

# **Statement of Accounts**

## **2011/2012**

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## Cabinet 2011/2012

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

Member	Portfolio
P. Watson	Leader of the Council
Mrs F. Anderson – resigned 18 <sup>th</sup> May 2011 H. Trueman – appointed 18 <sup>th</sup> May 2011	Deputy Leader of the Council
D. Allan – resigned 18 <sup>th</sup> May 2011 (Portfolio subsumed within the Cabinet Secretary responsibilities)	Resources
M. Speding – appointed 18 <sup>th</sup> May 2011	Cabinet Secretary
Mrs P. Smith	Children and Learning City
M. Speding – resigned 18 <sup>th</sup> May 2011 D. Allan – appointed 18 <sup>th</sup> May 2011	Health and Wellbeing
J. Blackburn	Attractive and Inclusive City
H. Trueman – resigned 18 <sup>th</sup> May 2011 T. Wright – appointed 18 <sup>th</sup> May 2011	Sustainable Communities
Mrs C. Gofton	Responsive Services and Customer Care
B. Charlton	Prosperous City
D. Wilson – resigned 18 <sup>th</sup> May 2011 J.Kelly – appointed 18 <sup>th</sup> May 2011	Safer City and Culture

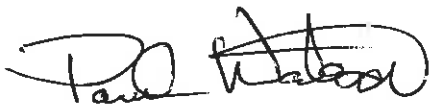
## Introduction

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 Code of Corporate Governance, the 2011/2012 review was considered by the Audit and Governance Committee in June and will be reported to Cabinet in July and will then be reported to full Council. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council continues to have robust and comprehensive arrangements in place and has identified a small number of areas for improvement and development, which will be acted upon during 2012/2013.

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



Dave Smith  
Chief Executive



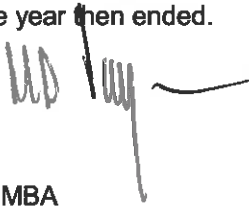
Malcolm Page CPFA MBA  
Executive Director of Commercial  
and Corporate Services

Dated: 28<sup>th</sup> September 2012

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

### **Statement of Accounts 2011/2012 (Subject to Audit) Certification by the Responsible Finance Officer**

As the Council's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (2) the Statement of Accounts for 2011/2012 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31<sup>st</sup> March 2012 and its income and expenditure for the year then ended.



Mr M Page CPFA MBA  
Executive Director of Commercial and Corporate Services

Dated: 29<sup>th</sup> June 2012

### **Audited Statement of Accounts 2011/2012 Certification on behalf of those charged with governance**

As Chairman of the Audit and Governance Committee held on 28<sup>th</sup> September 2012, I hereby acknowledge receipt of the audited Statement of Accounts for 2011/2012 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8(3), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 28<sup>th</sup> September 2012 in accordance with sub-paragraph 8 (3) (c) with regard to the aforementioned Regulations.

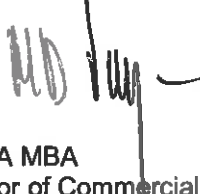


Mr. G.N. Cook  
Chairman of the Audit and Governance Committee

Dated: 28<sup>th</sup> September 2012

### **Audited Statement of Accounts 2011/2012 Certification by the Responsible Finance Officer**

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2011/2012 in accordance with Regulation 8 (2) of the Accounts and Audit Regulations 2011.



Mr M Page CPFA MBA  
Executive Director of Commercial and Corporate Services

Dated: 28<sup>th</sup> September 2012

## **Foreword by the Executive Director of Commercial and Corporate Services**

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2011/2012. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2011 and the Local Government and Housing Act 1989.

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

### **1. Statement of Responsibilities**

This discloses the respective responsibilities of the Authority and the Chief Finance Officer.

### **2. Movement in Reserves Statement (MiRS)**

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

### **3. Comprehensive Income and Expenditure Statement**

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is 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 authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the authority.

### **5. Cash Flow Statement**

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

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

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

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

### **7. Collection Fund Account**

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

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

### **Revenue Expenditure and Income Summary**

The estimated net revenue expenditure for 2011/2012 to be met from Government Grants and local taxpayers was approved at £253.677m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,342.80 for 2011/2012. This represented no Council Tax increase from the 2010/2011 Band D Council Tax level as a Council Tax freeze was implemented in setting the 2011/2012 budget. The Council again set the lowest Council Tax level in the whole of the North East region for 2011/2012 for the fifth consecutive year 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 in 2011/2012 continuing the Council's strong track record in this regard.

The table on the next page summarises the financial position for the year 2011/2012 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 2011/2012 as compared to the actual position for 2011/2012.

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

### Financial position for the year 2011/2012 for General Fund Balances

	2011/2012 Original Estimate £'000	2011/2012 Revised Estimate £'000	2011/2012 Actual £'000	2010/2011 Actual £'000
Expenditure on Services*	242,286	242,286	225,738	263,696
Levies and Precepts	19,071	19,071	19,101	18,675
(Surplus) / Deficit from Trading Operations and Dividends	0	0	413	(112)
Transfers to / (from) Capital Reserves	0	0	(1,300)	(4,700)
Transfers to / (from) Revenue Reserves:				
PFI Smoothing Reserve	0	0	(404)	(317)
Insurance Reserve	0	0	(263)	(1,252)
Economic Development Reserve	0	0	0	(700)
Play Areas Reserve	0	0	0	(83)
WNF - Software City Reserve	0	0	(783)	0
WNF - Visible Workshop and Other Projects Reserve	0	0	(50)	0
House Sale Income Reserve	0	0	(272)	178
Modernisation Improvements	0	0	(196)	2,677
Utilities Reserve	0	0	0	1,043
Invest to save Commercial Opportunities	0	0	0	1,500
Strategic Investment Reserve	0	0	7,265	0
HCA Riverside Transfer	0	0	11,980	0
All Other revenue Reserves	0	0	(2,051)	10,481
<b>Total Net Expenditure</b>	<b>261,357</b>	<b>261,357</b>	<b>259,178</b>	<b>291,086</b>
Financed by:				
Revenue Support Grant and General Grants	40,109	40,109	40,481	55,904
National Non Domestic rates	120,771	120,771	120,771	137,496
Council Tax Collection Fund Receipts**	95,128	95,128	95,128	95,903
Council Tax Surplus	500	500	500	50
<b>Total Net Budget Requirement</b>	<b>256,508</b>	<b>256,508</b>	<b>256,880</b>	<b>289,353</b>
<b>Addition / (Use):</b>				
General Reserve (See Note 1)	(4,849)	(4,849)	(4,849)	(2,330)
Schools LMS Reserve (See Note 2)	0	0	2,550	597
<b>General Fund Balance brought forward:</b>				
General Reserve	12,419	12,419	12,419	14,749
School LMS Reserve	8,090	8,090	8,090	7,493
<b>General Fund Balance carried forward:</b>				
General Reserve	<b>7,570</b>	<b>7,570</b>	<b>7,570</b>	<b>12,419</b>
School LMS Reserve	<b>8,090</b>	<b>8,090</b>	<b>10,640</b>	<b>8,090</b>

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

\*\* This figure includes an adjustment for Council Tax debtors and creditors as required under the Code of practice on Local Authority Accounting in the United Kingdom 2011/2012.



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

### Note 1 – General Reserve

The table shows a reduction in the general reserve balance of £4.849 million as forecast at the revised estimate stage and is after taking into account the creation of a limited number of reserves reported to Cabinet as part of the outturn report and second revenue review reports.

The movement in the general reserve balance takes account of the following additions to balances totalling £11.584 million:

- £6.714 million debt charge and interest on investment saving due to continued proactive Treasury Management;
- £2.308 million net under spend on salaries and other staff costs;
- Other net savings in contingencies and non delegated expenditure of £2.562 million.

and the following £16.433 million use of balances:

- Transfer to the Strategic Investment Reserve of £11.584 million to support one off transitional costs arising from the implementation of budget savings proposals in 2012/2013 and future years as approved as part of the outturn and second revenue review reports;
- Contribution of £4.849 million to the 2011/2012 Revenue Budget approved as part of the 2011/2012 budget setting process.

### Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the Code, forms part of the movement in General Fund Balances in the Movement in Reserves Statement. The movement in school balances during 2011/2012 amounted to a net return to balances of £2.551m (£0.597m net return to balances in 2010/2011), 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 2012/2013 and future years.

As a result, the balance of this reserve as at 31st March 2012 increased to £10.641m compared to £8.090m as at 31st March 2011. Further details are set out in Note 8 on Page 60.

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

### **Financial Planning and the Impact of Government Funding Reductions**

The Comprehensive Spending Review 2010 announced in October 2010 set out the Governments national spending plans for the period 2011/2012 to 2014/2015. The funding cuts for local government required reductions of circa 27% over the four year period which were front loaded into 2011/2012 and 2012/2013.

This resulted in significant reductions in funding to the Council for 2011/2012 and beyond. For 2011/2012 this, combined with unavoidable cost pressures, resulted in the budget being set taking account of reductions totalling £57.8m:

- £38.7m in respect of reductions in formula grant and cost pressures. This was addressed through implementation of the Sunderland Way of Working including through business transformation savings, fundamental service reviews (see Council Improvement Programme page 11 for further detail) and other Directorate savings activity. This has continued our aggressive approach to reducing back office costs as much as possible, working more smartly by rationalising the use of property and ICT, generating significant savings through procurement, and generating additional income while reviewing services to ensure resources are targeted to areas of highest need to protect front line services as much as possible;
- £19.1 million of specific grant reductions which were passported to the areas of relevant expenditure in accordance with the approach agreed as part of the Budget Planning Framework.

Further reductions in Government funding and cost pressures mean that the budget for 2012/2013 has been set taking account of a further £28.1m of reductions:

- £10.5m to be achieved from further reconfiguration of back office support to meet future business need, continued review of the asset portfolio together with savings in contingencies and third party spend;
- £15.4m to be achieved from continued implementation of service reviews to modernise and improve services;
- £2.2m use of temporary transitional funding earmarked to provide some flexibility to enable longer term savings to be realised.

Beyond 2012/2013 the position is very uncertain due to the potential significant impact of the Government's Local Government Resource Review, Schools Funding Review, Welfare Reform and Public Health Funding transfer. At this stage further significant reductions in funding are anticipated which the Council continues to plan for as set out in the Medium Term Financial Strategy. The identification of savings for the medium term will continue through a combined approach of:

- Implementing the Improvement Plan and Programmed Savings plan which aim to meet needs and achieve savings while protecting as far as possible frontline services and maximising non frontline savings including Strategic and Shared Services, ICT, Property Rationalisation and Smarter Working;
- Continuing the implementation of Three Year Improvement Plans to reshape services and target resources with the aim of protecting core services, modernising social care, ensuring customer service is at the heart of service delivery and ensuring services are responsive to local needs;
- Developing alternative methods of service delivery;
- Investing to support growth.

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

### The Council's Improvement Agenda

The Council developed the Sunderland Way of Working in 2009 in anticipation of the significant Government funding reductions which are now being felt following the Comprehensive Spending Review 2010 and subsequent local government finance settlements for 2011/2012 and 2012/2013. The Council has continued to drive change and deliver efficiencies totalling £57.8m through the Sunderland Way of Working in 2011/2012.

The operating model is now in place and encompasses all of the improvement activity across the Council. Each element that makes up this initiative is described as follows:

- **The Business Transformation Programme (BTP)** is the main programme delivering the new business operating model whilst ensuring improvement in front line services. The programme delivered £26.4m savings in 2011/2012 and in doing so, the Council has achieved the following outcomes:
  - Further re-engineering of the unified services: Strategy Policy and Performance; Strategic Asset Management; Assurance, Risk and Procurement; Legal and Democratic; Scrutiny and Area Arrangements; Transformation, Programmes and Projects; Strategic Finance; Strategic HR; Communications; and Transactional Services (HR, Finance and Administration) generating savings of £7.9m
  - 15 council buildings have closed and locality bases have been established in existing buildings to bring services closer to the customer and produce savings. Use and utilisation of space has improved and, alongside more flexible working practices, these measures have produced savings of £0.8m in 2011/2012.
  - Further restructuring of ICT has significantly reduced the size of the unit, saving £0.6m in 2011/2012.
  - The introduction of Workforce Development projects over the last three years has seen a reduction in staff numbers by 1,164. In addition, the introduction of SWITCH (Staff Working In Transition and Change) has allowed the council to reduce external recruitment and support the internal recruitment of staff to previously difficult to fill posts.
  - A range of other service improvement and review activity has generated £17.1m of savings in 2011/2012 including:
    - Services for Over 65's (£5.0m)
    - Review of 3<sup>rd</sup> Party Spend (£5.0m)
    - Housing Related Support (£2.0)
    - Facilities Management (£1.8m)
    - Customer contact and the provision of Information, Advice and Guidance (£0.8m)
    - Locality and Neighbourhood Management (£0.8m)
    - Planning Services (£0.8m)
    - Transport and Fleet Management (£0.5m)
    - Other Reviews (£0.4m)
- **The Community Leadership Programme (CLP)** aims to strengthen the position of Councillors, residents and customers at the centre of decision making in the council and the city. This year has seen:
  - The introduction of Responsive Local Services across environmental services such as litter, graffiti removal, grass-cutting, minor repairs and dog-fouling. Action has resulted in more staff reporting of issues than public reporting, response times cut from days to hours in some cases and significant increases in overall customer satisfaction as measured by Ipsos MORI.
  - Rolling programme of support and development to elected members with the outcome being overall satisfaction of members increasing to a new high of 91% regarding Officer support and

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

advice as good or excellent compared to less than 65% when the Community Leadership Programme began.

- The **Economic Regeneration Programme (ERP)** focuses on the council's contribution to the delivery of those programmes and projects identified and prioritised as being important to achieving the aims of the Sunderland Economic Master Plan. The main objective is to improve Sunderland's economic prosperity. This will be achieved by increasing the city's attractiveness to investors; creating well paid sustainable jobs; developing a skilled workforce; attracting and retaining young people; developing the city in to a national hub of the low carbon economy and; making Sunderland attractive, aspirational, entrepreneurial and inclusive. The Economic Regeneration Programme is directed by an Economic Leadership Board comprising representatives of private sector, public sector and social enterprises, the Programme oversees the development, resourcing and delivery of those projects identified to deliver the benefits and outcomes of the Economic Master Plan and is overseen, within the council, by an Economic Regeneration Programme Board. Key successes for 2011/2012 are:
  - The £15m expansion of the Bridges shopping centre with Primark as the anchor tenant
  - Agreement to build the new Wear Crossing including the securing of grant funding of £82m. The project will support construction jobs and permanent jobs along the riverside corridor
  - The new Hotel complex to be built within the historic Sunnyside area of the city centre
  - Remediation of the Vaux site, including temporary site treatment and preparation for future developments
  - Establishment of a £60m capital programme within the council's budget to bring forward other major developments during 2012/2013
  - Announcement of up to 2,500 new jobs created by the investment in car manufacturing and associated sector development with support from the Regional Growth Fund

### Economic downturn

The economic downturn has continued into 2011/2012 and the Council has again responded throughout the year by taking actions to ensure that resources have been directed to those service areas most affected reflecting the position taken at the time the 2011/2012 budget was set. The following factors that were taken into account included:

- The very low interest rates continued to have an impact on the financial return on the Council's deposits, leading to reduced levels of income available to support the Council's Revenue Budget
- The continuing reduction in the ability of the council to generate capital receipts from the sale of surplus assets continues to restrict the resources available for the Council's capital programme and this position is now expected to continue into 2012/2013 and future years. However alternative means of funding priority investment continue to be rigorously pursued with positive results in a number of areas
- The impact of the economic downturn continues to affect the level of income from fees and charges for Council services.

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

### Capital Expenditure and Income

Capital Expenditure for the year totalled £56.847m. Expenditure on fixed assets for 2011/2102 was £39.289m (Note 12, page 64), whilst expenditure on intangible assets was £1.085m (Note 15, page 69). The remainder of £16.473m represents grants, advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue and expenditure on property not owned by the Authority.

The above total capital expenditure was financed by Unsupported Borrowing of £6.486m, Capital Receipts of £0.819m, Government Grants of £24.451m, Other Grants and Contributions of £7.730m, Revenue Contributions of £1.589m and Use of Reserves of £15.772m.

### Major Acquisitions, Capital Works and Disposals during 2011/2012

The Council spent £4.967m on the purchase of land and property during 2011/2012 and this was in respect of strategic land acquisitions that will be used to regenerate the city centre and surrounding areas.

The Council is involved in a number of major projects, known as capital works. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2011/2012, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

Scheme / Project	Expenditure during 2011/2012 £'000	Total Currently Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2012
Sunderland Software Centre	6,464	9,742	In Progress
Corporate Computing Model	4,759	5,901	In Progress
St Josephs Primary	3,435	6,000	In Progress
Maplewood School	3,521	5,800	In Progress
Houghton Primary Care Centre	2,313	2,400	In Progress
Strategic Economic Development Support	2,000	2,000	Complete
Sunderland Strategic Transport Corridor	1,404	117,642	In Progress

There was no major asset disposal resulting in a capital receipt in excess of £500,000. However, three schools did become academies as disclosed in Note 6 on page 56. In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

### Authority's Current Borrowing and Capital Borrowing Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 2nd March 2011 detailed the 2011/2012 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Authority is required to set borrowing limits for the following three financial years. The limits for 2011/2012 were as follows:

- Authorised Limit for External Debt for 2011/2012 of £382.399m.
- Operational Boundary for External Debt for 2011/2012 of £312.463m.

As part of the Authority's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis. The Authorised Limit and Operational Boundary for the Council were not exceeded during 2011/2012. The highest level of borrowing incurred by the Council in respect of the above limits, during 2011/2012, was £219.424m.

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

### **Treasury Management**

In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full council each year. The Policy for 2011/2012 is included in detail within the Accounting policies, on Pages 52 and 53 for information.

Actual interest rates in 2011/2012 did not increase to the levels anticipated as global and national economic growth remained low. This, alongside sovereign debt concerns in the Euro Zone and a £50bn expansion of the Bank of England Quantitative Easing programme in the UK led to a fall in gilt yields despite higher than anticipated levels of inflation and the UK moving into a double-dip recession. The Bank Rate is now not expected to increase until the first quarter of 2014. There remains a divergence of opinion on the timing and extent of increases anticipated in the Bank Rate and economic forecasts will continue to be closely monitored.

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

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

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future years capital programmes and to help support the Council's revenue budget. New loans of £10m were taken out in 2011/2012, the interest rate payable on the new loan was 3.99% and well below the 5.50% target rate set for long-term borrowing, representing an ongoing lower cost of borrowing to the Council. The average rate of the Council's borrowing at 3.46% is in the top quartile when benchmarked against other authorities as is the 1.62% rate of return achieved on investments. The high rate of return achieved on investments in 2011/2012 has meant a further saving of almost £1.9m to the original 2011/2012 budget and helps to show how proactive Treasury Management can have significant positive effects on the Council's resources. This action was in line with the Councils' agreed Treasury Management Policy and Strategy for 2011/2012.

### **Accounting for Pensions**

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

The last full actuarial valuation of the Pension Fund was carried out as at 31<sup>st</sup> March 2010 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31<sup>st</sup> March 2012. The Council as such continues to comply fully with this Standard and the Accounting Policy on Pages 39 to 40 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

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

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

### **Changes to the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012**

The Code of Practice on Local Authority Accounting in the UK 2011/2012 introduced some changes to the Statement of Accounts for 2011/2012. The main changes and their impact on the financial statements are set out in Note 1 for information.

A handwritten signature in black ink, appearing to read 'Malcolm Page', with a long vertical stroke extending downwards from the end of the signature.

Malcolm Page CPFA MBA  
Executive Director of Commercial and Corporate Services  
28<sup>th</sup> September 2012

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

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in (Note 23d, Page 79), as assessed by the Actuary, as at 31<sup>st</sup> March 2012, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

### **Cost of Pensions**

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

### **Equal Pay claims**

Both prior to and during 2011/2012, the Council has received a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Whilst a large number of claims have been settled, a large number of other claims remain outstanding where the legal advice is that offers of settlement should not be made. These claims will be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

### **Insurance Provision**

The Council has an excellent track record in managing the many risks it faces and also continues to win national recognition for the achievements of its successful risk management arrangements. The impact of this success means that the Council continues to benefit from reduced insurance premia by successfully managing some risks itself.

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

### **South Tyne and Wear Waste Management Partnership PFI Scheme**

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

### **Euro**

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



**Certificate of the  
Executive Director of Commercial and Corporate  
Services**

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

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

*I have also:*

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



**Malcolm Page CPFA MBA**  
**Executive Director of Commercial and Corporate Services**

**28<sup>th</sup> September 2012**

## **Statement of Responsibilities for the Statement of Accounts**

### **The Authority's Responsibilities**

The Authority is required:

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

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

The Executive Director of Commercial and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 ("the Code"), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2011.

### **Authorised for Issue Date**

The unaudited accounts were issued on 29<sup>th</sup> June 2012 and the audited accounts were authorised for issue on 28<sup>th</sup> September 2012.

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

### **Opinion on the Council's financial statements**

I have audited the financial statements of Sunderland City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. 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 2011/12.

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Commercial and Corporate Services is responsible for the preparation of the 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. My 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 me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the 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 Executive Director of Commercial and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2012 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 2011/12.

### **Opinion on other matters**

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

### **Matters on which I report by exception**

I report to you if:

- in my 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;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

**Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

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

Signed .....

Date: 28 September 2012

Steve Nicklin  
District Auditor

Nickalls House  
The Metrocentre  
Gateshead  
Tyne and Wear  
NE11 9NH

# Annual Governance Statement

## SCOPE OF RESPONSIBILITY

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

The Council has approved and adopted a local Code of Corporate Governance in line with good practice. The Code is on the Council's website '<http://www.sunderland.gov.uk/index.aspx?articleid=1470>' or can be obtained from the Executive Director of Commercial and Corporate Services. This Statement explains how the Council has complied with its Code in 2011/12.

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies 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 2012 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

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

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

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

Underpinning the Sunderland Strategy are a number of groups, including:

- Non Executive Board
- Sunderland Innovation and Improvement Group
- Education Leadership Board.
- Economic Leadership Board
- Health and Wellbeing Board

In 2011 it was considered appropriate that the Sunderland Strategy be refreshed in the light of the new and emerging policy and performance management context being developed by the coalition Government.

The Corporate Improvement Plan (CIP) for 2009/10 to 2011/12 is the Council's overarching Service Plan containing the plans of all of the Council's Portfolios. A range of service specific plans were in place during the year.

**Arrangements are in place to review the authority's 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

## Annual Governance Statement (continued)

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

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

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

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

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

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

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; and
- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.

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

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

The following are in place:

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

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

The Executive Director of Commercial and Corporate Services is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 and is responsible for ensuring lawfulness

## Annual Governance Statement (continued)

and financial prudence of decision making, and for the proper administration of the Council's financial affairs.

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

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

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

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

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

- Member Risk Champion;
- Risk Management Policy and Strategy;
- Nominated Head of Service lead for Risk Management;
- Corporate Risk Profile;
- Corporate Risk and Assurance Group;
- Risk Profiles for major projects and significant partnerships.

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

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

There are clearly defined capital expenditure guidelines in place.

Appropriate project management disciplines are utilised.

The Council participates in the National Fraud Initiative.

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

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

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

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

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

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

Alignment of medium term business and financial planning processes;

## Annual Governance Statement (continued)

Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;

Ensuring that the finance function is resourced to be fit for purpose.

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

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

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

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

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

The Council maintains an internal audit service. An independent review of its effectiveness has been undertaken which concluded that the service operates in accordance with professional standards.

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

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

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



## Annual Governance Statement (continued)

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

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

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

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

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

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

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

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

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

A Register of Partnerships is maintained. The significance of partnerships is identified using an assessment scorecard recommended by CIPFA.

### REVIEW OF EFFECTIVENESS

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

The role of the Council:

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

The role of the executive:

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

## Annual Governance Statement (continued)

The role of the Audit and Governance Committee:

- The findings of the Annual Governance Review have been reported to the Audit and Governance Committee. Under their Terms of Reference the Audit and Governance Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

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

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

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

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

The Executive Director of Commercial and Corporate Services (the Chief Financial Officer) has directed, co-ordinated and overseen the review.

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

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

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

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

The Audit Commission's Annual Audit Letter for 2010/11 provides an unqualified opinion on the financial statements and an unqualified VFM conclusion. The report confirms that the Council:

- Has proper arrangements in place to ensure its financial resilience.
- Has a history of good financial management, robust systems of corporate governance and internal control, and a strong record in the delivery of budgets.
- Had prepared for the economic challenges facing public services through the Sunderland Way of Working.
- Is committed to improvements in service delivery and outcomes, and has also identified significant savings.

Findings of external inspectorates are used to support continuous service improvement.


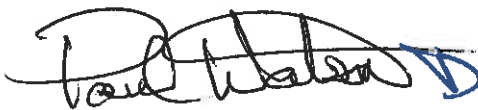
The Council was awarded a 'Good' rating (for both quality of service and capacity for improvement) in the 2011/12 Ofsted Inspection of Safeguarding and Looked After Children services. A multi agency action plan has been developed to address the formal and informal areas for improvement.

## Annual Governance Statement (continued)

In summary, the Council has robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance are embedded Council-wide. The review has not identified any significant weaknesses, although an improvement plan has been developed with the aim of continuously improving the arrangements we have in place.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed.

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



Paul Watson  
Leader of the Council

Dave Smith  
Chief Executive



Malcolm Page CPFA MBA  
Executive Director of Commercial and  
Corporate Services

Dated 28<sup>th</sup> September 2012



## **Financial Statements**

### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the authority's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net Increase / Decrease before Transfers to / from earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the authority. The tables below show the details for both 2010/2011 and 2011/2012 as required by the Code of Accounting Practice.

## Financial Statements (Continued)

### Movement in Reserves Statement for 2011/2012 (including 2010/2011 comparative information)

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grant Receipts in Advance £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2010 carried forward</b>		(22,241)	(131,838)	(5,352)	(1,642)	(161,073)	(388,022)	(549,095)
<b>Movement in reserves during 2010/2011</b>								
(Surplus) on provision of services		(116,624)	0	0	0	(116,624)	0	(116,624)
Other Comprehensive Income and Expenditure		0	0	0	0	0	(31,450)	(31,450)
<b>Total Comprehensive Income and Expenditure</b>		<b>(116,624)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(116,624)</b>	<b>(31,450)</b>	<b>(148,074)</b>
Adjustments between accounting basis & funding basis under regulations		109,724	0	(259)	65	109,530	(109,530)	0
<b>Net Increase / Decrease before transfers to Earmarked Reserves</b>		<b>(6,900)</b>	<b>0</b>	<b>(259)</b>	<b>65</b>	<b>(7,094)</b>	<b>(140,980)</b>	<b>(148,074)</b>
Transfers to / from Earmarked Reserves		8,632	(8,632)	0	0	0	0	0
<b>Increase / Decrease in 2010/2011</b>		<b>1,732</b>	<b>(8,632)</b>	<b>(259)</b>	<b>65</b>	<b>(7,094)</b>	<b>(140,980)</b>	<b>(148,074)</b>
<b>Balance at 31 March 2011</b>		<b>(20,509)</b>	<b>(140,470)</b>	<b>(5,611)</b>	<b>(1,577)</b>	<b>(168,167)</b>	<b>(529,002)</b>	<b>(697,169)</b>
<b>Movement in reserves during 2011/2012</b>								
Deficit on provision of services		64,003	0	0	0	64,003	0	64,003
Other Comprehensive Income and Expenditure		0	0	0	0	0	135,094	135,094
<b>Total Comprehensive Income and Expenditure</b>		<b>64,003</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64,003</b>	<b>135,094</b>	<b>199,097</b>
Adjustments between accounting basis & funding basis under regulations	7	(71,473)	0	119	(4,277)	(75,631)	75,631	0
<b>Net Increase / Decrease before transfers to Earmarked Reserves</b>		<b>(7,470)</b>	<b>0</b>	<b>119</b>	<b>(4,277)</b>	<b>(11,628)</b>	<b>210,725</b>	<b>199,097</b>
Transfers to / from Earmarked Reserves	8	9,769	(9,769)			0		0
<b>Increase / Decrease in 2011/2012</b>		<b>2,299</b>	<b>(9,769)</b>	<b>119</b>	<b>(4,277)</b>	<b>(11,628)</b>	<b>210,725</b>	<b>199,097</b>
<b>Balance at 31 March 2012</b>		<b>(18,210)</b>	<b>(150,239)</b>	<b>(5,492)</b>	<b>(5,854)</b>	<b>(179,795)</b>	<b>(318,277)</b>	<b>(498,072)</b>

## **Financial Statements (Continued)**

### **Comprehensive Income and Expenditure Statement**

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





## Financial Statements (Continued)

### Balance Sheet as at 31<sup>st</sup> March 2012 (including restated information for 2009/2010 and 2010/2011 financial years)

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

31 Mar 10 (Restated) £'000	31 Mar 11 (Restated) £'000		Notes	31 Mar 12 £'000
1,109,962	1,115,432	Property, Plant and Equipment	12	1,073,995
11,347	11,357	Heritage Assets	13	11,357
82,067	83,327	Investment Property	14	63,551
1,391	1,509	Intangible Assets	15	2,368
817	817	Long Term Investments	16	817
28,064	27,742	Long Term Debtors	16	27,968
1,233,648	1,240,184	<b>Long Term Assets</b>		<b>1,180,056</b>
121,392	161,550	Short Term Investments	16	166,832
1,548	1,693	Inventories	17	1,376
42,926	42,354	Short Term Debtors	18	28,988
53,015	29,479	Cash and Cash Equivalents (In-hand & bank)	19	44,777
218,881	235,076	<b>Current Assets</b>		<b>241,973</b>
(8,133)	(8,235)	Cash and Cash Equivalents (overdrawn)	19	(12,080)
(32,464)	(32,985)	Short Term Borrowing	16	(36,707)
(57,725)	(45,094)	Short Term Creditors	20	(41,229)
(168)	(4,022)	Provisions	21	(2,046)
(31,929)	(23,939)	Grant Receipts in Advance - Capital	35	(8,301)
(130,419)	(114,275)	<b>Current Liabilities</b>		<b>(100,363)</b>
(6,658)	(5,652)	Provisions	21	(9,833)
(148,064)	(178,443)	Long Term Borrowing	16	(183,432)
(618,293)	(479,721)	Other Long Term Liabilities	16/23d	(630,329)
(773,015)	(663,816)	<b>Long Term Liabilities</b>		<b>(823,594)</b>
549,095	697,169	<b>Net Assets</b>		<b>498,072</b>
(161,073)	(168,167)	Usable Reserves	8 / 22	(179,795)
(388,022)	(529,002)	Unusable Reserves	23	(318,277)
(549,095)	(697,169)	<b>Total Reserves</b>		<b>(498,072)</b>

## Financial Statements (Continued)

### Cash Flow Statement

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

2010/2011 £'000		Notes	2011/2012 £'000
(116,624)	Net (surplus) or deficit on the provision of services		64,003
73,726	Adjust net surplus or deficit on the provision of services for non cash movement		(133,015)
46,748	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		12,789
3,850	Net cash flows from operating activities	24	(56,223)
33,021	Investing activities	25	32,422
(13,233)	Financing Activities	26	12,348
23,638	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(11,453)</b>
44,882	Cash and cash equivalents at the beginning of the reporting period		21,244
21,244	<b>Cash and cash equivalents at the end of the reporting period</b>	19	<b>32,697</b>

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## Notes to the Accounts (Continued)

### Note 1 – Significant Accounting Policies

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/2012 financial year and its position at the year ended 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 and the Service Reporting Code of Practice 2011/2012, both based on International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 1.2 Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

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

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet. Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

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

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

#### 1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

## **Notes to the Accounts (Continued)**

### **1.4 Exceptional Items**

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

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

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

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

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

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

### **1.6 Charges to Revenue for Non-Current Assets**

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

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

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

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

### **1.7 Employee Benefits**

#### **Benefits Payable during Employment**

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

## Accounting Policies (Continued)

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

### Termination Benefits

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

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

### Post Employment Benefits

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

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

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

### The Local Government Pension Scheme

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

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



## Notes to the Accounts (Continued)

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

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

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

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

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

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

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

(g) contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

### Discretionary Benefits

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

### 1.8 Events After the Balance Sheet Date

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

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

## Notes to the Accounts (Continued)

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

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

### 1.9 Financial Instruments

#### Financial Liabilities

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

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

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

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

#### Financial Assets

Financial assets are classified into four 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

## Notes to the Accounts (Continued)

the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

### Soft Loans (loans below market rate)

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

### Available-for-Sale Assets

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

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

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

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

## Notes to the Accounts (Continued)

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

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

### Other Investments

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

### 1.10 Government Grants & Contributions

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

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

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

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

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

### 1.11 Heritage Assets

Please see Note 49 – Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom (page 118) for details.

### 1.12 Intangible Assets

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

## Notes to the Accounts (Continued)

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

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

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

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

### 1.13 Interests in Companies & Other Entities

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

### 1.14 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.

### 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.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rental income from investment property is accounted for within the Provision of Services in the Comprehensive Income and Expenditure Statement; this is a departure from the Code of Practice on

## Notes to the Accounts (Continued)

Local Authority Accounting in the United Kingdom which prescribes that it is accounted for within the Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

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 Jointly Controlled Operations and Jointly Controlled Assets

Income, expenditure (other than direct payments from the Council to the entity), assets and liabilities of jointly controlled operations and assets are not recognised in the council's financial statements because these transactions are not deemed materially significant. This is a departure from the Code of Practice on Local Authority Accounting in the United Kingdom which prescribes that the Comprehensive Income and Expenditure Statement is credited and debited with its share of income and expenditure from the jointly controlled operation and that its share of assets and liabilities is presented on the council's balance sheet.

### 1.17 Leases

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

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

#### (a) The Council as Lessee

##### Finance Leases

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

Lease payments are apportioned between:

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

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

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

## Notes to the Accounts (Continued)

### 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

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

### 1.18 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 2011/2012 (SeRCOP). The Civic Centre and Area Offices costs are allocated on the basis of floor area occupied. Financial Resources, Personnel, Legal Services and Property Services operate Service Level Agreements for allocating the costs of services to their customers. All other central

## Notes to the Accounts (Continued)

service departments allocate their costs based on either estimated time or actual time spent, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority'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.

### 1.19 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.

### 1.20 Delegated Budgets

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

### 1.21 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 'fixed assets under construction' and are shown in the balance sheet under the relevant asset category. For material capital schemes that have been



## Notes to the Accounts (Continued)

completed an assessment is undertaken by the Head of Land and Property to determine any change the capital scheme has made to an asset's value.

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

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

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

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

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

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

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

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

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

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

### De-Minimis Levels

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

## Notes to the Accounts (Continued)

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

All capital expenditure is included in the Asset Register.

### Impairment

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

Where impairment losses are identified, they are accounted for:

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

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

### Depreciation

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

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value at 1<sup>st</sup> April 2011 divided by the future life expectancy. Depreciation is therefore charged in the year following acquisition.

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

Asset Category	Years
Buildings	2 - 60
Infrastructure	20 - 40
Vehicles, plant and furniture	5 - 15

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

- Building structure;
- Mechanical and electrical

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

## **Notes to the Accounts (Continued)**

### **Disposals & Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is carried at its value prior to reclassification. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **1.22 Private Finance Initiative (PFI) and Similar Contracts**

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

#### **Recognising assets and liabilities**

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

## Notes to the Accounts (Continued)

### Prepayments

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

### Depreciation, impairment and revaluation

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

### Minimum Revenue Provision (MRP) (England and Wales)

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

### Capital financing requirement

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

#### 1.23 Provisions

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

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

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

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

#### 1.24 Contingent Liabilities

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

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

## **Notes to the Accounts (Continued)**

### **1.25 Contingent Assets**

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

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

### **1.26 Reserves**

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

### **1.27 Revenue Expenditure Funded from Capital under Statute**

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

### **1.28 VAT**

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

### **1.29 Foreign Currency Translation**

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

### **1.30 Treasury Management**

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

During 2011 CIPFA published a revised Treasury Management Code of Practice to reflect developments resulting from the Localism Bill 2011 and in particular changes to the way that local authority housing will operate. There were no major changes required to Treasury Management practices and arrangements that the Council already has in place which fully embrace all of the requirements of the Code.

## Notes to the Accounts (Continued)

Under the TMPS for 2011/2012 the policies and objectives of treasury management were further updated to reflect formal adoption of the revised Treasury Management Code of Practice on 3rd March 2010 (the words in the brackets show the minor changes to the original statement) and was as follows:

a) Treasury Management activities are defined as:

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

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

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

Further information relating to the Council's Treasury management policy and strategy can be found on the Council's website at:

<http://www.sunderland.gov.uk/committees/cmis5/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/6987/Committee/1347/Default.aspx>

### 1.31 Carbon Reduction Commitment (CRC) Energy Efficiency Schemes

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

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

### IFRS7 Financial Instruments: Disclosures (transfer of financial assets).

The adoption of IFRS7 Financial Instruments: Disclosures (Transfer of financial assets), by the code will result in a change to the Council's accounting policy from 1<sup>st</sup> April 2012. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. It is unlikely that there will be any effect on the Council's financial statements as a result of this adoption.

## Notes to the Accounts (Continued)

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

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Retirement benefit obligations – the Council recognise and disclose its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 43 on page 106.
- Provisions – provisions are measured at the Executive Director of Commercial and Corporate Services best estimate of the expenditure required to settle the obligation at the Balance sheet date, and are discounted to present value where the effect is material.
- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.
- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies. The selection of these residual values and estimated lives requires the exercise of management judgement.
- Valuation Newcastle Airport – the value of the Council's investment in Newcastle Airport is based on the last independent valuation at 31<sup>st</sup> March 2010 which is still considered appropriate.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

## Notes to the Accounts (Continued)

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £1.751m for every year that useful lives had to be reduced.*
Provisions	The Authority has provisions of £11.879m, £3.988m of this relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.399m to the provision needed.*
Arrears	At 31 March 2012, the Authority had a balance of debtors of £28.988m. A review of significant balances suggested that an impairment of doubtful debts of 17.95% (£5.202m) 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 £5.202m to set aside as an allowance.*
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £116.23m. However, the assumptions interact in complex ways. During 2011/2012, the Authority's actuaries advised that the net pensions liability had increased by £7.49m as a result of estimates being corrected as a result of experience and decreased by £96.23m attributable to updating of the assumptions used.

\* 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.



## Notes to the Accounts (Continued)

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

The loss on disposal of fixed assets of £51.186m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged on the face of the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer.

As part of this loss, assets have been transferred to the following schools during 2011/2012;

School	Loss on Disposal £m	Date of Transfer
Academy 360	£26.914m	16 <sup>th</sup> May 2011
Castle View Academy	£19.218m	27 <sup>th</sup> April 2011
Redby Primary School	£4.878m	1 <sup>st</sup> September 2011
Other Net (Gains) and Losses	£0.176m	
<b>Total</b>	<b>£51.186m</b>	

### Note 6 – Events after the balance sheet date

The following schools that were part of the Council's asset base at 31<sup>st</sup> March 2012 have since transferred to Academy status and the value of the assets that will be written out of the accounts are as follows.

- Eppleton Primary School - £3.624m
- Southmoor Community School - £18.248m

Church aided schools that have become academies have no impact on the value of the Council's asset base, as these are not included in accordance with the Code.

### Non Adjusting Events after the Balance sheet date

There are a number of events that have taken place since the accounts were certified on 29<sup>th</sup> June which are judged to be non adjusting post balance sheet events, which need to be included in the financial statements these include:

- The following schools have since also transferred to Academy status: East Herrington (1<sup>st</sup> July), Holley Park Primary, Barbara Priestman and Portland (all 1<sup>st</sup> August);
- The Council has reported to members that it may invest funds of up to £20m in Newcastle International Airport to enable it to participate in the debt re-financing of the Company. The funding proposal can be accommodated through prudential borrowing and / or the temporary use of internal funds. It is envisaged that interest and dividends receivable from the Airport over the course of the re-financing period will at least cover the costs of this investment on a worst case scenario basis and that as such the transaction is expected to be at least revenue neutral;
- The Council has introduced a severance scheme to help address a £5m budget shortfall in 2012/13 and it is envisaged that a number of employees will leave the Council by 30<sup>th</sup> September 2012.

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

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

## Notes to the Accounts (Continued)

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

	2011/2012				2010/2011			
	Usable		Movement in Unusable Reserves £'000	Usable		Movement in Unusable Reserves £'000		
	General Fund Balance £'000	Capital Receipts Reserve £'000		Capital Grant Unapplied £'000	Capital Receipts Reserve £'000		Capital Grant Unapplied £'000	
<b>Adjustments involving the Capital Adjustment Account:</b>								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Charges for depreciation and impairment of non current assets	(38,189)	0	38,189	(37,408)	0	37,408	0	37,408
Revaluation losses on Property Plant and Equipment	(10,137)	0	10,137	(23,848)	0	23,848	0	23,848
Movements in market value of investment property	(19,776)	0	19,776	634	0	(634)	0	(634)
Amortisation of intangible assets	(226)	0	226	(195)	0	195	0	195
Capital grants and contributions	12,551	0	(12,551)	45,606	0	(45,606)	0	(45,606)
Revenue expenditure funded from capital under statute	(7,915)	0	7,915	(7,472)	0	7,472	0	7,472
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	(51,423)	0	51,423	(22,627)	0	22,627	0	22,627
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
Statutory provision for the financing of capital investment	11,577	0	(11,577)	11,349	0	(11,349)	0	(11,349)
Capital expenditure charged against General Fund balances	17,361	0	(17,361)	12,635	0	(12,635)	0	(12,635)
<b>Adjustments involving the Capital Unapplied Account:</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Account	15,315	0	0	554	0	(554)	0	0
Application of grants and capital financing transferred to the Capital Adjustment Account	0	0	(11,038)	0	0	619	0	(619)

## Notes to the Accounts (Continued)

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

	2011/2012				2010/2011			
	Usable				Usable			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments involving the Capital Receipts Reserve:</b> Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	237	(723)	0	486	694	(1,174)	0	480
Use of capital reserves to finance new capital expenditure	0	819	0	(819)	0	896	0	(896)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(23)	23	0	0	(19)	19	0	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b> Amount of which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(121)	0	0	121	(116)	0	0	116
<b>Adjustments involving the Pensions Reserve:</b> Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (See Note 41)	(35,630)	0	0	35,630	93,230	0	0	(93,230)
Employer's pensions contributions and direct payments to pensioners payable in the year	37,400	0	0	(37,400)	36,740	0	0	(36,740)

## Notes to the Accounts (Continued)

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

	2011/2012				2010/2011			
	Usable				Usable			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grant Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account:</b> 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 accordance with statutory provision	(3,081)	0	0	3,081	0	0	0	0
<b>Adjustments involving the Collection Fund Adjustment Account:</b> Amounts by which council tax income credited to the Comprehensive Income and Expenditure Statement is different to Council Tax income calculated for the year in accordance with statutory requirements	381	0	0	(381)	665	0	0	(665)
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account:</b> Amount of which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	226	0	0	(226)	(698)	0	0	698
<b>Total Adjustments</b>	<b>(71,473)</b>	<b>119</b>	<b>(4,277)</b>	<b>75,631</b>	<b>109,724</b>	<b>(259)</b>	<b>65</b>	<b>(109,530)</b>

## Notes to the Accounts (Continued)

### Note 8 – Movements in usable reserves

	Balance at 31 March 2010 £'000	Transfers Out 2010/2011 £'000	Transfers In 2010/2011 £'000	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000
<b>General Fund Balance</b>	14,749	(2,330)	0	12,419	(16,433)	11,584	7,570
<b>Delegated Budget Reserves:</b>							
Balances held by schools under a scheme of delegation	7,493	0	597	8,090	(7,603)	10,058	10,545
Delegated budgets reserve - general	9,918	(2,635)	2,688	9,971	(10,901)	6,340	5,410
<b>Total Delegated Reserves</b>	17,411	(2,635)	3,285	18,061	(18,504)	16,398	15,955
<b>Capital Reserves:</b>							
Utilised RCCO Reserve	8,916	(5,124)	2,701	6,493	(4,680)	1,362	3,175
Strategic Investment Plan Reserve	11,543	(1,706)	0	9,837	(1,788)	0	8,049
Other General Capital Reserves	4,489	(762)	0	3,727	(352)	0	3,375
Childrens Social Care Capital Reserve	195	(3)	0	192	0	0	192
Useable Capital Receipts	5,352	(915)	1,174	5,611	(842)	723	5,492
Capital Grants Unapplied	1,642	(65)	0	1,577	(11,039)	15,316	5,854
<b>Total Capital Reserves</b>	32,137	(8,575)	3,875	27,437	(18,701)	17,401	26,137
<b>Earmarked Revenue Reserves:</b>							
Insurance Reserve	5,200	(1,288)	36	3,948	(832)	569	3,685
Strategic Investment Reserve	51,187	(2,394)	12,521	61,314	(10,854)	18,119	68,579
Economic Development Reserve	1,000	(700)	0	300	0	0	300
Winter Maintenance and Economic Downturn Reserve	1,200	(1,134)	1,000	1,066	0	0	1,066
Sandhill Centre PFI Smoothing Reserve	2,643		66	2,709	(23)	0	2,686

## Notes to the Accounts (Continued)

	Balance at 31 March 2010 £'000	Transfers Out 2010/2011 £'000	Transfers In 2010/2011 £'000	Balance at 31 March 2011 £'000	Transfers Out 2011/2012 £'000	Transfers In 2011/2012 £'000	Balance at 31 March 2012 £'000
School Community Reserve	2,245	(2,245)	2,033	2,033	(1,980)	1,545	1,598
Connexions Hub Agreement	706	(717)	1,192	1,181	(637)	134	678
Education Redundancies Reserves	952	0	649	1,601	(1,378)	875	1,098
Street Lighting and Highways Signs PFI Smoothing Reserve	7,448	(383)		7,065	(381)		6,684
Adult Services Modernisation and Service Pressures Reserve	800	(64)	1,047	1,783	0		1,783
Play Areas Reserve	1,104	(83)		1,021	(168)	128	981
House Sale Income	1,250		178	1,428	(527)	255	1,156
WNF-Software City	2,600	0	0	2,600	(783)	0	1,817
WNF Visible Workshop and other projects	3,600	0	0	3,600	(50)	0	3,550
Modernisation Improvements	0	0	2,677	2,677	(196)	0	2,481
Utilities Reserve	0	0	1,043	1,043	0	0	1,043
Invest to save Commercial Opportunities	0	0	1,500	1,500	0	0	1,500
Transition Enablement	0	0	0	0	0	3,967	3,967
Riverside Transfer	0	0	0	0	0	11,980	11,980
Other Earmarked Reserves	14,841	(5,868)	4,408	13,381	(5,471)	5,496	13,406
<b>Total Revenue Reserves</b>	<b>96,776</b>	<b>(14,876)</b>	<b>28,350</b>	<b>110,250</b>	<b>(23,280)</b>	<b>43,068</b>	<b>130,038</b>
<b>Total Reserves</b>	<b>161,073</b>	<b>(28,416)</b>	<b>35,510</b>	<b>168,167</b>	<b>(76,918)</b>	<b>88,546</b>	<b>179,795</b>

## Notes to the Accounts (Continued)

### Purpose of Earmarked Reserves

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

## Notes to the Accounts (Continued)

### Note 9 – Other operating expenditure

2010/2011 £'000		2011/2012 £'000
53	Parish Council Precept	53
18,622	Levies	19,047
(298)	Surplus on Trading Undertakings	(339)
186	Deficit on Trading Undertakings	752
19	Payments to the Government Housing Capital Receipts Pool	23
21,299	Gain / losses on the disposal of non current assets	51,186
39,881	<b>Total</b>	<b>70,722</b>

### Note 10 – Financing and investment income and expenditure

2010/2011 £'000		2011/2012 £'000
10,272	Interest payable and similar charges	9,718
12,250	Pensions interest cost and expected return on pension fund assets	6,310
(3,546)	Interest receivable and similar income	(3,641)
0	Changes in the fair value of investment property	19,776
18,976	<b>Total</b>	<b>32,163</b>

### Note 11 – Taxation and non specific grant income

2010/2011 £'000		2011/2012 £'000
95,954	Council Tax Income	96,009
137,496	Non domestic rates	120,771
55,904	Non-ringfenced government grants	40,481
45,606	Capital grants and contributions	12,551
334,960	<b>Total</b>	<b>269,812</b>



## Notes to the Accounts (Continued)

### Note 12 – Property, Plant and Equipment Movement on Balances 2011/2012

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets Included in Property Plant and Equipment £'000
<b>Cost or Valuation</b>						
At 1 April 2011	885,965	76,359	286,795	24,896	1,274,015	54,973
Additions	9,174	7,326	6,297	16,660	39,457	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	12,643	0	0	0	12,643	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(8,400)	(25)	(2,587)	0	(11,012)	0
Derecognition	(54,163)				(54,163)	0
Other movements in Cost or Valuation	6,610	356	5,636	(12,602)	0	0
<b>At 31 March 2012</b>	<b>851,829</b>	<b>84,016</b>	<b>296,141</b>	<b>28,954</b>	<b>1,260,940</b>	<b>54,973</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2011	53,849	35,362	69,372	0	158,583	9,419
Depreciation Charge	23,235	7,338	7,616	0	38,189	1,692
Depreciation written out to Revaluation Reserve	(6,212)	0	0	0	(6,212)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(875)	0	0	0	(875)	0
Derecognition	(2,740)	0	0	0	(2,740)	0
<b>At 31 March 2012</b>	<b>67,257</b>	<b>42,700</b>	<b>76,988</b>	<b>0</b>	<b>186,945</b>	<b>11,111</b>
<b>Net Book Value</b>						
At 31 March 2011	832,116	40,997	217,423	24,896	1,115,432	45,554
At 31 March 2012	784,572	41,316	219,153	28,954	1,073,995	43,862

**Note 12 – Property, Plant and Equipment (continued)**  
**Movement on Balances 2010/2011**

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets Included in Property Plant and Equipment £'000
<b>Cost or Valuation</b>						
At 1 April 2010	864,292	68,771	279,773	29,590	1,242,426	54,973
Additions	38,536	6,996	4,352	15,633	65,517	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	17,316	0	0	0	17,316	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(27,508)	0	0	0	(27,508)	0
Derecognition - Disposals	(23,701)	0	0	0	(23,701)	0
Other movements in Cost or Valuation	17,030	592	2,670	(20,327)	(35)	0
<b>At 31 March 2011</b>	<b>885,965</b>	<b>76,359</b>	<b>286,795</b>	<b>24,896</b>	<b>1,274,015</b>	<b>54,973</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2010	41,837	28,637	61,990	0	132,464	7,787
Depreciation Charge	23,302	6,725	7,382	0	37,409	1,632
Depreciation written out to Revaluation Reserve	(6,555)	0	0	0	(6,555)	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	(3,661)	0	0	0	(3,661)	0
Derecognition - Disposals	(1,074)	0	0	0	(1,074)	0
<b>At 31 March 2011</b>	<b>53,849</b>	<b>35,362</b>	<b>69,372</b>	<b>0</b>	<b>158,583</b>	<b>9,419</b>
<b>Net Book Value</b>						
At 31 March 2010	822,455	40,134	217,783	29,590	1,109,962	47,186
At 31 March 2011	832,116	40,997	217,423	24,896	1,115,432	45,554

## Notes to the Accounts (Continued)

### Note 12 – Property, Plant and Equipment (continued)

#### Depreciation

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

- Land and Buildings – 2 – 60 years
- Vehicles, Plant and Equipment – 5 – 15 years
- Infrastructure - 20 – 40 years

#### Capital Commitments

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/2013 and future years budgeted to cost £10.613m (As at 31 March 2011 £26.568m). The major commitments are:

- Maplewood School - £1.959m
- Sunderland Strategic Transport Corridor - £1.200m
- Corporate Computing Model - £1.142m
- Area Renewal - £0.942m
- St Joseph's RC Primary School - £0.897m
- Former Vaux site - £0.861m

#### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on 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 method has been used where the asset is used by the Council to deliver services but the property is considered to be of a specialist nature in that there is little or no market evidence to support value
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value
- Assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulations
- The assets are free from contamination and deleterious or hazardous substances
- Current use fully complies with current planning legislation and consents and the existing use will continue for the near future and will remain viable
- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses
- Properties assessed by the DRC method of valuation are subject to the prospect and viability of the continuance of the occupation and use.

## Notes to the Accounts (Continued)

### Note 12 – Property, Plant and Equipment (continued)

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Total £'000
Carried at historic cost		84,016	296,141	28,954	409,111
Valued at fair value as at:					
31 March 2012	109,865				109,865
31 March 2011	235,966				235,966
31 March 2010	136,857				136,857
31 March 2009	363,000				363,000
31 March 2008	6,141				6,141
<b>Total Cost or Valuation</b>	<b>851,829</b>	<b>84,016</b>	<b>296,141</b>	<b>28,954</b>	<b>1,260,940</b>

## Notes to the Accounts (Continued)

### Note 13 – Heritage Assets

#### Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	<b>Collections Held by Tyne &amp; Wear Museums £'000</b>	<b>Statues, Monuments and Public Art £'000</b>	<b>Other Historic Assets £'000</b>	<b>Total Assets £'000</b>
<b>Cost or Valuation</b>				
1st April 2010	9,130	556	1661	11,347
Additions	10	0	0	10
Disposals	0	0	0	0
Revaluations	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
<b>31st March 2011</b>	<b>9,140</b>	<b>556</b>	<b>1,661</b>	<b>11,357</b>
<b>Cost or Valuation</b>				
1st April 2011	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	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
<b>31st March 2012</b>	<b>9,140</b>	<b>556</b>	<b>1,661</b>	<b>11,357</b>

Further details of the Council's Heritage Asset holdings can be found in Notes 48 and 49 pages 116 – 118.

## Notes to the Accounts (Continued)

### Note 14 – Investment properties

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

2010/2011 Restated £'000		2011/2012 £'000
1,594	Rental income and investment property	2,143
(3,246)	Direct operating expenses arising from investment property	(912)
(1,652)	<b>Net gain / (loss)</b>	<b>1,231</b>

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

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

2010/2011 £'000		2011/2012 £'000
82,067	Balance at the start of the year	83,327
634	Net gain / (losses) from fair value adjustments	(19,776)
	Transfers:	
626	To / (From) Property, Plant and Equipment	0
83,327	Balance at the end of the year	63,551

Losses in 2011/2012 from fair value adjustments reflect the depressed market for land and building assets.

### Note 15 – Intangible Assets

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

All software is given a finite useful life, based on assumptions of the period that the software is expected to be of use to the Authority. The useful life for software is deemed to be between 5 and 10 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.226m charged to revenue in 2011/2012 was charged to the Administration cost centres and absorbed where appropriate as an overhead across service headings in the Net Expenditure of services

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

## Notes to the Accounts (Continued)

### Note 15 – Intangible Assets (continued)

	2010/2011 Software Licences £'000	2011/2012 Software Licences £'000
Balance at start of year:		
Gross carrying amounts	1,906	2,219
Accumulated Amortisation	(515)	(710)
Net carrying amount at the start of the year	1,391	1,509
Additions		
Purchases	313	1,085
Amortisation for the period	(195)	(226)
Net carrying amount at the year end	1,509	2,368
Comprising		
Gross carrying amounts	2,219	3,304
Accumulated amortisation	(710)	(936)
	1,509	2,368

Software Licences have been purchased in the year for use on a number of the Council's IT systems. In particular in 2011/2012 licences valued at £0.882m have been purchased in support of the Council's new Corporate Computing Model. There are no items of capitalised software that are individually material to the financial statements.

## Notes to the Accounts (Continued)

### Note 16 – Financial Instruments Categories of Financial Instruments

	Long Term			Current		
	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 (Restated) £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 (Restated) £'000
<b>Investments</b>						
Loans and receivables	0	0	0	166,832	161,550	121,392
Available-for-sale financial assets	817	817	817	0	0	0
Unquoted equity investment at cost	0	0	0	0	0	0
Financial assets at fair value through P&L	0	0	0	0	0	0
<b>Total Investments</b>	<b>817</b>	<b>817</b>	<b>817</b>	<b>166,832</b>	<b>161,550</b>	<b>121,392</b>
<b>Debtors</b>						
Loans and receivables	27,968	27,742	28,064	44,777	29,479	53,015
Financial assets carried at contract amount	0	0	0	28,988	42,354	42,926
<b>Total Debtors</b>	<b>27,968</b>	<b>27,742</b>	<b>28,064</b>	<b>73,765</b>	<b>71,833</b>	<b>95,941</b>
<b>Borrowings</b>						
Financial liabilities at amortised costs	(183,432)	(178,443)	(148,064)	(48,787)	(41,220)	(40,597)
Financial liabilities at fair value through P&L	0	0	0	0	0	0
<b>Total Borrowings</b>	<b>(183,432)</b>	<b>(178,443)</b>	<b>(148,064)</b>	<b>(48,787)</b>	<b>(41,220)</b>	<b>(40,597)</b>
<b>Other Long Term Liabilities</b>						
PFI and finance lease liabilities	(41,569)	(43,141)	(44,173)	0	0	0
Pensions	(588,760)	(436,580)	(574,120)	0	0	0
<b>Total other long term liabilities</b>	<b>(630,329)</b>	<b>(479,721)</b>	<b>(618,293)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>						
Financial liabilities at amortised cost	0	0	0	0	0	0
Financial liabilities carried at contract amount	0	0	0	(49,530)	(69,033)	(89,654)
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(49,530)</b>	<b>(69,033)</b>	<b>(89,654)</b>



**Notes to the Accounts (Continued)**  
**Note 16 – Financial Instruments (continued)**  
**Income, Expense, Gains and Losses**

	2010/2011				2011/2012				
	Financial Liabilities		Financial Assets		Financial Liabilities		Financial Assets		Total
	Liabilities at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Total £'000	Liabilities at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Total £'000	
Interest Expense	(6,169)	0	0	(6,169)	(6,590)	0	0	(6,590)	
<b>Total expenses in Surplus or Deficit on the Provision of Services</b>	(6,169)	0	0	(6,169)	(6,590)	0	0	(6,590)	
Interest Income	0	3,546	0	3,546	0	3,549	0	3,549	
<b>Total expenses in Surplus or Deficit on the Provision of Services</b>	0	3,546	0	3,546	0	3,549	0	3,549	
<b>Net Gain / (loss) for the year</b>	(6,169)	3,546	0	(2,623)	(6,590)	3,549	0	(3,041)	

## Notes to the Accounts (Continued)

### Note 16 – Financial Instruments (continued)

#### Fair Value of Assets and Liabilities carried at Amortised Cost

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

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 128/12.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms for a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value.

The fair values calculated are as follows:

Liabilities	31 March 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB	137,950	138,175	142,917	166,371
LOBO's	40,221	46,126	40,215	41,437
Stock	105	75	102	88
Other	167	231	198	264
Bank Overdraft	8,235	8,235	12,080	12,080
Short Term Borrowing	32,985	32,985	36,707	36,707
<b>Financial Liabilities</b>	<b>219,663</b>	<b>225,827</b>	<b>232,219</b>	<b>256,947</b>

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

Assets	31 March 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Deposits with Banks & Building Societies	188,991	189,357	208,119	209,206
<b>Financial Assets</b>	<b>188,991</b>	<b>189,357</b>	<b>208,119</b>	<b>209,206</b>

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

At 31<sup>st</sup> March 2012 the Council holds £25.270m of funds in relation to the North Eastern Local Enterprise Partnership. These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

## Notes to the Accounts (Continued)

### Note 17 – Inventories

2011/2012

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work £'000	Total £'000
Balance Outstanding at start of year	1,210	139	344	1,693
Purchases	6,106	164	104	6,374
Recognised as an expense in the year	(6,147)	(171)	(344)	(6,662)
Written off balances	(29)	0	0	(29)
Balance outstanding at the year-end	1,140	132	104	1,376

2010/2011

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

## Notes to the Accounts (Continued)

### Note 18 – Short Term Debtors

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
18,499	21,197	Central government bodies	8,281
387	567	Other local authorities	780
2,337	2,165	NHS bodies	150
16	0	Public corporations and trading funds	0
21,687	18,425	Other entities and individuals	19,777
42,926	42,354	<b>Total</b>	<b>28,988</b>

### Note 19 – Cash and cash equivalents

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

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
(5,973)	(6,196)	Cash held by the Authority	(8,589)
45,849	27,440	Bank current accounts and Money Market Funds	36,278
5,006	0	Short-term deposits with banks and building societies	5,008
44,882	21,244	<b>Total Cash and Cash Equivalents</b>	<b>32,697</b>

### Note 20 – Short-Term Creditors

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
(10,231)	(8,152)	Central government bodies	(9,469)
(4,776)	(4,291)	Other local authorities	(3,904)
(1,935)	(1,047)	NHS bodies	(2,943)
(928)	0	Public corporations and trading funds	0
(39,855)	(31,604)	Other entities and individuals	(24,913)
(57,725)	(45,094)	<b>Total</b>	<b>(41,229)</b>

## Notes to the Accounts (Continued)

### Note 21 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 31 March 2010	3,273	3,553	6,826
Additional provisions made 2010/2011	3,587	5,460	9,047
Amounts used 2010/2011	(2,834)	(3,365)	(6,199)
Balance at 31 March 2011	4,026	5,648	9,674
<b>Additional provisions made 2011/2012</b>	<b>3148</b>	<b>5135</b>	<b>8283</b>
<b>Amounts used 2011/2012</b>	<b>(3,186)</b>	<b>(2,892)</b>	<b>(6,078)</b>
<b>Balance at 31 March 2012</b>	<b>3,988</b>	<b>7,891</b>	<b>11,879</b>
Long Term provisions at 31st March 2012	3,988	5,845	9,833
Short Term Provisions at 31st March 2012	0	2,046	2,046

Included within other provisions £0.529m back on the map temporary funding (2010/2011 £1.463m), £1.521m known transitional costs (2010/2011 £2.929m), £Nil procurement efficiencies to support the 2012/2013 budget (2010/2011 £1.037m), Carbon Reduction Commitments £0.526, Unequal Pay back pay provision £5.237m (2010/2011 £nil) and Guarantee Bonds of £0.078m (2010/2011 £0.219m).

### Note 22 – Usable Reserves

The total Usable Reserves held by the Council is £179.795m at 31.03.2012 (£168.167m at 31.03.2011) and are detailed in Note 8. Movements in the Council's Usable Reserves are also detailed in Note 8 – Movement in Usable Reserves (Pages 60 and 61).

### Note 23 – Unusable Reserves

2009/2010 £'000	2010/2011 £'000		Note	2011/2012 £'000
178,147	196,351	Revaluation Reserve	23a	209,535
785,377	771,277	Capital Adjustment Account	23b	702,662
(516)	(631)	Financial Instrument Adjustment Account	23c	(752)
(574,120)	(436,580)	Pensions Reserve	23d	(588,760)
2,164	1,650	Deferred Capital Receipts Reserve	23e	1,130
1,008	1,673	Collection Fund Adjustment Account	23f	2,054
(4,833)	(5,533)	Accumulated Absence Account	23g	(5,306)
795	795	Available for Sale Financial Instrument Reserve	23h	795
0	0	Unequal Backpay Account	23i	(3,081)
388,022	529,002	<b>Total Unusable Reserve</b>		<b>318,277</b>

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

#### 23a) Revaluation Reserve

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

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

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

## Notes to the Accounts (Continued)

### 23a) Revaluation Reserve (continued)

2009/2010 (restated) £'000	2010/2011 £'000		2011/2012 £'000
133,503	178,147	<b>Balance at 1 April</b>	<b>196,351</b>
70,204	34,018	Upward revaluation of assets	18,856
(17,997)	(10,138)	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Service	0
185,710	202,027	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	215,207
3,498	0	Revaluation gain transfers offsetting revaluation losses	0
3,965	4,638	Difference between fair value depreciation and historical cost depreciation	4,635
100	1,038	Accumulated gains on assets sold or scrapped	1,037
7,563	5,676	Amount written off to the Capital Adjustment Account	5,672
178,147	196,351	<b>Balance at 31 March</b>	<b>209,535</b>

### 23b) Capital Adjustment Account

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

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

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

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

## Notes to the Accounts (Continued)

### 23b) Capital Adjustment Account (continued)

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
789,827	785,377	<b>Balance at 1 April</b>	<b>771,277</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(32,410)	(37,409)	Charges for depreciation and impairment of non-current assets	<b>(38,189)</b>
(44,676)	(23,848)	Revaluation losses on Property, Plant and Equipment	<b>(10,137)</b>
(171)	(195)	Amortisation of intangible assets	<b>(226)</b>
(4,202)	(7,437)	Net revenue expenditure funded from capital under statute	<b>(7,882)</b>
(1,115)	(22,687)	Amount of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	<b>(51,423)</b>
(82,574)	(91,576)		<b>(107,857)</b>
7,563	5,678	Adjusting amounts written out of Revaluation Reserve	<b>5,672</b>
(75,011)	(85,898)	Net written out amount of the cost of non current assets consumed	<b>(102,185)</b>
		Capital financing applied in the year:	
2,486	896	Use of Capital Receipts to finance new capital expenditure	<b>819</b>
40,938	45,606	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have applied to capital financing	<b>12,551</b>
2,598	619	Application of grants to capital financing from the Capital Grants Unapplied Account	<b>11,038</b>
11,085	11,349	Statutory provision for the financing of capital investment charged against the General Fund balance	<b>11,577</b>
19,215	12,634	Capital expenditure charged against the General Fund balance	<b>17,361</b>
76,322	71,104		<b>53,346</b>
(5,761)	694	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>(19,776)</b>
785,377	771,277	<b>Balance at 31 March</b>	<b>702,662</b>

### 23c) Financial Instruments Adjustment Account

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

## Notes to the Accounts (Continued)

### 23c) Financial Instruments Adjustment Account (continued)

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
(442)	(516)	<b>Balance at 1 April</b>	(631)
171	107	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	100
(245)	(222)	Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(221)
(516)	(631)	<b>Balance at 31 March</b>	(752)

### 23d) Pensions Reserve

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

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
(428,930)	(574,120)	<b>Balance at 1 April</b>	(436,580)
(130,200)	7,570	Actuarial gains and losses on pensions assets and liabilities	(153,950)
(51,120)	93,230	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	(35,630)
36,130	36,740	Employers' pensions contributions and direct payments to pensioners payable in the year	37,400
(574,120)	(436,580)	<b>Balance at 31 March</b>	(588,760)

### 23e) Deferred Capital Receipts Reserve

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

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
2,685	2,164	<b>Balance at 1 April</b>	1,650
(33)	(34)	Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(35)
(488)	(480)	Transfer to the Capital Receipts Reserve upon receipt of cash	(485)
2,164	1,650	<b>Balance at 31 March</b>	1,130



## Notes to the Accounts (Continued)

### 23f) Collection Fund Adjustment Account

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

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
146	1,008	<b>Balance at 1 April</b>	<b>1,673</b>
		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	
862	665		<b>381</b>
<b>1,008</b>	<b>1,673</b>	<b>Balance at 31 March</b>	<b>2,054</b>

### 23g) Accumulated Absences Account

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

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
(4,537)	(4,833)	<b>Balance at 1 April</b>	<b>(5,533)</b>
4,537	4,833	preceding year	<b>5,533</b>
(4,833)	(5,533)	Amounts accrued at the end of the current year	<b>(5,306)</b>
<b>(4,833)</b>	<b>(5,533)</b>	<b>Balance a 31 March</b>	<b>(5,306)</b>

### 23h) Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instrument 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.

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000
795	795	<b>Balance at 1 April</b>	<b>795</b>
0	0	Downward revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	<b>0</b>
<b>795</b>	<b>795</b>	<b>Balance a 31 March</b>	<b>795</b>

### 23i) Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the difference between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provision to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

## Notes to the Accounts (Continued)

### 23i) Unequal Pay Back Pay Account (continued)

2009/2010 £'000	2010/2011 £'000		2011/2012 £'000	
0	0	<b>Balance at 1 April</b>		0
0	0	Increase in provision for back pay in relation to Equal Pay cases	(3,081)	
0	0	Cash settlement paid in year	0	(3,081)
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 charged in the year in accordance with statutory requirements.		0
0	0	<b>Balance a 31 March</b>		(3,081)

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

The cash flows from operating activities include the following items:

2010/2011 £'000		2011/2012 £'000
3,546	Interest received	3,641
(10,272)	Interest paid	(9,718)
0	Dividends received	0

### Note 25 – Cash Flow Statement – Investing Activities

2010/2011 £'000		2011/2012 £'000
70,510	Purchase of property, plant and equipment, investment property and intangible assets	43,770
0	Purchase of short-term and long-term investments	0
975	Other payments for investing activities	1,786
(694)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(238)
0	Proceeds for short-term and long-term investments	0
(37,770)	Other receipts from investing activities	(12,896)
33,021	<b>Net cash flows from investing activities</b>	<b>32,422</b>

### Note 26 – Cash Flow Statement – Financing Activities

2010/2011 £'000		2011/2012 £'000
(455)	Capital receipts of short and long-term borrowing	(455)
(41,180)	Other receipts and financing activities	(11,857)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	0
10,274	Repayments of short and long term borrowing	3,140
18,128	Other payments and financing activities	21,520
(13,233)	<b>Net cash flows from financing activities</b>	<b>12,348</b>

## Notes to the Accounts (Continued)

### Note 27 – Amounts Reported for Resource Allocation Decisions

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

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

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

## Notes to the Accounts (Continued)

### Note 27 – Amounts Reported for Resource Allocation Decisions (continued)

#### Portfolio Income and Expenditure 2011/2012

	Leader and Deputy Leader £'000	Cabinet Secretary £'000	Children and Learning City £'000	Prosperous City £'000	Health and Well Being £'000	Safer City and Culture £'000	Attractive and Inclusive City £'000	Sustainable Communities £'000	Responsive Local Services and Customer Care £'000	Total £'000
Fees and Charges	(1,678)	(14,755)	(10,442)	(2,248)	(21,340)	(1,918)	(20,883)	(341)	(480)	(74,085)
Government grants	(25)	(149,306)	(205,979)	(507)	(11,054)	0	(2,206)	(946)	(1,635)	(371,658)
Other Grants, reimbursements and contributions	(4,000)	(3,632)	(8,210)	(1,462)	(28,291)	(1,784)	(1,281)	(80)	(59)	(48,799)
Total Income	(5,703)	(167,693)	(224,631)	(4,217)	(60,685)	(3,702)	(24,370)	(1,367)	(2,174)	(494,542)
Employee expenses	40,653	16,856	180,711	3,907	41,325	6,759	23,012	1,296	3,362	317,881
Other service expenditure	11,478	160,034	69,041	5,024	87,662	7,485	21,776	705	3,873	367,078
Total Expenditure	52,131	176,890	249,752	8,931	128,987	14,244	44,788	2,001	7,235	684,959
Net Expenditure	46,428	9,197	25,121	4,714	68,302	10,542	20,418	634	5,061	190,417

## Notes to the Accounts (Continued)

### Note 27 – Amounts Reported for Resource Allocation Decisions (continued)

#### Portfolio Income and Expenditure 2010/2011

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

## Notes to the Accounts (Continued)

### Note 27 – 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 a subjective analysis of the Surplus or Deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2010/2011 £'000		2011/2012 £'000
93,367	Net expenditure in the portfolio analysis.	190,417
68,860	Net expenditure of services and support services not included in the analysis.	53,806
(2,748)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis.	(13,293)
159,479	<b>Cost of Service in the Comprehensive Income and Expenditure Analysis</b>	<b>230,930</b>

#### 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.

## Notes to the Accounts (Continued)

### Note 27 – Amounts Reported for Resource Allocation Decisions (continued)

#### Reconciliation to Subjective Analysis 2011/2012

	Portfolio Analysis £'000	Amounts not reported to management £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(122,883)	0	0	(122,883)	(340)	(123,223)
Interest and investment income	0	0	0	0	(3,641)	(3,641)
Income from council tax	0	0	0	0	(96,009)	(96,009)
Government grants and contributions	(371,659)	(13,328)	0	(384,987)	(173,802)	(558,789)
<b>Total Income</b>	<b>(494,542)</b>	<b>(13,328)</b>	<b>0</b>	<b>(507,870)</b>	<b>(273,792)</b>	<b>(781,662)</b>
Employee expenses	317,880	35	0	317,915	0	317,915
Other service expenses	367,079	0	0	367,079	752	367,831
Support service recharges	0	0	0	0	0	0
Depreciation, amortisation and impairment	0	0	53,806	53,806	19,776	73,582
Interest Payments	0	0	0	0	16,028	16,028
Precepts and Levies	0	0	0	0	19,100	19,100
Payments to Housing Capital receipts Pool	0	0	0	0	23	23
Gain and Loss on Disposal of Fixed Assets	0	0	0	0	51,186	51,186
<b>Total Expenditure</b>	<b>684,959</b>	<b>35</b>	<b>53,806</b>	<b>738,800</b>	<b>106,865</b>	<b>845,665</b>
<b>Surplus or deficit on the provision of services</b>	<b>190,417</b>	<b>(13,293)</b>	<b>53,806</b>	<b>230,930</b>	<b>(166,927)</b>	<b>64,003</b>

## Notes to the Accounts (Continued)

### Note 27 – Amounts Reported for Resource Allocation Decisions (continued)

#### Reconciliation to Subjective Analysis 2010/2011

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



## Notes to the Accounts (Continued)

### Note 28 – Trading Operations

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

	2010/2011			2011/2012		
	Expenditure £'000	Income £'000	Net Expenditure £'000	Expenditure £'000	Income £'000	Net Expenditure £'000
City Print Services	2,036	1,855	181	1,823	1,071	752
General Highways	3,493	3,675	(182)	2,561	2,824	(263)
Education and Civic						
Buildings Maintenance	8,572	8,688	(116)	8,424	8,461	(37)
Networking Services	174	169	5	234	273	(39)
	14,275	14,387	(112)	13,042	12,629	413

### Note 29 – Agency Services

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

	2010/2011 £m	2011/2012 £m
Residential, Nursing and Home Care Provision	52.5	58.8
Learning Providers	11.3	11.3
Fostering and Adoption Service	5.5	5.7
Payments to Voluntary Organisations	5.9	4.8
Health Trust	4.9	1.1
Supporting People Contracts	6.0	5.4
Highways Maintenance	9.9	5.2
Waste Disposal	7.7	7.5
Council Services provided to Schools Delegated Budgets	3.7	4.7
School Meals Contract provided to Schools	6.2	6.0
School Placements for Special Education in Other Authorities	0.8	0.1
Museums Service - Joint Authority	0.9	0.6
Other Payments	4.4	1.3
<b>Total Agency Payments</b>	<b>119.7</b>	<b>112.5</b>

## Notes to the Accounts (Continued)

### Note 30 – Pooled Budgets

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

#### Community Equipment Service

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

	2010/2011 £'000	2011/2012 £'000
Sunderland City Council	(1,097)	(1,038)
Sunderland Teaching Primary Care Trust	(1,401)	(1,325)
<b>Total Funding</b>	<b>(2,498)</b>	<b>(2,363)</b>
Gross Expenditure	2,601	2,742
<b>Net (Funding) / Expenditure</b>	<b>103</b>	<b>379</b>

#### Learning Disabilities

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

	2010/2011 £'000	2011/2012 £'000
Sunderland City Council	(935)	(959)
Sunderland Teaching Primary Care Trust	(1,457)	(1,519)
<b>Total Funding</b>	<b>(2,392)</b>	<b>(2,478)</b>
Gross Expenditure	2,201	2,392
<b>Net (Funding) / Expenditure</b>	<b>(191)</b>	<b>(86)</b>

#### Intermediate Care

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

	2010/2011 £'000	2011/2012 £'000
Sunderland City Council	(1,244)	(1,238)
Sunderland Teaching Primary Care Trust	(992)	(988)
<b>Total Funding</b>	<b>(2,236)</b>	<b>(2,226)</b>
Gross Expenditure	2,198	2,197
<b>Net (Funding) / Expenditure</b>	<b>(38)</b>	<b>(29)</b>

## Notes to the Accounts (Continued)

### Note 30 – Pooled Budgets (continued)

#### Mental Capacity Act / Deprivation of Liberties

The overall aim of this new Pooled Budget and of this Agreement 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.

	2010/2011 £'000	2011/2012 £'000
Sunderland City Council	0	(27)
Sunderland Teaching Primary Care Trust	0	(36)
<b>Total Funding</b>	0	<b>(63)</b>
Gross Expenditure	0	38
<b>Net (Funding) / Expenditure</b>	0	<b>(25)</b>

### Note 31 – Members' Allowances

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

	2010/2011 £'000	2011/2012 £'000
Allowances	1,041	1,055
Expenses	31	22
<b>Total</b>	<b>1,072</b>	<b>1,077</b>

## Notes to the Accounts (Continued)

### Note 32 – Officers' Remuneration

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

	2010/2011		2011/2012	
	Non-Teaching Staff	Teaching Staff	Non-Teaching Staff	Teaching Staff
£50,000 - £54,999	48	49	42	56
£55,000 - £59,999	23	20	19	25
£60,000 - £64,999	7	37	2	30
£65,000 - £69,999	7	22	7	26
£70,000 - £74,999	6	5	4	6
£75,000 - £79,999	11	5	12	5
£80,000 - £84,999	7	3	2	3
£85,000 - £89,999	5	3	8	2
£90,000 - £94,999	3	0	3	1
£95,000 - £99,999	2	2	2	0
£100,000 - £104,999	0	0	0	2
£105,000 - £109,999	1	0	1	1
£110,000 - £114,999	0	0	1	0
£115,000 - £119,999	2	1	1	0
£120,000 - £124,999	2	0	2	0
£125,000 - £129,999	1	0	1	0
£130,000 - £134,999	1	0	1	0
£135,000 - £139,999	1	0	0	1
£200,000 - £204,999	1	0	0	0
£210,000 - £214,999	0	0	1	0

## Notes to the Accounts (Continued)

### Note 32 – Officers’ Remuneration (continued)

The number of exit packages with total cost per band and total cost of these packages are set out in the table below:

The Council made no compulsory redundancies in 2010/2011 and 2011/2012.

Exit package cost band (including special payment) £'000	Number of agreed departures (Non-Teaching)		Number of agreed departures (Teaching)		Total Cost of Exit Packages in each band (Non-Teaching)		Total Cost of Exit Packages in each band (Teaching)	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
					£	£	£	£
£0 - £20	91	92	20	21	246,797	248,167	247,018	240,353
£20 - £40	2	4	22	14	49,174	102,536	534,303	338,958
£40 - £60	0	0	1	0	0	0	40,461	0
£60 - £80	0	0	1	0	0	0	68,799	0
£80 - £100	0	0	0	0	0	0	0	0
£100 - £150	0	2	0	0	0	259,967	0	0

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

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

## Notes to the Accounts (Continued)

### Note 32 – Officers' Remuneration (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
<b>2011/2012</b>								
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Dave Smith	202,562	0	0	0	7,852	210,414	30,031	240,445
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Deputy Chief Executive	124,932	0	0	0	0	124,932	18,441	143,373
Executive Director of Adult Services	115,068	0	0	0	0	115,068	16,570	131,638
Executive Director of Children's Services	112,705	0	0	0	0	112,705	16,228	128,933
Executive Director of City Services	122,940	0	0	0	0	122,940	17,703	140,643
Executive Director of Corporate and Commercial Services	124,220	0	0	0	0	124,220	17,703	141,923
Strategic Director of Transformation*	48,682	0	0	0	0	48,682	7,133	55,815
Head of Legal Services	85,941	0	0	0	0	85,941	12,347	98,288

\* Officer not in post for a full year

## Notes to the Accounts (Continued)

### Note 32 – Officers' Remuneration (continued)

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2010/2011								
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Dave Smith	193,148	0	0	0	7,905	201,053	28,494	229,547
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Deputy Chief Executive	120,024	0	0	0	0	120,024	18,043	138,067
Executive Director of Adult Services	115,268	0	0	0	0	115,268	16,684	131,952
<b>Executive Director of Children's Services</b>	<b>109,907</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>109,907</b>	<b>15,907</b>	<b>125,814</b>
Executive Director of City Services	122,940	0	0	0	0	122,940	17,826	140,766
Executive Director of Corporate and Commercial Services*	29,454	0	0	0	0	29,454	4,270	33,724
Strategic Director of Transformation	117,664	0	0	0	0	117,664	17,238	134,902
Head of Legal Services*	78,343	0	0	0	0	78,343	11,359	89,702
Director of Financial Resources*	82,226	0	0	0	0	82,226	11,922	94,148
Chief Solicitor*	48,963	0	0	0	0	48,963	7,056	56,019

\* Officer not in post for a full year

## Notes to the Accounts (Continued)

### Note 33 – External Audit Costs

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

	2010/2011 £'000	2011/2012 £'000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year.	333	299
Fees payable to the Audit Commission in respect of statutory inspection.	0	0
Fees payable to the Audit Commission with regard to additional external audit services carried out by the appointed auditor.	6	0
Fees payable to the Audit Commission for the certification of grant claims and returns for the year.	40	38
Fees payable in respect of other services by the Audit Commission during the year.	(33)	(24)
<b>Total Costs</b>	<b>346</b>	<b>313</b>

### Note 34 – 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). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance (England) Regulations 2011. The School Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/2012 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £	Individual Schools Budget (ISB) £	Total £
Final DSG for 2011/2012	12,624,557	162,719,688	175,344,245
Plus			
Brought forward from 2010/2011	435,399	(435,399)	0
Less			
Carry forward to 2012/2013 agreed in advance	0	0	0
Agreed budgeted distribution in 2011/2012	13,059,956	162,284,289	175,344,245
In Year Adjustments	(2,352,670)	2,352,670	0
Final budgeted distribution in 2011/2012	10,707,286	164,636,959	175,344,245
Less			
Actual central expenditure	10,707,286	0	10,707,286
Less			
Actual ISB deployed to schools	0	164,636,959	164,636,959
Plus			
Local authority contribution for 2011/2012	0	0	0
<b>Carry forward to 2012/2013</b>	<b>0</b>	<b>0</b>	<b>0</b>



## Notes to the Accounts (Continued)

### Note 35 – Grant Income

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

	2010/2011 £'000	2011/2012 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	19,966	37,331
National Non Domestic Rates	137,496	120,771
Area Based Grant	35,938	0
Council Tax Freeze Grant	0	2,377
Local Services Support Grant	0	773
Department for Education - Capital Grants	11,647	3,694
Department for Transport - Capital Grants	5,571	634
Department of Health - Capital Grants	0	254
Home Office - Capital Grants	0	41
Communities and Local Government - Capital Grants	117	0
Homes and Communities Agency	21,330	755
One North East / CLG (European) - Capital Grants	3,937	5,773
Heritage Lottery Fund - Capital Grants	1,326	14
Department for Environment, Food and Rural Affairs - Capital Grants	486	24
Commission for Architecture and the Built Environment - Capital Grants	293	707
Other Capital Grants and Contributions	899	654
<b>Total</b>	<b>239,006</b>	<b>173,802</b>

## Notes to the Accounts (Continued)

### Note 35 – Grant Income (continued)

	2010/2011 £'000	2011/2012 £'000
<b>Credited to Services</b>		
Department for Education - Dedicated Schools Grant	157,031	175,345
Department for Education - Standards Fund	29,268	869
Department for Education - Sure Start	12,714	0
Department for Education - Early Intervention Grant	0	16,062
Department for Education - Children and Young Peoples Grant	1,664	0
Department for Education - Pupil Premium	0	3,788
Department for Education	1,219	349
Department for Education - Capital Grants	8,453	11,197
Children's Workforce Development Council	200	496
Education Funding Agency	0	1,635
Young Peoples Learning Agency	19,236	7,539
Training and Development Agency	205	0
Learning and Skills Council	940	1,162
Skills Funding Agency	2,719	615
Department for Work and Pensions - Housing & Council Tax Benefit	142,136	149,306
Department for Work and Pensions	220	153
Department of Health - Learning Disabilities and Health Reform Grant	0	11,004
Department of Health	3,071	150
Department of Health - Capital Grants	1,125	1,194
Communities and Local Government - PFI	3,733	3,734
Communities and Local Government - European Grants	0	185
Communities and Local Government - New Homes Bonus Grant	0	577
Communities and Local Government	1,292	353
Communities and Local Government - Capital Grants	1,373	1,777
Communities and Local Government - Single Housing Investment Pot - Capital Grants	2,142	530
Department for Transport	293	0
Department for Transport - Capital Grants	0	5,181
Homes and Communities Agency - Capital Grants	155	1,947
Home Office	938	48
Youth Justice Board	1,240	1,033
New Deal for Communities	1,805	151
Teaching Primary Care Trust	28,527	25,687
Primary Care Trust - Capital Grants	550	0
One North East	1,262	0
One North East - Capital Grants	47	1,000
Sport England	795	284
Youth Opportunities Fund	205	0
Northern Arts	157	140
Other Grants	1,289	874
Other Capital Grants	286	1,081
<b>Total</b>	<b>426,290</b>	<b>425,446</b>

## Notes to the Accounts (Continued)

### Note 35 – Grant Income (continued)

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

	2009/2010 £'000	2010/2011 £'000	2011/2012 £'000
<b>Capital Grant Receipts in Advance</b>			
Department for Education	14,293	9,978	2,842
Department for Education - Sure Start	784	77	66
Department of Health	885	105	38
Communities and Local Government	1,427	958	741
Communities and Local Government - Single Housing In	1,182	757	361
Department for Transport	354	634	0
Department for Environment, Food and Rural Affairs	257	54	29
Homes and Communities Agency	9,365	6,120	4,063
One North East	1,390	3,942	161
Primary Care Trusts	1,068	516	0
Commission for Architecture and the Built Environment	500	708	0
Other Grants and Contributions	424	90	0
<b>Total</b>	<b>31,929</b>	<b>23,939</b>	<b>8,301</b>

### Note 36 – Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to 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 authority.

#### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 35. Grant receipts outstanding at 31 March 2012 are shown in Note 18.

#### Members

Members of the council have direct control over the council's financial and operating policies. The total members allowances paid in 2011/2012 are shown in Note 31. In respect of 2011/2012 financial year a number of Council Members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Authority. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £2.154m made by the Authority in 2011/2012 (£4.005m in 2010/2011), of which £0.019m (£0.023m for 2010/2011) relates to Cabinet Delegated Schemes approved grants in support of the arts, sports, promotions and tourism, £0.306m (£1.827m for 2010/2011) payments to companies and £1.828m (£2.155m for 2010/2011) to voluntary organisations.

It should be noted that all Council members pecuniary and non financial interests which could conflict with those of the Council are open to the public inspection as required by the Local Authority (Members Interests) Regulation (SI 1992/618) laid under Section 19 of the Local Government and Housing Act 1989. In addition, the award of any contracts by the Authority's Procurement Procedure

## Notes to the Accounts (Continued)

### Note 36 – Related Parties (continued)

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

#### Officers

In respect of the 2011/2012 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Authority.

#### Entities Controlled or Significantly Influenced by the Authority

##### Care and Support Sunderland Ltd

Care and Support Sunderland Ltd was established on 7<sup>th</sup> October 2011, following the administration and bankruptcy of Choices Care Ltd. Choices Care Ltd provided specialist care services to 95 residents in 16 homes in Sunderland, with two contracts collectively valued at around £6.5m per annum. This contract was novated to Care and Support Sunderland Ltd on its date of incorporation.

Care and Support Sunderland Ltd is a wholly owned subsidiary of Sunderland City Council. In the 6 months to 31<sup>st</sup> March 2012, the company's income amounted to £3.249m, expenditure of £3.354m generating a trading loss of £0.105m. The company has no assets.

##### Tyne and Wear Development Company Ltd

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

Members of the Company have a limited guarantee of £1. The financial results of the company for 2011/2012 showed a consolidated trading profit after taxation of £0.071m (2010/2011 £0.271m) and had net assets worth £14.613m (2010/2011 £14.520m). The Company's audited accounts for 2011/2012 will be made available once approved by the Board at its AGM in December 2012.

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

##### Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £6.161m worth of shares.

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

## Notes to the Accounts (Continued)

### Note 36 – Related Parties (continued)

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Sunderland Council has a shareholding of 1,845 shares representing an 18.45% interest in the company. The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (18.45% of 51%) was £12.609m. The valuation of NIAL Holdings Limited is reviewed each year to consider whether a full independent valuation of the holding is required. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.795m based upon the discounted cash flow method. There has been no significant change in external factors since this valuation that would materially affect the value of the shareholding.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2002/03, of which the Council will receive £4.6m over the 10 years.

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

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

No dividends were payable for the year ended 31<sup>st</sup> December 2011.

#### Sunderland Empire Theatre Trust

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

The Council has a facilities management arrangement with the Ambassador Theatre Group for a fixed annual amount, the amount paid by the Council totalled £0.383m in 2011/2012, (£0.366m in 2010/2011).

In 2010/2011, the turnover of the Trust was under £30,000 and as such audited accounts are not required. The Trust made a small surplus of £25 in 2011/2012 (surplus of £25 for 2010/2011) in year which will increase its reserves to meet future costs. Its reserves as at 31 March 2012 now stand at £7,094 (£7,069 as at 31 March 2011). In 2011/2012 the Council made a contribution of £12,118 (£29,501 for 2010/2011) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building to which the Trust has no liability. A copy of the Trust accounts can be obtained from the Director of Commercial and Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

#### Beamish Museum Joint Committee and related companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, this totalled £15,903 in 2011/2012 (£30,974 2010/2011).

## Notes to the Accounts (Continued)

### Note 36 – Related Parties (continued)

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

In 2010/2011 Beamish Museum Joint Committee and related companies produced group accounts. Due to a change in regulation this is not required in 2011/2012, the following is the position for the Joint Committee and the BML / BMTL group.

In 2011/2012 the Joint Committee made an operating profit of £0.028m (2010/2011 £0.009m profit) and had net assets of £22.007m (2010/2011 £20.824m). In 2011/2012 the BML and BMTL group made an operating loss of £0.162m (2010/2011 £0.438m profit) and had net liabilities of £0.944m (2009/2010 £0.384m net assets). The Council receives no income or contributions from the above reported arrangements. Copies of the Joint Committees and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

#### Other Relevant Information

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

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

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

	2010/2011 £'000	2011/2012 £'000
Tyne and Wear Fire and Rescue Service	596	596
Beamish Joint Committee	19	17
Beamish Museum Limited	32	29
Beamish Museum Trading Limited	11	10
Tyne and Wear Economic Development Company	73	73
Tyne and Wear Economic Development Joint Committee	14	14
	745	739

## Notes to the Accounts (Continued)

### Note 37 – Capital Expenditure and Capital Financing

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

	2010/2011 £	2011/2012 £
Opening Capital Financing Requirement	241,243	243,997
<i>Capital Investment</i>		
Property, Plant and Equipment	67,082	40,944
Investment Properties	0	0
Intangible Assets	313	1,085
Revenue Expenditure Funded from Capital under Statute	20,042	14,985
<i>Sources of Finance</i>		
Capital Receipts	(896)	(819)
Government grants and other contributions	(59,803)	(32,181)
Sums set aside from:		
Direct revenue contributions	(12,634)	(17,361)
MRP	(11,350)	(11,577)
Closing Capital Financing Requirement	243,997	239,073
<i>Explanation of movements in year</i>		
(Decrease) in underlying need to borrow (supported by government financial assistance)	(701)	(8,032)
Increase in underlying need to borrow (unsupported by government financial assistance)	4,779	4,980
Increase / (Decrease) in underlying need to borrow of Assets acquired under finance leases	72	(367)
Decrease in underlying need to borrow of Assets acquired under PFI contracts	(1,396)	(1,505)
Increase / (decrease) in Capital Financing Requirement	2,754	(4,924)

### Note 38 – Leases

#### Authority as Lessee

#### *Finance Leases*

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

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

	2010/2011 £'000	2011/2012 £'000
Other Land & Buildings	7,487	11,198
Vehicles, Plant, Furniture and Equipment	2,321	2,286
	9,808	13,484

## Notes to the Accounts (Continued)

### Note 38 – Leases (continued)

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

	2010/2011 £'000	2011/2012 £'000
Finance Lease Liabilities (NPV of Future lease payments):		
Current	568	383
Non - Current	8,906	7,595
Finance costs payable in future years	1,659	2,823
Minimum lease payments	11,133	10,801

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2010/2011 £'000	2011/2012 £'000	2010/2011 £'000	2011/2012 £'000
Not later than one year	1,245	1,402	536	537
Later than one year and not later than five years	3,302	2,811	2,780	1,985
Later than five years	6,586	6,588	6,586	6,570
	11,133	10,801	9,902	9,092

#### Operating Leases

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

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

	2010/2011 £'000	2011/2012 £'000
Not later than one year	141	74
Later than one year but not later than five years	80	50
Later than five years	0	0
	221	124

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £322,273 (2010/2011 £385,559).

The Authority has acquired a small number of properties by entering into operating leases. The annual payment of £622,320 in 2011/2012 (2010/2011 £692,000) relates to the following periods:

	2010/2011 £'000	2011/2012 £'000
Not later than one year	337	224
Later than one year but not later than five years	200	100
Later than five years	155	298
	692	622



## Notes to the Accounts (Continued)

### Note 38 – Leases (continued)

#### Authority as Lessor

##### *Finance Leases*

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

- Bungalows lease to three rivers housing – Remaining lease 12 years
- Raich Carter Centre – Remaining lease 14 years
- Marine Activity Centre – Remaining lease 110 years

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

##### *Operating Leases*

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

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

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

	2010/2011 (restated) £'000	2011/2012 £'000
Not later than one year	902	3,140
Later than one year but not later than five years	2,041	1,452
Later than five years	2,696	1,951
	5,639	6,543

### Note 39 – Private Finance Initiatives and Similar Contracts

The Council currently operates two PFI schemes, with a third to become operational from April 2014:

- Sandhill View School and Community and Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library.
- The Council also entered into a PFI contract, on 12 August 2003, with Balfour Beatty Power Networks Ltd. to provide replacement highway signs and street lighting, this includes ongoing maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028.
- The South Tyne and Wear Waste Management Partnership comprises Gateshead, Sunderland and South Tyneside Councils. A PFI contract has been signed with a consortium led by SITA for the Treatment and Disposal of Residual Municipal Waste for a period of 25 years from a planned service commencement date of April 2014. Gateshead performs the Lead Authority function with an Inter Authority Agreement and Authority Sub-Contracts between the partner authorities.

## Notes to the Accounts (Continued)

### Note 39 – Private Finance Initiatives and Similar Contracts (continued)

#### Property, Plant and Equipment

The assets used to provide services under the two PFI schemes are recognised in the Council's Balance Sheet. Movements in the fair value over the year are detailed in the analysis in the movement on the Property, Plant and Equipment in Note 12.

#### Payments

The Authority makes payments each year which is 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 PFI Contract at 31<sup>st</sup> March 2012 (excluding any estimation of inflation and availability / performance deductions are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2012/2013	3,180	1,210	3,425	7,815
Payable within 2 to 5 years	25,549	20,770	39,230	85,549
Payable within 6 to 10 years	27,346	22,590	43,825	93,761
Payable within 11 to 15 years	28,638	30,204	40,641	99,483
Payable within 16 to 20 years	9,651	20,431	30,549	60,631
Payable within 21 to 25 years	14,304	20,605	28,776	63,685
Payable within 26 to 30 years	8,235	0	5,224	13,459
<b>Total</b>	<b>116,903</b>	<b>115,810</b>	<b>191,670</b>	<b>424,383</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2010/2011 £'000	2011/2012 £'000
Balance outstanding at the start of the year	34,796	33,708
Payments during the year	(1,088)	(1,190)
Capital Expenditure incurred in year	0	0
<b>Balance Outstanding at the year end</b>	<b>33,708</b>	<b>32,518</b>

### Note 40 – Impairment Losses

During 2011/2012, the Authority recognised impairment losses totalling £7.933m (2010/2011 £6.150m). 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 works involving demolition of the central car park in Sunderland city centre to the sum of £2.486m, works to upgrade Barnes Park £1.376m and works to various Council offices that will generate long term savings £0.967m.

## Notes to the Accounts (Continued)

### Note 41 – Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/2012, incurring liabilities of £1,189,980 (£1,186,551 in 2010/2011 - restated). Of this total, £610,669 related to teachers (£890,581- restated in 2010/2011). – see Note 32 (page 92) for the number of exit packages and the total cost per band.

### Note 42 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers Pension Scheme, administered by the Department of Education. The scheme provides teachers with specified benefits upon their retirement; the authority contributes towards the costs by making contributions based on a percentage of member's pensionable salaries. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a national fund as the basis for calculating the employer's contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as the defined contribution scheme.

In 2011/2012, the Council paid £11.584m to the Teachers Pensions Scheme in respect of teachers retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/2011 were £12.332m and 14.2%. There were no contributions remaining payable at the year end.

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

### Note 43 – Defined Benefit Pension Schemes

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

The authority participates in two post employment schemes:

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

### Transactions Relating to Post-employment Benefits

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

## Notes to the Accounts (Continued)

### Note 43 – Defined Benefit Pension Schemes (continued)

#### Transactions Relating to Post-employment Benefits

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011 £m	2011/2012 £m	2010/2011 £m	2011/2012 £m
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Cost of Services:</b>				
Current service cost	29.52	<b>26.44</b>	0.00	<b>0.00</b>
Past service cost	(131.20)	<b>2.88</b>	(3.80)	<b>0.00</b>
Settlements and curtailments	0.00	<b>0.00</b>	0.00	<b>0.00</b>
<b>Financing and Investment Income and Expenditure</b>				
Interest cost	64.83	<b>63.80</b>	2.51	<b>2.43</b>
Expected return on scheme assets	(55.09)	<b>(59.92)</b>	0.00	<b>0.00</b>
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(91.94)</b>	<b>33.20</b>	<b>(1.29)</b>	<b>2.43</b>
<b>Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>				
Actuarial gains and losses	(7.99)	<b>150.40</b>	0.42	<b>3.55</b>
<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(99.93)</b>	<b>183.60</b>	<b>(0.87)</b>	<b>5.98</b>
<b>Movement in Reserves Statement or Deficit for the Provision of Services for post employment benefits in accordance with the Code</b>	<b>(125.35)</b>	<b>(0.88)</b>	<b>(4.62)</b>	<b>(0.89)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers contributions payable to the scheme	33.41	<b>34.08</b>	3.33	<b>3.32</b>
Retirement payments payable to pensioners	(32.80)	<b>38.58</b>	0.00	<b>0.00</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £376.63m.

## Notes to the Accounts (Continued)

### Note 43 – Defined Benefit Pension Schemes (continued)

#### Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011	2011/2012	2010/2011	2011/2012
	£m	£m	£m	£m
Opening balance at 1 April	1,276.85	1,181.70	50.04	45.84
Current service cost	29.52	26.44	0.00	0.00
Interest cost	64.83	63.80	2.51	2.43
Contributions by scheme participants	9.34	8.78	0.00	0.00
Actuarial gains and (losses)	(34.84)	103.72	0.42	3.55
Benefits paid	(32.80)	(38.58)	(3.33)	(3.32)
Past service cost	(131.20)	2.88	(3.80)	0.00
Entity combinations	0.00	0.00	0.00	0.00
Curtailments	0.00	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing balance at 31 March	1,181.70	1,348.74	45.84	48.50

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2010/2011	2011/2012
	£m	£m
Opening balance at 1 April	752.77	790.96
Expected rate of return	55.09	59.92
Actuarial gains and (losses)	(26.85)	(46.68)
Employer contributions	33.41	34.08
Participant contributions	9.34	8.78
Benefits paid	(32.80)	(38.58)
Entity combinations	0.00	0.00
Settlements	0.00	0.00
Closing balance at 31 March	790.96	808.48

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

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

## Notes to the Accounts (Continued)

### Note 43 – Defined Benefit Pension Schemes (continued)

The actual return on scheme assets in the year was £13.24m (2010/2011 £28.24m)

	2008/2009 £m	2009/2010 £m	2010/2011 £m	2011/2012 £m
Present value of liabilities:				
Local Government Pension Scheme	920.91	1,276.85	1,181.70	<b>1,348.74</b>
Discretionary Benefits	46.40	50.04	45.84	<b>48.50</b>
Fair value of assets in the Local Government Pension Scheme	(538.38)	(752.77)	(790.96)	<b>(808.48)</b>
Surplus / (Deficit) in the scheme:				
Local Government Pension Scheme	(382.53)	(524.08)	(390.74)	<b>(540.26)</b>
Discretionary Benefits	(46.40)	(50.04)	(45.84)	<b>(48.50)</b>
Total	(428.93)	(574.12)	(436.58)	<b>(588.76)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £1,397.24m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive balance sheet worth of £500.4m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £31.5m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £3.4m.

#### Basis for Estimating Assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years depend on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefit liabilities have been assessed by Aon Hewitt Limited an independent firm of actuaries, estimates for the council fund being based on the latest full valuation of the scheme as at 1 April 2010.

## Notes to the Accounts (Continued)

### Note 43 – Defined Benefit Pension Schemes (continued)

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/2011	2011/2012	2010/2011	2011/2012
Long-term expected rate of return on assets in the scheme:				
Equity investments	8.4%	8.1%	N/A	N/A
Property	7.9%	7.6%	N/A	N/A
Government Bonds	4.4%	3.1%	N/A	N/A
Corporate Bonds	5.1%	3.7%	N/A	N/A
Cash	1.5%	1.8%	N/A	N/A
Other	8.4%	8.1%	N/A	N/A
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.3 years	23.4 years	23.3 years	23.4 years
Women	25.6 years	25.7 years	25.6 years	25.7 years
Longevity at 65 for future pensioners				
Men	21.5 years	21.6 years	21.5 years	21.6 years
Women	23.7 years	23.8 years	23.7 years	23.8 years
RPI	3.7%	3.5%	3.6%	3.4%
CPI	2.8%	2.5%	2.7%	2.4%
Rate of increase in salaries	5.2%	5.0%	N/A	N/A
Rate of increase in pensions	2.8%	2.5%	2.7%	2.4%
Rate for discounting scheme liabilities	5.4%	4.7%	5.5%	4.6%
Commutation - Pre 1 April 1998	50.0%	50.0%	N/A	N/A
Commutation - Post 31 March 2008	75.0%	75.0%	N/A	N/A

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

	2010/2011	2011/2012
	%	%
Equities	68.0	68.5
Property	8.1	9.2
Government Bonds	7.0	7.1
Corporate Bonds	11.7	11.6
Cash	1.2	1.9
Other	4.0	1.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

#### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

	2008/2009	2009/2010	2010/2011	2011/2012
	%	%	%	%
Difference between the expected and actual return on assets	(22.1)	26.8	3.6	(5.8)
Experience gains and losses on liabilities	1.3	2.3	1.0	(0.5)

## Notes to the Accounts (Continued)

## Notes to the Accounts (Continued)

### Note 44 – Contingent Liabilities

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

The City Council, together with the other Tyne and Wear Districts, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils. Also in addition on 1<sup>st</sup> 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 1<sup>st</sup> 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's deficit would be repaid over a 10 year repayment period. The Council's share of the potential liabilities (based upon the latest Actuarial Valuation) in the unlikely event that all of the bodies should fail would be approximately £1.11 million in total.

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.

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

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



## Notes to the Accounts (Continued)

### Note 44 – Contingent Liabilities

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

### Note 45 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with Revenue and Customs in relation to overpaid output tax, the value of these claims amount to £5.480m. However as it is probable that these claims will be paid they have been reflected as a contingent asset.

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.253m.

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.

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

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

#### Credit Risk

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

## Notes to the Accounts (Continued)

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

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	50	2 Years
AA+	F1+	A1+	Aa1	P-1	50	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 Days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 Days
A+	F1	A-1	A1	P-1	10	364 Days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 Days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities					30	364 Days
Uk Government					70	5 years
Money Market Funds					50 (max £30m per fund)	2 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

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

	Amount at 31 March 2012 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2012 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2012 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2011 £'000
Deposits with Banks and other financial institutions	208,119	0	0	0	0
Bonds and other securities	0	0	0	0	0
Customers	12,909	3.70	0	481	483
<b>Financial Assets</b>	<b>221,028</b>		<b>0</b>	<b>481</b>	<b>483</b>

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

The authority does not generally allow credit for customers, such that £12.909m of the £49.530m is beyond its due date for payment. The past due amount can be analysed by age as follows:

## Notes to the Accounts (Continued)

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

	31 March 2011 £'000	31 March 2012 £'000
Less than 3 months	6,370	11,958
Three to six months	439	309
Six months to one year	85	359
More than one year	467	283
	7,361	12,909

#### Liquidity Risk

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

Loans Outstanding	31 March 2011 £'000	31 March 2012 £'000
Less than 1 year	32,985	36,707
Maturing in 1-2 years	5,052	5,047
Maturing in 2-5 years	15,144	10,194
Maturing in 5-10 years	18,248	23,249
Maturing in 10-20 years	15,248	10,202
Maturing in 20-30 years	30	25
Maturing in 30-40 years	15,000	15,000
Maturing in 40-50 years	74,500	84,500
Maturing in more than 50 years	35,221	35,215
<b>Total</b>	<b>211,428</b>	<b>220,139</b>

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

#### Market Risk

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

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

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

## Notes to the Accounts (Continued)

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

- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

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

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

According to this assessment strategy, at 31st March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2011 £'000	31 March 2012 £'000
Increase in interest payable on variable rate borrowings	(411)	(498)
Increase in interest received on variable rate borrowings	2,105	2,134
<b>Net Impact on Income and Expenditure Account</b>	<b>1,694</b>	<b>1,636</b>
Decrease in fair value of 'available for sale' investment assets	0	0
<b>Impact on MiRS</b>	<b>0</b>	<b>0</b>
Decrease in fair value of fixed rate investment assets (No impact on Comprehensive I&E Statement or MiRS)	(569)	(705)
Decrease in fair value of fixed rate borrowing liabilities (No impact on Comprehensive I&E Statement or MiRS)	24,271	28,031

#### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £795,123 (2010/2011 £795,123) in Newcastle Airport which is not listed on the stock exchange. The authority is consequently exposed to loss arising from the movement in the price of these shares which were re-valued in 2010/2011.

The Council holds a small number of various gilts and unit trusts with a value at cost of £19,541 (2010/2011 £19,541) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in the MiRS. The market value of these holdings as at 31st March 2012 was £110,986 in total (the value at 31st March 2011 was £106,601).

#### 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.

## Notes to the Accounts (Continued)

### Note 47 – Heritage Assets: Five-Year Summary of Transactions

	2007/2008 £'000	2008/2009 £'000	2009/2010 £'000	2010/2011 £'000	2011/2012 £'000
<b>Cost of Acquisitions of Heritage Assets</b>					
Collections held by Tyne & Wear Museums	0	0	0	7	0
Statues, Monuments and Public Art					
Other Historic Assets	0	0	0	0	0
<b>Total Cost of Purchases</b>	0	0	0	7	0
<b>Value of Heritage Assets Acquired by Donation</b>					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art					
Other Historic Assets	0	0	0	0	0
<b>Total Donations</b>	0	0	0	0	0
<b>Proceeds from Disposal</b>					
Collections held by Tyne & Wear Museums	0	0	0	0	0
Statues, Monuments and Public Art					
Other Historic Assets	0	0	0	0	0
<b>Total Proceeds</b>	0	0	0	0	0
<b>Carrying Value</b>	0	0	0	10	0
<b>Proceeds</b>	0	0	0	0	0

### Note 48 – Heritage Assets: Further Information on the Council's holdings

#### Collections held by Tyne & Wear Museums

Sunderland City Councils share of the artefacts held 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, the book of remembrance, copy of the Lidisfarne gospels, miners banners, etc.

## Notes to the Accounts (Continued)

### **Note 49 – Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom**

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 introduced a change to the treatment in accounting for heritage assets held by the Authority. The Council now requires heritage assets to be carried in the balance sheet at valuation.

#### **Heritage Assets**

For 2011/2012 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classifications in the Balance Sheet or were not recognised in the Balance Sheet and it was not possible to obtain cost information on the assets. Community Assets (that are now classed as Heritage Assets) that were donated to the Council are held at valuation as a proxy for historical cost. The Council has not recognised any assets currently held as community assets as heritage assets, this is because the cost of revaluing elements of community assets outweighs the benefit of the disclosure. However, future capital schemes on community assets will be analysed, any of the expenditure in excess of £10,000 relating to Historic Assets, will be capitalised as Historic Assets and held at historic cost. Future revaluations, impairments or disposals will be actioned against this balance sheet valuation. This is a departure from the Code of recommended practice on Local Authority Accounting in England and Wales 2011/2012.

The Council has recognised collections held by Tyne and Wear museums for artefacts with a value in excess of £10,000 and assets valuations held on the council's insurance schedule for assets classified as historic assets with a value in excess of £10,000.

In applying the new policy the Council has identified an additional £11.357m for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is also recognised in the Revaluation Reserve. The 1st April 2010 and 31st March 2011 Balance Sheet and 2010/2011 comparative figures have thus been restated in the 2011/2012 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1st April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £11.347m. The revaluation reserve has increased by £11.347m.
- The fully restated 1st April 2010 Balance Sheet is provided on page 32. The adjustments have been made to the Balance Sheet over the version published in the 2010/2011 Statement of Accounts as follows:

#### **Comprehensive Income and Expenditure**

There is no impact on the comprehensive income and expenditure statement.

## Notes to the Accounts (Continued)

### Note 49 – Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

Effect on Balance Sheet 31<sup>st</sup> March 2010

	As previously stated at at 31st March 2010 £'000	As restated at 31st March 2010 £'000	Restatement 2010 £'000
Heritage Assets	0	11,347	11,347
Long Term assets	1,222,301	1,233,648	11,347
Total Net Assets	537,748	549,095	11,347
Unusable Reserves	(376,675)	(388,022)	(11,347)
Net Worth	(537,748)	(549,095)	(11,347)

### Movement in Reserves Statement – Unusable Reserves 2010/2011

The restatement of the relevant lines of the Movement in Reserves Statement, as at 31<sup>st</sup> March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As previously stated at at 31st March 2011 £'000	As restated at 31st March 2011 £'000	Restatement 2011 £'000
Balance as at the end of the previous reporting period - 31st March 2010	(537,748)	(549,095)	(11,347)
Surplus or deficit on the Provision of Services	(116,624)	(116,624)	0
Other Comprehensive Income and Expenditure	(31,440)	(31,440)	0
Adjustments between the accounting basis and the funding basis under regulation	0	(10)	(10)
Transfer to / from earmarked reserves	0	0	0
Increase / (decrease) in the year	(148,064)	(148,074)	(10)
Balance at the end of the reporting period - 31 March 2011	(685,812)	(697,169)	(11,357)

The restated Balance Sheet for 31<sup>st</sup> March 2011 is provided on page 32. The adjustments that have been made to that Balance Sheet over the version published in the 2010/2011 Statement of Accounts are as follows:

## Notes to the Accounts (Continued)

### Note 49 – Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

#### Effect on Balance Sheet 31<sup>st</sup> March 2011

	As previously stated at at 31st March 2011 £'000	As restated at 31st March 2011 £'000	Restatement 2011 £'000
Property, Plant and Equipment Heritage Assets	0	11,357	11,357
Long Term assets	1,228,827	1,240,184	11,357
Total Net Assets	685,812	697,169	11,357
Unusable Reserves	(517,645)	(529,002)	(11,357)
Net Worth	(685,812)	(697,169)	(11,357)

The effect of the change in accounting policy in 2010/2011 has been that heritage assets are recognised at £11.357m on the Balance Sheet resulting in an increase to the Revaluation Reserve of £11.357m.

### Note 50 – 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 31<sup>st</sup> March 2012 the Council was responsible for 42 of these funds (40 relating to Children's Services and 2 relating to Adult Social Services), details of which are shown below.

	Balance at 01/04/2011 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	Balance at 31/03/2012 £'000
Childrens Services Trust Funds	170	0	1	(99)	72
Adult Services Trust Funds	71	0	0	0	71
	241	0	1	(99)	143



## Supplementary Statement

### Collection Fund Account for Year Ended 31 March 2012

	Note	2010/2011		2011/2012	
		£'000	£'000	£'000	£'000
<b>Income</b>					
Council Tax	51		108,713		109,286
Government Grants	54		2		1
Income from Business Rates	52		74,949		81,288
			<u>183,664</u>		<u>190,575</u>
<b>Expenditure</b>					
Precepts and Demands:					
City of Sunderland		95,238		95,128	
Tyne and Wear Fire and Rescue Authority		5,875		5,896	
Northumbria Police		6,720	107,833	6,744	107,768
Business Rates - Payment to pool	52	73,079		77,454	
Business Rates - Cost of collection and other allowances.	52 & 53b	1,870	74,949	3,834	81,288
Amounts Written Off:					
Council Tax	53a		470		381
Provision for uncollectable amounts:					
Council Tax			(391)		207
			<u>182,861</u>		<u>189,644</u>
Net Income (Deficit) for the Year			803		931
Add balance b/fwd from previous year			1,141		1,894
Less Amounts transferred to General Fund					
Council Tax Surplus			(50)		(500)
<b>Fund Balance Carried Forward at 31 March</b>	55		1,894		2,325

## Notes to the Collection Fund Account

### 51 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties. All properties are classified into 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base. This basic amount of Council Tax for a Band D property £1,342.80 for 2011/2012, (£1,342.80 for 2010/2011), is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills are based on the following proportions:

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

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

Band	2010/2011	2011/2012
	£ p	£ p
A	43,799.55	43,630.75
B	11,270.60	11,320.33
C	12,487.82	12,476.93
D	7,282.63	7,290.22
E	3,195.97	3,223.52
F	1,311.51	1,303.37
G	883.22	899.15
H	28.42	22.55
	80,259.72	80,166.82

The income of £109,286,032 for 2011/2012, (£108,713,589 for 2010/2011), is receivable from the following sources:

	2010/2011 £'000	2011/2012 £'000
Billed to Council Tax Payers	82,009	82,596
Council Tax Benefits	26,704	26,690
<b>Total</b>	<b>108,713</b>	<b>109,286</b>

## Notes to the Collection Fund Account (Continued)

### 52 – Income from (National Non Domestic Rates) Business Rates

Under the revised arrangements for business rates, the Council collects business rates for its area which are based on local rateable value multiplied by a uniform rate. The total amount, less certain reliefs and other deductions is paid to a central pool managed by Central Government. The contribution due from the Council to the National Non Domestic Rates Pool for 2011/2012 can be analysed as follows:

	2010/2011		2011/2012	
	£'000	£'000	£'000	£'000
Gross Rates Collectable		74,949		81,288
Less:				
Costs of Collection Allowance	(333)		(329)	
Other Allowances and Adjustments Reclaimable	(587)		(2,489)	
Amounts Written Off	(950)	(1,870)	(1,016)	(3,834)
<b>Amount Payable to Pool</b>		<b>73,079</b>		<b>77,454</b>

Central Government, in turn, pays back to authorities their share of the pool based on a standard amount per head of the local adult population. For 2011/2012 the Council received a contribution from the pool of £120,771,129 which is payable directly to the General Fund, (in 2010/2011 this figure was £137,496,111).

The Total Business Rateable value as at 31 March 2012 was £217,160,151 (the value as at 31st March 2011 was £217,453,597). The Business Rates Multiplier (poundage) for 2011/2012 was 43.3 pence compared to the previous year's figure of 41.4 pence. For businesses that qualified for small business relief the Business Rate Multiplier was 42.6 pence in 2011/2012, (compared to the 40.7 pence in 2010/2011).

### 53 – Amounts Written Off During the Year

#### a) Council Tax

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. In 2011/2012 £381,067 (£469,687 for 2010/2011) was written off with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts, and as such has already been accounted for in a previous period. To put this figure into context, the amount written off compared to the collectable Council Tax for 2011/2012 represents 0.35% (2010/2011 was 0.43%) of the total sum.

#### b) Business Rates

In 2011/2012 £1,016,422 was written off, (2010/2011 £950,499), with most of the sums involved relating to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts. This affects the payments to the National NNDR Pool and not the Authorities resources. To put this figure into context, the amount written off compared to the collectable Business Rates for 2011/2012 represents 1.24% (2010/2011 was 1.27%) of the total sum.

### 54 – Government Grants

	2010/2011 £'000	2011/2012 £'000
Transitional Relief Grant	2	1

## Notes to the Collection Fund Account (Continued)

### 55 – Fund Balance

The fund balance can be analysed as follows:

	2010/2011 £'000	2011/2012 £'000
Sunderland City Council	1,673	2,053
Northumbria Police Authority	118	145
Tyne & Wear Fire and Rescue Authority	103	127
<b>Total Collection Fund Balance</b>	<b>1,894</b>	<b>2,325</b>

The amounts of the Collection Fund balance relating to the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority are shown in the Balance sheet as creditors, as the amounts of £145,537 and £127,240 are effectively owed to these authorities. The amount of the Collection Fund balance relating to the Council of £2,052,954 is shown in Reserves which forms part of the Net Worth of the Council in the Balance Sheet.

# Glossary of Terms

## **Accrual**

A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

## **Accounting Policies**

Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

## **Acquired Operation**

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

## **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

## **Agency Services**

Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

## **Assets**

Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

## **Audit Commission**

Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

## **Balance Sheet**

A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

## **Balances**

The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

## **BVACOP**

The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
- b) Facilitate accurate comparison between both services and authorities.
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
- d) Represent best practice.

## Glossary of Terms (Continued)

### **Capital Charge**

The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

### **Capital Expenditure**

Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

### **Capital Financing Charges**

The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

### **Capital Financing Requirement**

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

### **Capital Grants**

Grants received towards capital expenditure on a particular service or project.

### **Capital Receipts**

Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

### **Class of Fixed Assets**

The classes of fixed assets required to be included in the accounting statements are:

#### Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

#### Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

### **Collection Fund**

The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

### **Community Assets**

These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

### **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## Glossary of Terms (Continued)

### ***Constructive Obligation***

An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### ***Contingent Asset***

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

### ***Contingent Liability***

A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

### ***Contingencies***

Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

### ***Corporate and Democratic Core***

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### ***Council Tax***

The form of local taxation operated from April 1993, based on properties.

### ***Credit Approvals***

The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

*Basic Credit Approvals* - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

*Supplementary Credit Approvals* - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

### ***Creditors***

Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

### ***Current Service Cost (Pensions)***

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

### ***Curtailment***

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

## Glossary of Terms (Continued)

### ***Debt Outstanding***

Amounts borrowed to finance capital expenditure that are still to be repaid.

### ***Debtors***

Sums of money due to the City Council but not received at the date of the balance sheet.

### ***Defined Benefit Scheme***

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### ***Defined Contribution Scheme***

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### ***Depreciation***

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

### ***Direct Service Organisation (DSO)***

The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

### ***Discontinued Operations***

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

### ***Discretionary Benefits***

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

### ***Emoluments***

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.



## Glossary of Terms (Continued)

### ***Estimation Techniques***

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

### ***Exceptional Items***

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### ***Expected Rate of Return on Pension Assets***

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### ***Expenditure***

Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

### ***Extraordinary Items***

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

### ***Fair Value***

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

### ***Fees and Charges***

Income arising from the provision of services, e.g. for the use of recreation facilities.

### ***Formula Spending Shares (FSS's)***

This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

### ***General Fund***

This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

### ***Going Concern***

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### ***Government Grants***

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

## Glossary of Terms (Continued)

**IFRIC – International Financial Reporting Interpretations Committee**

### **Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

### **Income**

Amounts due to the City Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the City Council).

### **Infrastructure Assets**

These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.

Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

### **Intangible Fixed Assets**

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

### **Interest Cost (Pension)**

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **Investments (Pension Fund)**

The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

### **Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

### **Investments (Non-Pensions Fund)**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

### **Large Scale Voluntary Transfer (LSVT)**

The voluntary transfer of public sector housing tenancies to other bodies, usually to a Registered Social Landlord, which may be a Housing Company or Housing Association.

### **Leasing**

The method of financing the provision of various capital assets to discharge the City Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

**Operating Leases** - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

**Finance Leases** - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## Glossary of Terms (Continued)

### ***Lender Option Borrower Option Loans (LOBO)***

Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

### ***Liabilities***

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

### ***Liquid Resources***

Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

### ***Loans Outstanding***

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

### ***London Inter Bank Bid Rate (LIBID)***

The rates of interest being bid on the London Money Market for various time periods.

### ***Long Term Contracts***

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

### ***Minimum Revenue Provision***

Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

### ***National Non-Domestic Rate (NNDR)***

With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

### ***Net Book Value***

The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

### ***Net Current Replacement Cost***

The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### ***Net Debt***

The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

### ***Net Realisable Value***

The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

## Glossary of Terms (Continued)

### ***Non-Operational Assets***

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### ***Operational Assets***

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### ***Past Service Costs***

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### ***Post Balance Sheet Events***

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### ***Precept***

The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear District Councils on their behalf.

### ***Prior Year Adjustments***

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### ***Projected Unit Method***

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowings where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

### ***Provisions***

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

### ***Private Finance Initiatives (PFI)***

PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

### ***Prudence***

The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

## Glossary of Terms (Continued)

### ***Prudential Framework***

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

### ***Public Works Loan Board (PWLB)***

A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

### ***Rate of Return on Capital***

The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

### ***Related Parties***

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

## Glossary of Terms (Continued)

### ***Related Party Transaction***

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The Materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

### ***Renewals Accounting***

Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

### ***Research and Development***

Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

### ***Reserves***

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

### ***Residual Value***

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### ***Retirement Benefits***

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### ***Revenue Balances***

These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

### ***Revenue Contributions***

The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

### ***Revenue Expenditure***

Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

## Glossary of Terms (Continued)

### **Revenue Expenditure Funded by Capital under Statute**

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. *Revenue Expenditure Funded by Capital under Statute* is charged to revenue in the year in which the expenditure is incurred.

### **Revenue Support Grant (RSG)**

A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

### **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Settlement**

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### **Specific Grants**

Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

### **Statements of Recommended Practice (SORPs)**

Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

### **Statements of Standard Accounting Practice (SSAPs)**

Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

### **Stocks**

Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

### **Supported Capital Expenditure**

Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

### **Total Cost**

The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

## Glossary of Terms (Continued)

### ***Trust Funds***

Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

### ***Unapportionable Central Overheads***

These are overheads for which no user benefits and should not be apportioned to services.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

### ***Useful Life***

The period over which the authority will derive benefits from the use of a fixed asset.

### ***Vested Rights***

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.