(asset)	54,850	2,060	70	56,980
(40,490)	(432)	(2,770)	(174)	(43,866)	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	(41,250)	(4,310)	(67)	(45,627)
31,980	383	2,640	116	35,119	Employer's pensions contributions and direct payments to pensioners payable in the year	32,680	3,480	49	36,209
0	0		78	78	Less deferred tax offset against liability	0	0	(10)	(10)
0	398	(610)	0	(212)	Less adjustment for disposals / acquisitions	0	0	0	0
(499,020)	0	(10,640)	(312)	(509,972)	**Balance at 31 March**	(452,740)	(9,410)	(270)	(462,420)

Share Capital Reserve

One ordinary share of £1 has been allotted and fully paid for in Sunderland Live Ltd and two ordinary shares of £1 in Sunderland Care and Support Ltd. All companies in the group are ultimately owned 100% by the Council.

Note 10 – Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the group are not materially different from those within the Council only statements.

Note 11 – Group Financing and Investment Income and Expenditure

2014/2015 £'000		2015/2016 £'000
11,813	Interest payable and similar charges	12,980
20,033	Net interest on the net defined benefit liability (asset)	15,692
(3,837)	Interest receivable and similar income	(5,218)
(646)	Surplus on Trading Undertakings	(725)
0	Deficit on Trading Undertakings	0
(802)	Income and expenditure in relation to investment properties and changes in their fair value	(1,085)
1,949	Disposals and impairments of susbidiaries	1
28,510	**Total**	21,645

Note 12 – Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

Employees of Sunderland Care and Support Ltd and Sunderland Live Ltd are members of the Local Government Pension Scheme.

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

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

Discretionary Post-Retirement Benefits

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

Transactions Relating to Post-employment Benefits

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

The subsidiary companies within the group do not raise Council Tax receipts and therefore the costs of post-employment / retirement benefits are not transferred to unusable reserves. These future liabilities are reflected within each company's Profit or Loss position on the Balance Sheet.

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.

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. Inventories). Non-current assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

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 Council made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

Capital Charge
The charge to the services for the use of non-current 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.

Glossary of Terms

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. 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 Non-Current Assets
The classes of non-current assets required to be included in the accounting statements are:

Property, Plant and Equipment
- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets
- Surplus Assets

Investment Property
Heritage Assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Code of Practice on Local Authority Accounting in the UK
'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Council.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Business Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, central government and its own demands.

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.

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.

Glossary of Terms

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.

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.

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 non-current asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

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.

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible non-current asset consumed in a period.
- 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).

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.

General Fund
This accounts for the services of the City Council except for the Collection Fund. The net cost is met by the Council Tax, Government Grants and Business Rates.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment
A reduction in the value of a non-current 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 Assets
These are non-financial non-current 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.

International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS)
Standards issues by the International Accounting Standards Board (IASB) which present the Council's accounts in a consistent and comparable format with other organisations internationally.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However 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.

Joint Ventures
A Joint Venture exists where the Council and another party exercise joint control over and entity with decisions relating to the organisation requiring unanimous consent by the parties sharing control.

Leasing
The method of financing the provision of various capital assets to discharge the 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:

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease

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.

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.

Business Rates (also known as Non-Domestic Rates)
All non-domestic properties are valued by the Valuation Office Agency and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate with the proceeds shared between central government, the Council and Tyne and Wear Fire Authority on a defined basis.

Net Book Value
The amount at which non-current assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Non-Operational Assets
Non-current 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
Non-current 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 Councils on their behalf.

Prior Period Adjustments
Those material adjustments applicable to prior periods 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)
PFIs are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangement.

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.

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 Sector Audit Appointments Ltd
As independent company incorporated by the Local Government Association. The company is responsible for appointing auditors to local government, police and local NHS bodies. Before April 2015, its responsibilities were discharged by the Audit Commission.

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.

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 c lose family or the same household, has a controlling interest.

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.

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.

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.

Revenue Expenditure Funded by Capital under Statute
Items of capital expenditure, which do not result in, or remain matched by, tangible non-current 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 Local Authorities to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and Business Rates income and the City Council's spend.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

SeRCOP
The CIPFA Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). SeRCOP applies to all Local Authorities from the 1 April 2012 for the preparation of budgets, performance indicators and Statement of Accounts. The aim of SeRCOP is to establish proper practice with regard to consistent financial reporting for services.

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.

Stock / Inventories
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

Glossary of Terms

Subsidiaries
A subsidiary exists where the Council exercises control and gains benefits / exposure to risk arising from this control.

Supported Capital Expenditure
Government provides 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.

Trust Funds
Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

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 non-current 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.

Sunderland City Council

Item No. 9

AUDIT AND GOVERNANCE COMMITTEE **30 September 2016**

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2016/2017

Report of the Interim Director of Corporate Services

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2016/2017.

2. Description of Decision (Recommendations)

2.1 The Committee is requested to:

- Note the positive Treasury Management performance during Quarter 2 of 2016/2017.

- Approve a revision to the Lending List Criteria at Appendix B, and note the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2016/2017, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2016/2017 – Quarter 2

4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates fluctuated throughout 2015/2016 and continue to be volatile. Forecasts are that the impact of the Brexit vote and low levels of world economic growth will mean that PWLB rates will remain low into the medium term. As PWLB rates were at historically low levels, it was decided to take advantage of these low rates to support the Council's Capital Programme requirements and borrow £20m. This will help maintain the Council's long-term borrowing interest rate at its comparatively low levels and will benefit the Council's revenue budget over the longer term, whilst providing the capital funding required.

4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2016/2017 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.34%, and as such the Council benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Performance continues to see the Council's rate of borrowing in the lowest quartile as compared to other authorities.

4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £541.902m for 2016/2017. The Council's maximum external debt during the financial year to 31st August 2016 was £351.771m and is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.

4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.

4.5 As at 31st August 2016, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.83% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.32%. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market. The rate of return achieved is also in the top quartile according to our external Treasury Management advisors who have benchmarked our performance with other authorities.

4.6 The rate of return on investments, as previously reported, has remained at the very low levels seen in previous years and is likely to decrease further following the Bank of England cutting the base rate from 0.5% to 0.25% on 4th August 2016. There is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate which may not happen until 2019. Special tranche investment rates (which offer better than market average returns) have also followed the downward trend since base rates were reduced.

Interest rates are continuously monitored so that the Council can take advantage of any increase in rates when they do occur.

4.7 Following the Brexit vote the credit agencies Fitch and Standard & Poor downgraded the United Kingdom credit rating from AA+ to AA and from AAA to AA. The reduced rating reflects the uncertainties arising from the vote to leave the EU. However, this decision could be reversed if it is considered that the UK government is likely to be able to negotiate a trade arrangement with the EU that preserves core elements of the UK's current access to the Single Market. This in turn would limit the economic impact from the EU exit and allow for a continued improvement in the country's public finances and a gradual reduction of public debt over the coming years. Whilst the lower rating is not desirable it is felt that the strength of the UK Government is such that the Council can rely on continued UK Government support to the banking system and that the maximum level of investment in the UK should be maintained at its current level of £350m and also that the sovereign credit rating of AA should apply to the those institutions (Lloyds and RBS) where the UK Government holds a shareholding. This position will be subject to close monitoring.

4.8 More detailed Treasury Management information is included in Appendix A for Members' information.

4.9 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Lending List Criteria is shown in Appendix B for approval and an updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2016/2017.

5.2 Members are requested to approve changes to the Lending List Criteria at Appendix B, and note the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2016/2017

A1 Borrowing Strategy and Performance – 2016/17

A1.1 The Borrowing Strategy for 2016/2017 was reported to Cabinet on 10th February 2016 and approved by full Council on 2nd March 2016.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2016, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until the fourth quarter of 2016 before gradually rising to 1.75% by December 2018. PWLB borrowing rates were also expected to increase during 2016/2017 across all periods.

Following the EU Referendum on 23rd June 2016 and the vote to leave the EU, the Bank of England (BoE) cut the Bank Base Rate for the first time since March 2009 to an all-time low of 0.25%. It also expanded its Quantitative Easing programme by £60bn to £435bn and unveiled two new schemes; one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme" potentially worth up to £100bn offering access to cheap long term funding for those banks that increase their lending activity despite the cut in the base rate. Financial analysts speculate that a further cut to near zero is likely. The timing of any rate increase will depend on the strength and pace at which the UK economy recovers post-Brexit with tentative forecasts from the Council's economic advisors, Capita Asset Services, of not reaching the pre-Referendum level of 0.50% until the second quarter of 2019.

Events following the outcome of the EU referendum have seen significant changes to the leadership of the government. The Office for Budget Responsibility (OBR) is currently assessing the potential impact of the Brexit on the national economy. It is at this stage unclear what actions the government will take, although the New Chancellor has indicated a willingness to scale back the timing and pace of deficit elimination plans to do whatever is needed to promote growth. Clarity of the position and how the current Deficit Reduction Plan will be affected is expected to be announced in the Autumn Statement around the end of November.

The uncertainty caused by the Brexit vote and indications of reduced levels of investment, along with other factors such as reduced growth forecasts in Asia has led the BoE to review its growth and inflation forecasts for the UK. The August 2016 Inflation Report left growth forecasts unchanged at 2% for 2016 as the economy expanded faster in the first half of 2016 than had been expected in May. However the forecast for 2017 has been revised down significantly to 0.8% from a previous estimate of 2.3% and the forecast for growth in 2018 has been cut to 1.8%.

The BoE revised up its inflation forecasts sharply, in light of the devaluation of sterling because of Brexit. The BoE predicts CPI inflation will increase from its June 2016 level of 0.5% to 2.0% in 2017 and 2.4% in 2018 and 2019. This exceeds the 2.0% target level for inflation. To allay fears that this could spark a tightening of monetary policy the report noted that the costs of bringing inflation back to the 2.0% Government target in the immediate future would exceed the benefit.

The BoE said it expected the economy to suffer weak growth throughout 2016 and the rest of next year. The minutes stated that the outlook for growth in the short to medium term has weakened markedly, and most Monetary Policy Committee members expect further action later in the year if the economy performed as poorly as forecast. The economic picture is currently very volatile but most forecasters do not anticipate a base rate increase above 0.50% until 2019.

Forecasts for PWLB interest rate levels have fallen across all durations with benchmark rates of 1.00%, 1.50%, 2.30% and 2.10% for 5, 10, 25 and 50 year durations. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2016. The volatility is highly correlated to geo-political and sovereign debt crisis developments and the likelihood that increases in the US interest rate will occur more quickly and more strongly than the UK Bank Rate.

The following table shows the average PWLB rates for Quarters 1 and 2 to date.

2016/2017	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Aug) %**
7 days notice	0.36	0.25
1 year	1.11*	0.90*
5 year	1.59*	1.09*
10 year	2.25*	1.60*
25 year	3.05*	2.36*
50 year	2.83*	2.11*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

A1.2 The strategy for 2016/2017 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.00% for long-term borrowing was set for 2016/2017 in light of the views prevalent at the time the Treasury Management policy was set in March 2016. Recent volatility in the financial markets has seen considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates which the Council has taken advantage of. The overall longer term expectation is for gilt yields and PWLB rates to rise, albeit gently. In line with discussions with the Council's economic advisors, the Council has sought to take advantage of the low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. As a result the Council has taken out £20 million of new borrowing during the financial year as these rates were considered opportune. The new borrowing is summarised in the following table:

Duration	**Date of the transaction**	**Start**	**Matures**	**Rate %**	**Loan Amount £m**
47½ years	15/06/2016	17/06/2016	17/06/2063	2.55	10.0
46½ years	01/07/2016	05/07/2016	05/01/2063	2.15	10.0

Since taking out this new borrowing rates have fluctuated before recovering to higher rates than the post Brexit borrowing was taken out. The position remains volatile and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future Capital Programme requirements.

A1.3 The Borrowing Strategy for 2016/2017 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2016/2017 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2016.

A1.4 The Council's treasury portfolio position at 31st August 2016 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	197.8		
	Market	39.6		
	Other	0.2	237.6	3.68
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			**265.2**	**3.34**

A2 Treasury Management Prudential Indicators – 2016/2017

A2.1 All external borrowing and investments undertaken in 2016/2017 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2016/2017 as follows:

	£m
Borrowing	453.349
Other Long-Term Liabilities	88.553
Total	**541.902**

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	370.400
Other Long Term Liabilities	88.553
Total	**458.953**

The Council's maximum external debt in respect of 2016/2017 (to 31st August 2016) was £351.771m and is well within the limits set by both of these key indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		**2016/2017 (to 31/08/16)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	255,000	92,565
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	48,000	-9,830
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	11.32%
	12 months and within 24 months	60%	1.65%
	24 months and within 5 years	80%	5.77%
	5 years plus	100%	82.68%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2016/2017

A3.1 The Investment Strategy for 2016/2017 was approved by Council on 2nd March 2016. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

(A) The **security** of capital;
(B) The **liquidity** of its investments and then;
(C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 31st August 2016, the funds managed by the Council's in-house team amounted to £229.515 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2016/2017 Actual to 31/08/16 %	**2016/2017 Benchmark to 31/08/16 %**
Return on investments	0.83	0.32

A3.3 Investments placed in 2016/2017 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at very low levels and are likely to reduce further following the reduction to the Bank of England Base Rate.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions to shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) which have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List is shown in Appendix C.

A3.9 In accordance with Treasury Management Best Practice, a risk analysis of the Treasury Management functions has been carried out and included at Appendix D for information. This sets out how the Council manages the risks associated with the Treasury Management function.

Lending List Criteria **Appendix B**

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

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

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These new limits are as follows:

Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	350
Non-UK	100

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA	-	Aa1	-	AA	-	350	2 years
Lloyds Banking Group (see Note 1)							**Group Limit 80**	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
Ulster Bank Ltd	BBB+	F2	A3	P-2	BBB	A-2	80	2 years
Santander Group							**Group Limit 65**	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank *	BBB+	F2	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	**Aa3**	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	Aa3	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A2	P-1	-	-	50	364 days
Newcastle BS **	-	-	-	-	-	-	0	
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS **	A-	F1	Baa2	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa3	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AA+		Aa1		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Pohjola Bank	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Netherlands	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA rating applied to them thus giving them a credit limit of £80m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

	Risk	Controls
1.	**Strategic Risk** The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Interim Director of Corporate Services view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Capita Asset Services). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.
2.	**Interest Rate Risk** The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.	The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Interim Director of Corporate Services own view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy . A proactive approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.

	Risk	Controls
3.	**Exchange Rate Risk** As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.	All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk. This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.
4.	**Inflation Risk** There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.	Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance. Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.
5.	**Counterparty Risk** The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.	The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited. The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement. The Interim Director of Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep

	Risk	Controls
		the approved lending list up to date and fully informed, using the latest available information.
6.	**Capital Financing and Refinancing Risk** There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required. PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted.
7.	**Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.	The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council.
8.	**Treasury Management Arrangements Risk** There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.	This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well established Treasury Management team that operates under the Interim Director of Corporate Services and is staffed appropriately with a good mix of both well experienced and qualified staff. Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.