

**Statement  
of  
Accounts  
  
2017/2018**

# Contents

	<u>Page</u>
Introduction	2
Certification of the Statement of Accounts	3
Narrative Statement	4
Statement of Responsibilities for the Statement of Accounts	24
Certificate of the Head of Financial Management	25
Independent Auditor's Report to the Members of Sunderland City Council	26
Annual Governance Statement	32
Financial Statements:	
Movement in Reserves Statement	36
Comprehensive Income and Expenditure Statement	37
Balance Sheet	39
Cash Flow Statement	40
Notes to the Financial Statements	41
Supplementary Statement:	
Collection Fund Account	132
Notes to the Collection Fund Account	134
Group Accounts:	
Group Accounts Narrative Statement	137
Group Movement in Reserves Statement	138
Group Comprehensive Income and Expenditure Statement	139
Group Balance Sheet	141
Group Cash Flow Statement	143
Notes to the Group Financial Statements	144
Glossary of Terms	152

## Introduction

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

With regard to corporate governance, the Council considers an annual review of its Local Code of Corporate Governance. The 2017/2018 review has been completed and will be considered by the Audit and Governance Committee in July, with subsequent reporting to Cabinet. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council's arrangements continue to be regarded as fit for purpose in accordance with the governance framework with the exception of Children's Safeguarding. A small number of areas for improvement and development have been identified which will be acted upon during 2018/2019.

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 Graeme Miller  
Leader of the Council



Karen Davison  
Head of Financial Resources

Dated: 20<sup>th</sup> July 2018

## Certification of the Statement of Accounts

### Statement of Accounts 2017/2018 (Subject to Audit) Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby certify that in accordance with The Accounts and Audit Regulations 2015 the Statement of Accounts for 2017/2018 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31<sup>st</sup> March 2018 and its income and expenditure for the year then ended.

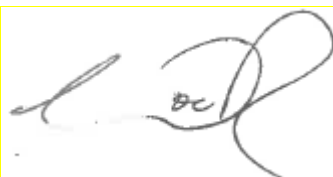


Barry Scarr  
Executive Director of Corporate Services

Dated: 31<sup>st</sup> May 2018

### Audited Statement of Accounts 2017/2018 Certification on behalf of those charged with governance

As Chairman of the Audit and Governance Committee, I hereby acknowledge receipt of the audited Statement of Accounts for 2017/2018 by this Committee, in accordance with The Accounts and Audit Regulations 2015, and confirm that the Statement of Accounts was approved at the Audit and Governance Committee on 20<sup>th</sup> July 2018 in accordance with The Accounts and Audit Regulations 2015.



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

Dated: 20<sup>th</sup> July 2018

### Audited Statement of Accounts 2017/2018 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2017/2018 in accordance with The Accounts and Audit Regulations 2015.



Karen Davison  
Head of Financial Management

Dated: 20<sup>th</sup> July 2018

# Narrative Statement

## Introduction to Narrative Statement

The Narrative Statement provides information about Sunderland, the City Council's performance and its Accounts. The narrative is reported in two distinct blocks:

- It provides a summary of both the non-financial and financial performance of the Council in 2017/2018, and focuses on the key matters that are of relevance to the readers of the Accounts. It also sets out the financial statements prepared within the Accounts, with a brief explanation of each.
- Additionally, the Narrative Report provides a forward look at issues that have and will affect the Council's operation in 2018/2019 and beyond.

## An Introduction to Sunderland

Sunderland is a coastal city at the mouth of the River Wear in the heart of North East England, with a beautiful coastline and miles of sandy beaches. We have fast links to the nation's motorways and mainline rail networks, including direct services to London, and a direct connection to an international airport via the Tyne and Wear Metro rapid transit light rail system.

Sunderland has over 127,000 households, with a population of 278,000.

Sunderland is a manufacturing powerhouse with a global presence. Home to the UK's biggest and most productive car plant, the City is a European centre for electric vehicle research and production, and expertise in advanced manufacturing extends across aerospace and turbo technologies.

In software and data technology Sunderland sustains innovative and ambitious companies, from gaming studios to online retail support.

Financial and customer services is a key sector, with blue-chip brands making repeat investments, benefitting from the City's expert and loyal workforce.

Sunderland attracts business, including more than 80 internationally-owned companies originating in 20 territories and employing more than 26,000 people.

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

Sunderland City Council provides approximately 700 services. There are many services that the Council provides directly or funds others to provide such as libraries and leisure services, maintaining roads and footpaths, as well as emptying bins. The Council also funds life-changing support for older people, people with disabilities and children in care as well as many other services.

The Council is made up of 75 elected members, who are elected for a period of four years. Councillors represent a particular ward and remain at the heart of defining priorities and outcomes for the City and their communities.

The Council aims to provide Sunderland's communities with the best possible services available within the financial constraints imposed upon it, but this does not mean that it must deliver them itself. The Council is moving more towards collaborating with and influencing others as well as appointing and authorising service delivery by organisations other than itself.

The Council will continue to be ambitious and collaborate on an increasingly wider scale, as well as influence and shape national and regional policy. Sunderland is not an insular City and is recognised sub-regionally, regionally, nationally and internationally.

This collaborative approach provides the Council and the City with a number of opportunities to work together, to share best practice and to integrate, where sensible, a number of public services including health and social care, early help and families and planning and land use

# Narrative Statement – Performance during 2017/2018

## Council's Performance 2017/2018

Our vision for Sunderland is that it will be a welcoming, internationally recognised City where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future.

Our Corporate Plan sets out what we need to do to achieve this and keeps us focused, supporting those people in greatest need as a fundamental part of our contribution to the “All Together Sunderland” approach to the City’s challenges. It sets out our key priorities allowing us to describe and clearly see how our collective hard work contributes to the City Vision.

Key improvements in performance in respect of our Corporate Plan priorities can be summarised as follows:

**CITY** Growing the economy of Sunderland, regenerating the City, leading place shaping and maximising the cultural offer and ensuring a high quality and sustainable living and working environment.

- Growing the economy.
  - Employment up by 1.8% in 2017, exceeding the NE average and the increase was greater than that for Great Britain (0.9%).
  - 1,080 jobs created by businesses in 2017/18 with the support of the Business Investment Team.
  - 83 new investment enquires received by the Business Investment Team in 2017/18.
  - The new business survival rates (after 1 year of business) is higher than for the North East and England (92.4% of business start-ups in Sunderland in 2015 were still operating after 1 year, 92% in the North East, 89.6% in England).
  - Port throughput up 13.8%.
- Promoting better living and working and leading place shaping.
  - Good progress relating to the Local Plan, including adoption of the International Advanced Manufacturing Park Area Action Plan.
  - Northern Spire bridge nearing completion and on budget.
  - 955 new homes built in 2017/18 - a 30% increase on the 727 new homes built in 2016/17.
  - 283 of the 955 new homes were larger family homes of 4 or more bedrooms (53 more than the 230 in 2016/17), providing more of the type of homes that market assessments have suggested Sunderland needs.
  - 32 major planning applications received in 2017/18 for further housing developments (29 in 2016/17).
- Maximising the cultural offer.
  - Co-founded Sunderland Culture.
  - Remodelled the Library Service to 8 community facilities increasing opening hours by 77 hours per week.
  - 374,304 visits to museums & City library, 127,809 visits to the Arts Centre Washington, and 211,614 visits to the Empire Theatre in 2017/18.
  - 902 hours of volunteering opportunities created by the events programme involving 161 individual volunteers in 2017/18.
  - Progressed with the FA and National Football Foundation, the Sunderland Parklife Hub programme.

**PEOPLE:** Ensuring Sunderland’s residents are safe and have greater access to excellent education, skills, and employment, a broad range of cultural opportunities, and good health and wellbeing opportunities. Protecting Sunderland’s vulnerable children and adults

- Improving health & wellbeing
  - New adult treatment services for substance misuse were commissioned from 1st July 2016. Successful completions of treatment for both Opiate and Non-opiate users have steadily risen in 2017/18 to 46 completions for Opiate users and 41 for Non-opiate users (March 2017 – February 2018) this compares with 35 successful completions for Opiate users and 19 for Non-opiate users in the same period in the previous year.

## Narrative Statement – Performance during 2017/2018

- Procured 0-19 Public Health services, following on from 1,200 stakeholders involved in the consultation in the previous year. In 2017/18 the proportion of new birth visits and 2.5 year visits carried out has been maintained consistently above the 90% target.
- Action has been taken with the aim of addressing high rates of teenage pregnancy with 984 more episodes of C-Card contraceptive services in 2017/18 than in the previous year (1,842 in 2016/17, 2,826 in 2017/18). Latest figures for teenage pregnancy show signs of progress with a decrease in the rate from 34.6 per 1,000 in 2015 to 31.9 in 2016. Figures remain high in comparison to the national position of 18.8 per 1,000 and will be a continued area of focus.
- Improving education & skills
  - Early years ‘Good Level of Development’ increased to 70.5% in the academic year 2016/17 from 68% in 2015/16.
  - At Key Stage 2, 68% of children achieved at least the expected level in reading, writing and maths (academic year 2016-2017), a 7% increase on the 2015/16 academic year (at 61%). The Sunderland figure was higher than both the England and statistical neighbour average.
  - At the end of 2017/18, 90% of schools were good or outstanding, maintaining the end of 2016/17 position (90%)
  - Between 1.5.17 and 17.4.18 there were 53 apprenticeship starts with Sunderland City Council which meet the new Apprenticeship Levy criteria.
- Protecting vulnerable children
  - Commissioning outcomes for 2017/18 through agreed performance targets were set with Together for Children to challenge the performance of the company. However, given the companies prior performance was at such a low base, it is acknowledged that significant improvement will take time. Key areas of performance improvement were:
    - Referrals with a decision within 24 hours – target set at 95%, performance exceeded target at 96.9% as of end of March 2018.
    - Percentage of case file audits rated as requires improvement or better – a new measure for 2017/18 the first year target was set at 70%, performance exceeded target at 74% as of end of March 2018.
    - Rate of first time-entrants to the youth justice system – target set at a rate of a maximum of 560, performance exceeded target at 402 based on latest reported data at the end of 2017/18 (for the 12 month period ending Sep 2017).
    - Care leavers in touch with Together for Children within 8 weeks of the previous contact or entering the cohort – target set at 80%, performance exceeded target at 85%.
    - Percentage of Looked after Children who have received a statutory visit within 6 weeks – target set at 98%. Performance improved from 92% at the end of March 2017 to 99% in July 2017 and was maintained above 99% through till the end of December 2017.
    - Percentage of children subject to a child protection plan who have received a statutory visit within 10 working days – target set at 95%. Performance improved from 83% in March 2017, to above 92% through to the end of December 2017 when the target was met with performance at 95.9%.
- Protecting vulnerable adults
  - Delayed transfers attributable to adult social care were at 0.72 days per 100k population as at the end of February 2018, meeting the nationally set target of 1.46 days.
  - Home care hours reduced by 95,000.
  - 2,056 homelessness cases were prevented in 2017/18 and a new homelessness model has been put in place with Salvation Army investment. 85 people who have presented as homeless have been referred to the scheme.
- Building resilient communities
  - High levels of feelings of safety maintained at 97% in 2017/18, despite a rise in the actual number of crimes reported.
  - Working in partnership key Community Safety Schemes have been delivered including:
    - Prevent-118 schools across the City supported in implementing the Prevent duty through the *Prevent Schools* toolkit.
    - Domestic Abuse.
      - 78 women and 7 children accommodated in the Sunderland Complex Needs refuge and 80 women with complex needs engaged through assertive outreach work (between January 2017-March 2018).

## Narrative Statement – Performance during 2017/2018

- 100% of Sunderland schools have a trained Operation Encompass lead supporting families of domestic abuse and 2,370 children have been supported (2017/18).
- 12 GP practices involved in a pilot scheme to introduce routine enquiry on domestic abuse.
- City Centre - 35 arrests (90% dealt with positively), 50 dispersal orders issued, 21 young vulnerable young people visited focusing on safeguarding as a result of Operation Asteroid (a multi-agency operation centred around prevention and enforcement).

**COUNCIL** - Being an effective commissioner and collaborator to ensure that we can sustain the services that matter.

- Being an effective commissioner and collaborator:
  - Savings were achieved in 67 procurements, equating to £1.9m from a value of £13.4m
  - New ways of delivering services implemented with 1,564 full time equivalent employees now working in local authority controlled organisations.
  - There were 701 fewer employees employed by the Council overall as at the end of March 2018 (601 transferred to Together for Children upon the launch of the new Children's Services Company).
- Maximising the amount of money available to the Council to spend on sustaining services that matter:
  - £30.7m saving delivered for 2017/18, with the delivery of the Transformation Programme key to savings achieved.
  - Business rates in-year collection has remained consistently high at 97.9% as has in-year collection of council tax at 95.9% (as at end of March 2018).
  - 29 external funding bids approved since April 2016 bringing £98.4m in funding into the Council / City.
- An increased focus on efficient business management to maximise spend on sustaining services that matter:
  - Maximising digital and self-serve capabilities. Over a quarter (28.5%) of all customer contact was self-serve in 2017/18, up 8.7% on 2016/17.
  - 2,922 fewer days sickness absence in 2017/18 compared with 2016/17, following on from the significant reduction in the previous year. The 12 month rate per FTE (which takes into account reducing employee numbers) reduced from 10.28 to 9.71.
  - 1,245 fewer days employee absence due to suspension in 2017/18 compared with 2016/17.
  - Resilient and robust ICT infrastructure (as demonstrated by 99% availability) with new systems implemented to support efficient information processing (e.g. Liquid Logic & Pentana Performance).



# **Narrative Statement – Performance during 2017/2018**

## **Changes to the way we operate**

### **Children’s Company – Together for Children Ltd**

Together for Children was established on the 1<sup>st</sup> April 2017 as a company limited by guarantee to deliver Early Help, Social Care and Education services for children with the aim to develop a modern and responsive services that make a difference for children and families in Sunderland.

Together for Children is 100% owned by the Council but controlled by the Together for Children Board to ensure operational independence.

### **Housing Company – Sunderland Homes Ltd**

In 2017 the Council incorporated a wholly owned company, Sunderland Homes Ltd (SHL). The purpose of the company is to fill some of the identified gaps in Sunderland’s housing provision by directly procuring residential developments of new homes for sale.

A pilot phase covering three development areas across the City is currently underway with house building expected to commence during 2018.

### **International Advanced Manufacturing Park**

During 2017/2018 IAMP LLP has been jointly established with South Tyneside Council in order to deliver the International Advanced Manufacturing Park to the north of Nissan. The Councils, through the LLP will, amongst other things, carry on the business of the joint acquisition, promotion, development and delivery of an International Advanced Manufacturing Park on the Site which comprises of land in South Tyneside and Sunderland, together with the provision of all necessary infrastructure required for the delivery of the site.

### **Better Care Pooled Budgets**

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

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

The Council entered into a new two year Section 75 agreement from April 2017 with Sunderland Clinical Commissioning Group to create a reduced pooled budget, with an initial budget of £71.435m for 2017/2018.

## **Financial Performance of the Council 2017/2018**

The estimated net revenue expenditure for 2017/2018 to be met from Government Grants and local taxpayers was approved at £219.423m. The Council’s Band D council tax, after allowing for Revenue Support Grant and National Non Domestic Rates was set at £1,294.82 for 2017/2018, inclusive of the social care levy. This represented a 1.99% council tax increase from the 2016/2017 Band D council tax level and a 3% social care levy increase. The Council again set the lowest council tax level in the whole of the North East region for 2017/2018 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 during the year and is reported and challenged at the Chief Executive’s monthly performance clinics. The process is supplemented by formal budget monitoring reports which are made quarterly to the Council’s Cabinet. These detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items including Treasury Management and Prudential Indicators. Reporting during the financial year continues to reflect strong and robust financial management, continuing the Council’s strong track record in this regard.

## Narrative Statement – Performance during 2017/2018

In overall terms, the Council achieved a surplus of £0.788m for the financial year. This net underspend has been transferred to the Strategic Investment Reserve. In summary terms, the outturn position takes account of the following variations to budget during 2017/2018:

- Debt charge and interest on investment savings of £8.607m as a result of reprofiling on the capital programme, and improved lending and borrowing rates.
- Other net corporate budget savings in respect of:
  - A net underspend of £6.069m on contingencies, lower than anticipated pension deficiency payments and other non-delegated budget savings and cost pressures;
  - a review of the insurance fund provisions has enabled the release of £1m one off saving, arising as a result of less claims being received and the value of outstanding claims reducing;
  - additional grant income of £2.464m, primarily in respect of confirmed Section 31 compensation grants following completion of the business rates revaluation exercise and resolution to relief multiplier factors used.
- Additional one-off income of £1.347m in respect of a Newcastle Airport dividend.
- Transitional costs in respect of workforce transformation £2.262m arising as a result of delivery of efficiency savings.
- Earmarking of Specific Reserves to meet:
  - Provision for anticipated future service pressures (£3.161m) and potential delays in delivery of savings targets (£2.555m) in light of the outturn position for 2017/2018 and first review position 2018/2019;
  - An increase to the Medium Term Smoothing Reserve of £4.671m in order to support the budget position in 2018/2019 as approved by Council in March 2018. The funding will be utilised to support the one-off investment agreed as part of the 2018/2019 budget process in Place Management, Sunderland Care and Support, and the Tall Ships event;
  - Earmarking of £3m towards Inward Investment and Development to address one-off priorities.
- An increase to the General Fund balance of £2m to bring the general fund balance to £12m.

In overall terms there was a net service pressure of £3.050m, partially funded by drawing on the £2m of savings delivery contingency. A net underspend of £4.186m primarily arose as a result of accelerated savings, vacancy management and achievement of additional income. In addition the major in-year service pressures have been detailed in the cabinet outturn report and related to:

- **Children's - Together for Children**

The Together for Children (TfC) Board is responsible for monitoring the financial position of those services within the contract sum transferred to the company from 1<sup>st</sup> April 2017, with relevant updates provided to the Council through the established contract performance monitoring arrangements.

The final outturn for the company is a deficit position of £8.036m primarily as a result of numbers of looked after children being over that which was provided for within the budget, and the continued use of agency social workers. The outturn position has been fully funded by the Council and a contract variation issued.

- **Adult Social Care**

There is a surplus of £3.061m on Adult Social Care after taking into account one-off funding of £7.500m which the Council received through the Improved Better Care Fund (IBCF) for 2017/2018. This surplus is largely as a result of one-off additional income received from Health Partners and the accelerated delivery of savings plans in tandem with receipt of the additional one-off IBCF funding.

Sunderland Care and Support pressures of £2.693m as a result of the impact of workforce transformation.

The table below summarises the financial position for the year 2017/2018 for the Council's General Reserve, and also shows the original budget and the revised budget positions for 2017/2018. Given the increasing risk to local government financial stability inherent in the current financial climate, and the significant financial risks associated with the move to 75% retained business rates, a review of the Council's level of general fund balances has been undertaken. In light of the positive outturn position, the general fund balances have been increased by £2m to bring the level of balances to £12m. This level of general fund balance will represent 5.5% of the Council's net budget requirement and remains appropriate for a large unitary Council.

## Narrative Statement – Performance during 2017/2018

### Financial position for the year 2017/2018 for General Fund Balances

	2017/2018 Original Estimate £'000	2017/2018 Revised Estimate £'000	2017/2018 Actual £'000	2016/2017 Actual £'000
Net Expenditure on Service Provision	216,094	216,562	199,091	224,918
Levies and Precepts	15,917	15,917	15,918	16,455
(Surplus) / Deficit from Trading Operations	(656)	(1,124)	(1,731)	(1,598)
Academy transfers	0	0	2,256	142
Taxation and non-specific grant income and expenditure:				
Council Tax and Business Rates Receipts	(134,075)	(134,075)	(134,363)	(130,486)
Non-ringfenced Government Grants	(91,844)	(91,844)	(93,265)	(100,486)
Transfers to / (from) Earmarked Reserves	(5,436)	(5,436)	10,094	(11,375)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>(2,000)</b>	<b>(2,430)</b>
Addition to / (use of) General Fund	0	0	2,000	2,430
General Fund Balance brought forward	10,000	10,000	10,000	7,570
General Fund Balance carried forward	10,000	10,000	12,000	10,000

### 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 2017/2018 amounted to a net use of balances of £1.65m (£2.18m net use of balances in 2016/2017), as a result of increased spending, in comparison to budget, by schools and is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement on the Children's Services Portfolio line.

School balances are fully committed and are required to meet the challenges in respect of reduced funding in 2018/2019 and future years. As a result, the balance of this reserve as at 31st March 2018 decreased to £6.574m compared to £8.224m as at 31st March 2017.

### Balance Sheet Position

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

	Balance as at 31 March 2017 £m	Balance as at 31 March 2018 £m
Non-current assets	1,046	1,017
Net current assets	95	99
Long term liabilities and provisions	(851)	(901)
<b>Net Assets</b>	<b>290</b>	<b>215</b>
Represented by:		
Usable reserves	157	159
Unusable reserves	133	56

# Narrative Statement – Performance during 2017/2018

## Financial Indicators

Financial indicators can be calculated to assess the efficiency of the Council as well as whether it is delivering value for money. A number of key financial indicators relating to 2016/2017 and 2017/2018 are presented below:

	<u>2016/2017</u>	<u>2017/2018</u>
Working capital ratio	1.7	1.8
Long term borrowing to long term assets	0.2	0.3
Usable non-school reserves : gross spend (cost of services)	22%	26%
School balances : Dedicated Schools Grant	7%	7%
Council tax collection rate (In Year)	95.77%	95.94%
Business rate collection rate (In Year)	97.46%	97.93%
Net cost per head of population	£926	£753

### **Working capital ratio**

The working capital ratio indicates whether the Council has enough resources to cover its immediate liabilities (i.e. those liabilities to be met within the next year). A ratio of less than one indicates potential liquidity problems. The Council's ratio is currently 1.8 indicating no liquidity problems.

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

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

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

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure, including those earmarked for specific purposes. A higher ratio indicates that the Council has a greater ability to fund unexpected pressures from available resources. The Council has non-school reserves equivalent to 26% of gross expenditure, however, these are largely committed for specific purposes.

### **School balances to Dedicated Schools Grant**

This shows the share of school balances held in relation to the total DSG allocation received for the year. The ratio of the Council's school balances to DSG in 2017/2018 was 7%.

### **Council tax collection rate**

This shows the proportion of council tax collected and is an indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2017/2018 was 95.94%.

### **Business rate collection rate**

This shows the proportion of business rates collected and is another indicator of the Council's cash flow and debt collection. The Council's in year collection rate in 2017/2018 was 97.93%.

### **Net cost per head of population**

Net expenditure per head of population is primarily a value for money indicator, but can also be used to assess financial resilience as a relatively low cost per head indicates that costs have been controlled in earlier years. Based on 2017/2018 Cost of Services, the Council's net cost per head was £753.

## Narrative Statement – Performance during 2017/2018

### Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals during 2017/2018

Capital Expenditure for the year totalled £94.052m. Expenditure on non-current assets was £66.554m, whilst expenditure on intangible assets was £0.499m. The remainder of £26.999m represents loans, grants, and advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue, and expenditure on property not owned by the Council.

The above total capital expenditure was financed by Borrowing of £47.992m, Capital Receipts of £2.184m, Government Grants and other Contributions of £36.865m, and Revenue Contributions from Reserves of £7.011m.

The Council spent £12.8m on the purchase of land and property during 2017/2018, including IAMP acquisitions to allow infrastructure works to go ahead developing land around the enterprise zone area that will support jobs and economic growth.

The Council is involved in a number of major projects. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2017/2018, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

<u>Project</u>	<u>Expenditure during 2017/18</u> <u>£'000</u>	<u>Total currently Estimated Gross Cost</u> <u>£'000</u>	<u>Physically Completed / In Progress as at 31 March 2018</u>
Northern Spire (SSTC Ph2 - New Wear Crossing)	16,881	117,600	On-going
International Advanced Manufacturing park (IAMP)	15,878	101,912	On-going
Vaux Phase 1	11,324	25,812	On-going
A19 Ultra Low Carbon Enterprise Zone	5,006	24,378	On-going
SSTC Ph3 Road	4,952	59,000	On-going
Street Lighting - LED Energy Saving Project Phase 1	4,169	6,200	Complete

There were three sales of surplus assets to developers over £0.5m:

- the sale of Former High Usworth school (£2.700m as a phased receipt with £1.163m to be received in 2018/2019);
- a receipt from Siglion LLP following disposal of investment properties (£0.567m);
- the sale of Plot 4 Rainton Bridge (£0.535m).

There were no other major asset disposals (over £0.500m) made during the year. In addition nine schools became academies. In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

### Council's Borrowing and Treasury Management Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 1<sup>st</sup> March 2017 detailed the 2017/2018 borrowing limits for the Council. The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code introduced on 1<sup>st</sup> April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2017/2018 were set as follows:

- Authorised Limit for External Debt for 2017/2018 of £577.553m.
- Operational Boundary for External Debt for 2017/2018 of £498.960m.

As part of the Council's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis and the limits were not exceeded during 2017/2018. The highest level attained by the Council in respect of these limits, during 2017/2018, was £401.185m

## Narrative Statement – Performance during 2017/2018

In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by Council each year. The Policy for 2017/2018 is included in detail within the Note to the Accounts detailing the Nature and Extent of Risk Arising from Financial Instruments.

The Council's strategy for 2017/2018 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.50% for long-term borrowing was set in light of the views prevalent at the time the Treasury Management policy was set in March 2017.

In line with discussions with the Council's economic advisors, the Council has taken advantage of the low borrowing rate troughs that have occurred and has taken out £50m of new borrowing during the financial year to support the agreed capital programme. These rates were considered opportune and will benefit the revenue budget over the longer term. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
48½ years	03/11/2017	07/11/2017	07/05/2066	2.41	10.0
50 years	16/03/2018	20/03/2018	20/03/2068	2.35	20.0
50 years	20/03/2018	22/03/2018	22/03/2068	2.32	20.0

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

The performance of the Council's Treasury Management function continues to contribute financial savings that are essential to provide funding for future years' capital programmes and to help support the Council's revenue budget. The average rate of the Council's borrowing in 2017/2018 at 2.87% is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients as does the 0.62% rate of return achieved on investments in 2017/2018 (benchmark rate is 0.21%). This represents a good achievement, especially when short-term investment rates continue to remain very low, and demonstrates how proactive treasury management can have significant positive effects on the Council's resources.

## Pensions

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

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

The last full actuarial valuation of the Pension Fund was carried out as at 31<sup>st</sup> March 2016 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess the Council's liabilities as at 31<sup>st</sup> March 2018.

The Council continues to comply fully with this Standard and the Accounting Policy Note and the Notes to the Accounts provide details of the necessary disclosures required.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and, in reality, as the Council is committed to making the necessary pension deficiency payments in order to address any

## Narrative Statement – Performance during 2017/2018

shortfall in the pension fund identified by the Actuary, then the Balance Sheet net worth is in effect reporting future years' deficits, which will be addressed by future employer's contributions.

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit of £533.720m, as assessed by the Actuary, as at 31<sup>st</sup> March 2018, is being addressed by the Council in line with government regulations whereby a period of 18.7 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.

### Group Accounts

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

The Group has changed significantly during 2017/2018 and now includes:

- Together for Children Ltd;
- Sunderland Homes Ltd;
- IAMP LLP.

The Group balance sheet position is:

	Balance as at 31 March 2017 £m	Balance as at 31 March 2018 £m
Non-current assets	1,073	1,043
Net current assets	98	101
Long term liabilities and provisions	(868)	(941)
<b>Net Assets</b>	<b>303</b>	<b>203</b>
Represented by:		
Usable reserves	158	159
Unusable reserves	158	79
Profit/(Loss) in subsidiaries and associates*	(13)	(35)

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

# Narrative Statement – Performance during 2017/2018

## **Financial Statements presented within the Statement of Accounts 2017/2018**

The issues discussed above are reflected in the Statement of Accounts and Notes to the Accounts for 2017/2018.

The Accounts set out the Council's income and expenditure for the year, and its financial position at 31<sup>st</sup> March 2018. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018, which in turn is underpinned by International Financial Reporting Standards.

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

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

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

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

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

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

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

### **4. Balance Sheet**

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

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

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

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

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

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

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

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

### **8. Group Accounts**

The Group Accounts present the financial statements and associated notes for Sunderland City Council together with its subsidiaries and joint ventures.



# Narrative Statement – Looking Forward

## What's Next

Sunderland Council has always aspired to be a high performing, dynamic, well regarded and influential organisation, even against the on-going backdrop of austerity being the financial reality for the organisation.

The Council will be far more responsive to the demands placed on it from both inside and outside the City.

By 2020 the Council will be smaller in terms of directly employed staff but through strong collaborative leadership combined with a well-developed team ethos, will continue to punch above its weight locally, regionally, nationally and internationally.

We will have a greater clarity of purpose through focussing on a tighter set of priorities and optimise capacity to achieve the vision through lean and adaptable delivery arrangements and a strong performance management culture.

There will be continued collaboration between Elected Members and officers working seamlessly to maximise all opportunities for Sunderland, and we will embrace the diversity of our local communities and local priorities.

- We will effectively influence City partners and lever Sunderland's assets.
- We will fulfil that role by ensuring that we become leaner, more efficient, more productive and high performing.
- We will embrace innovation and collaboration without being a direct provider of services.
- We will capitalise on opportunities to ensure key services for Sunderland are provided by maximising external income and investment opportunities including the collection of business rates and council tax as well as opportunities from wider sub regional and regional and national working.
- We will never lose sight of the needs of Sunderland, its residents, communities and businesses. Our actions will be intelligence led and we will collaborate with those who want the best for the City and will embrace the diversity of our local communities and local priorities.

The Corporate Plan was published in 2016 and is supported every year by the publication of a Corporate Delivery Plan detailing the actions the Council will implement to support the delivery of its strategic priorities.

As the Corporate Plan is half way into its original lifespan, the Council is undertaking a review and update of the Plan to ensure that it is fit for purpose for its final two years.

The refreshed Corporate Plan will show how, despite the challenges the City faces, the Council is focussing on the things that will make a real difference to the Council, the City and, most importantly of all, to the residents, communities and business of Sunderland.

The Council's Corporate Delivery Plan 2018/2019 seeks to build on the performance achievements of 2017/2018 and make progress in areas where further performance improvement is desired. The Corporate Delivery Plan 2018/2019 therefore includes a focus on the following for performance improvement under the emerging plan themes of :

- Promoting new, desirable neighbourhoods
- Ensuring the roles the City Centre needs to fulfil can realistically be achieved
- Supporting local people to secure employment opportunities
- Improving educational achievement at the secondary level
- Reducing levels of alcohol, smoking and obesity across the City
- Ensuring support services and back office processes are much slicker and drive greater productivity and added value

## Narrative Statement – Looking Forward

- Safeguarding

Specific areas in which we know further progress on performance improvement is required in respect of each of the emerging themes are set out below.

### Promoting new, desirable neighbourhoods

More housing is being built each year in Sunderland, and in 2017/18 this included more larger family homes. The previously static rate of properties in council tax Bands C-G has increased by 0.2% to 23.7% of all properties, but the Sunderland figure continues to lag behind the North East at 30% and England at 55%. More homes and a greater number of larger family homes are required to ensure balance and choice in the housing market and to retain and attract people to live in the City. Our priority actions focus on our Local Plan and continuing to engage housing developers. We will facilitate market development in areas of high housing demand, continuing progress on existing large housing sites at Chapelgarth and Seaburn through Siglion, and the development of smaller sites through Sunderland Homes Limited.

### Ensuring the roles the City Centre needs to fulfil can realistically be achieved.

The footfall in the City centre was 20,658,538 in 2017/18 - a 1.62% decrease on the 20,997,704 recorded over the same period in 2016/17 (though it should be noted there were some footfall camera location changes). Although this trend is reflected in City centres and towns across the UK, we want to promote and develop a more exciting and sustainable City centre that is a vibrant hub for the City attracting businesses, residents and visitors. In particular we will deliver on planning, infrastructure and regeneration commitments, paving the way for changes in the way the City centre is used through re-design.

### Supporting local people to secure employment opportunities

Skilled employment. Although employment has increased there is still a need for more and better paid jobs in the City (as measured by the median wage) and to ensure that local people are able to secure those jobs. The median wage for Sunderland residents in April 2017 (at £486.00) was lower than the North East (£504.10) and Great Britain (£552.70) and the gap widened compared with 2016. Our priority actions therefore continue to focus on supporting key economic projects that are expected to attract well-paid jobs, including the International Advanced Manufacturing Park (IAMP) and City centre development including Vaux. We know also, that skills shortages exist in some key sectors such as health & social care, and that STEM (Science, Technology, Engineering & Maths) skills continue to be in demand. Furthermore, the existing gap between the median weekly wage for Sunderland residents and Sunderland workers has widened slightly in 2017 by £0.40 to £8.70. Thus there is also a need to ensure that local people are able to secure the better paid jobs created that are created. This emerging Corporate Plan priority theme is therefore also linked with another emerging theme area in relation to improving educational achievement at secondary level (see below).

Entrepreneurship – New businesses in Sunderland have a better rate of survival after their first year than elsewhere, however, the business start-up rate at 32.1 (per 10,000 population) is lower than the North East at 38.60 and significantly lower than the rate of England & Wales at 66.1.

Entrepreneurship is important in creating the pipeline for new and emerging small and medium enterprises (SME's) that can further grow with the support of our business incubators (not yet all full). Through a focussed marketing strategy, and support provided through our Business Investment Team, we will seek to maximise growth from new and emerging SME's and continuing to attract investment through MAKE It Sunderland.

### Improving educational achievement at secondary level

Whilst education outcomes for children in the City are good up to the end of Key Stage 2 (end of Primary School) at secondary level a skills gap emerges.

– At GCSE 56.6% of students achieved a grade 4-9 or higher in Maths or English, for England this

## Narrative Statement – Looking Forward

figure was 59.1% (academic year 2016/17).

- For young people who have reached academic statutory school age Years 12 to 13, 87.8% were meeting the statutory duty to participate in education and training at the end of March 2018. This is lower than the aspiration (target of 92.8%) that we set for 2017/18 with our commissioned Children's Service.
- On the achievement of A-level by the age of 19, 50.2% of students achieved in Sunderland, for England the figure was 57.5% (academic year 2016/17).
- In relation to higher education, 27.3% of residents have a level 4 qualification (degree or equivalent) for Great Britain the figure is 57.1 (2015/16).

Our priorities focus on working in partnership with others on promoting the achievement of skills for the local labour market and maximising the Apprenticeship Levy within the Council, its owned companies and our schools.

### Reducing levels of alcohol, smoking and obesity across the City

Residents in Sunderland have poorer health outcomes than elsewhere. Healthy life expectancy is lower for males and females (Males: Sunderland 58.8, North East 59.7, England 63.3. Females: Sunderland 59.3, North East 60.6, England 63.9. (2014 - 2016), and there are a range of other poorer health outcomes particularly, hospital admissions due to alcohol, smoking prevalence and obesity. These issues affect adults and young people alike; however, additionally for young people there is also a need to focus on reducing teenage pregnancy.

- Hospital admissions due to alcohol. In Qtr. 1 of 2017/18 (latest available data as at the end of 2017/18) alcohol admissions per 100,000 population were 257.3 for Sunderland and 163.6 for England. For under 18's the figure was 95.7 for Sunderland and 34.2 for England.
- Smoking prevalence. In 2016, 18% of adults in Sunderland were estimated smokers compared with 15.5% for England.
- Obesity. An estimate proportion of adults with excess weight (overweight or obese), shows the Sunderland proportion to be 70.1% (for the pooled period 2013-2015), higher than the North East average of 68.6% and statistically significantly worse than the England average of 64.8%. Latest data for the 2016/17 academic year shows that the prevalence of overweight (including obese) children in Year 6 in Sunderland was 38.7%, worse than the North East average of 37.3 and England average of 34.2%.

Our priority actions focus on effective health commissioning to tackle health inequalities and a continued focus on addressing teenage pregnancy building on early successes made in the last year.

### Ensuring support services and back office processes are slicker and drive greater productivity and added value

As we face the financial challenges ahead of us to 2020, with a further £27.4m savings in 2018/19, we will continue to deliver our transformation programme and we will seek to maximise every opportunity for external funding whilst simultaneously maximising collection of council tax and business rates. We will also seek to maximum business efficiency and reduce waste through our transformation programme. We will continue to closely monitor the set of 'business management metrics' put in place at the outset of 2016/17, taking appropriate action as required.

### Safeguarding

Sunderland has a higher rate of children in need, children subject to a Child Protection Plan and Looked After Children (LAC) than statistical neighbours. Figures as at the end of 2017/18 show:

- Children in Need – Sunderland 498.30 per 10,000 population, statistical neighbour average 437.1.
- Children subject to a Child Protection Plan - Sunderland 95.5 per 10,000 statistical neighbours 55.31.
- Looked After Children (LAC) – 109.8 LAC per 10,000 population in Sunderland, statistical neighbours rate is 94.3.

## Narrative Statement – Looking Forward

Given this continues to be a Council priority, within our strategic planning we will therefore continue to prioritise the achievement of good outcomes for Children and Young People who require our Children's Services, and ensure effective performance management with our commissioned service Together for Children to achieve sustained long term improvements.

With an ageing population and less than half our levels of contact to Adults Services in 2016/17 resulting in a referral for services, our priorities for Adults Services focus very much on managing demand and prevention.

### **Funding Context and Financial Planning**

2017/2018 represented the eighth year of the implementation of the Government's plans to eliminate the national deficit. During that period the Government has regularly revised its forecasts. Its current stated intention is to reduce the national deficit to £21.4bn by in 2022/2023.

The government funding reductions and cost pressures over the eight year period 2010/2011 to 2017/2018 has meant Sunderland City Council has had to achieve savings or raise income of over £290m.

£44.7m of these savings, or increased income, were achieved in 2017/2018 involving further transformation of service delivery, reducing service standards and commissioned activity, maximising income and prioritising resources to support statutory requirements and key priorities, around People, Place and Economy. Additionally the Council chose to raise council tax and support the budget with planned use of reserves to smooth the impact of required budget reductions.

Looking to 2018/2019, reductions in Government funding and particularly cost pressures mean that the budget has been set taking account of a further £27m of savings, comprising £17m of service savings, £6m planned use of balances and applying a council tax increase and social care levy within the limits set by government to raise an additional £4m. The approach to savings reflects the strategic vision of the Council's role in the City in the future and reflecting the Council's Community Leadership role. This involves a continuation of the approach of further transforming service delivery, reducing service standards and commissioned activity, and prioritising resources to support statutory requirements and key priorities, around People, Place and Economy. Full detail of the savings plan for 2018/2019 is set out in the Budget Report to Council of 7<sup>th</sup> March 2018.

Looking to the medium term, the Government has published indicative funding figures through to 2019/2020. In 2020/2021 the Government proposes a move to 75% retained business rates aligned to a fair funding review of Local Government funding. Coupled with the outcome of the departmental spending review expected to take effect from 2020/2021, this uncertainty poses a significant risk to the Council's financial position. Based on the indicative settlement, assumed future funding and estimated cost pressures, the savings requirement for 2018/2019 to 2020/2021 is £53m. The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services is increasingly difficult. The Council continues to plan for these further significant reductions and risks through an approved Efficiency Strategy covering 2018/2019 to 2020/2021.

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

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

## **Narrative Statement – Looking Forward**

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

- Ensuring resources are targeted on statutory and front line services and protecting key priority services with a focus on need rather than want.
- Redesigning and reshaping services to deliver required outcomes at least cost and maximise productivity. There will be a focus on commissioning, shifting from the Council directly delivering services, to a role of shaping, facilitating and enabling services;
- Strategic commissioning based on outcomes with revised commissioning and service standards to enable key priorities to be met with appropriate services commissioned at lower cost;
- Ensuring commercial procurement arrangements and contract management deliver maximum output for less resources;
- Pressing forward with new models of service delivery at reduced cost and increase commercialisation to maximise income opportunities where there is a market and business case;
- Ensuring opportunities for collaboration with partners to deliver key outcomes that matter to the City;
- Maximising back office savings with a reduction in strategic and support services, with proportionately greater reductions as the Council reduces in size and headcount;
- Maximising opportunities afforded through use of technology and manager self-service;
- Involving the Community – residents, businesses, partners, voluntary sector to ensure best outcomes for the City;
- Continued focus on progressing regeneration, funding leverage and commercial opportunities.

The Efficiency Strategy allows for regular review of commitments against reserves to be undertaken in order to reprioritise where appropriate to give consideration to the release of such reserves to support the overall budget position and transformational costs as necessary. For 2018/2019 reserves are being used specifically to support the overall Council position, in addition to use of reserves for existing purposes. At this stage, it is anticipated that useable reserves will decrease significantly by 2020/2021.

### **Planned future developments in service delivery**

The Council is continually examining the most appropriate service delivery approach for a number of services, both to generate financial savings and to ensure the best possible outcomes for the reducing level of available resource. At present there are no firm plans for any additional alternative delivery models.

### **Four Year Capital Programme**

The Council is continuing to focus its Capital Programme on Economic Regeneration, with a four year programme from 2018/2019 to 2021/2022 of £280m. This will help support Sunderland to contribute towards the aims and priorities set out in the Economic Master Plan and the City's 3,6,9 Vision, the main objective of which is to improve Sunderland's economic prosperity.

Some examples of our major schemes are:

- International Advanced Manufacturing Park (IAMP) £102m total  
Provision of a world class business environment for the automotive supply chain, advanced manufacturing and knowledge based industries creating up to 5,200 high quality jobs. In doing so, the IAMP will make a significant contribution to the economic success of Sunderland, South Tyneside and the wider region. Funded through the Local Growth Fund, Council resources and through the North East LEP Enterprise Zone.
- SSTC Phase 3 – link road £59m total  
The third phase of the Sunderland Strategic Corridor to provide a new improved link road from the Northern Spire to City centre. Primarily funded from the Local Growth Fund.
- Vaux Phase 1 £26m total  
Provision of the first phase of development on the former Vaux site via the construction of a building which will provide 5,481m<sup>2</sup> (c.59,000 sq ft) of lettable business space along with strategic infrastructure

## Narrative Statement – Looking Forward

including roads, utilities, parking, landscaping, public realm and external works. Funded by the Local Growth Fund and Council resources.

- A19 Ultra Low Carbon Enterprise Zone £24m total  
Provision of infrastructure works including an improved road layout to support the local businesses on this Enterprise Zone development. Fully funded by external sources.
- Parklife – FA Football Hubs £12m total  
The planned provision of football Hub sites strategically located across the City. To be funded by the Football Foundation and Council resources.
- City Centre Regeneration £11m total  
Provision to support a City Centre Masterplanning investment strategy, allowing timely acquisitions of critical sites, in target regeneration areas. Resources are proposed to support strategic land and building acquisitions focusing on City centre regeneration. Any acquisitions will be supported by an approved Masterplan for the overall development area
- Port Enterprise Zone £10m total  
Infrastructure works that will provide significant plots within the Port estate to be ready for development by prospective inward investors, in order to support local regeneration and economic growth. Funded through the prudential borrowing supported by the North East LEP Enterprise Zone.
- Coastal Defence – Strategic Frontage 3 £10m total  
Coastal defence scheme situated around east of the port which will protect the Port's infrastructure.

## Capital Expenditure and Funding

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

<b>Capital Expenditure and Funding</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<u>Portfolio:</u>					
Leader	0	0	0	0	<b>0</b>
Deputy Leader	56	23	24	1	<b>104</b>
Cabinet Secretary	7	0	0	0	<b>7</b>
Children, Learning and Skills	1	2	0	0	<b>3</b>
Health and Social Care	0	0	0	0	<b>0</b>
Housing and Regeneration	26	2	1	0	<b>29</b>
Community and Culture	18	5	1	0	<b>24</b>
Environment and Transport	39	43	28	3	<b>113</b>
<b>Total Expenditure</b>	<b>147</b>	<b>75</b>	<b>54</b>	<b>4</b>	<b>280</b>
Grants and Contributions	55	48	31	1	<b>135</b>
Capital Receipts	2	1	0	0	<b>3</b>
Reserves and Revenue	4	1	5	1	<b>11</b>
Borrowing	86	25	18	2	<b>131</b>
<b>Total Funding</b>	<b>147</b>	<b>75</b>	<b>54</b>	<b>4</b>	<b>280</b>

Capital grants and contributions from external sources account for nearly half of the total funding in the programme. This is largely Government grants to support local growth and regeneration, including transport infrastructure. Other significant funding is Council borrowing, invested on a prudent basis including a range of invest to save schemes.

# Narrative Statement – Looking Forward

## Financial Risk Assessment

The Council undertakes an analysis of the major financial risks it faces as part of the annual budget setting process. The following are deemed to be the key financial risks;

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
1. Future available resources less than notified. While the Council has signed up to the Multi-year (4 year) guarantee for RSG based on the data as known, this does not reflect any potential impact of Brexit or impact of Government Fair Funding review and move to 75% retained business rates. This is likely to be a key impact on the level of funding available in future	Likely	High	Settlement confirmed RSG funding for 2018/2019 with assumptions beyond 2018/2019 based on indicative data released by Government as part of the 2018/2019 settlement adjusted for best local knowledge and information available. Sign up to multi-year 4 year guarantee for RSG (although it is noted this only covers RSG). Assumptions will be updated regularly for impact of government reviews of funding and related announcements. Annual review of reserves and reserves policy to identify available future resources.
2. Changes to Government and/or policy.	Possible	High	The Government's manifesto and queens speech following the election (covering a two year period) included little primary legislation proposals affecting local government. Source alternative funding options including short term use of reserves. Pressures factored into MTFs. Latest funding cut indications reflected in MTFs.
3. Pay Awards and price inflation higher than assumed.	Possible	Low	The government is currently holding the line on not funding pay awards for local government. Provision included in mtf's based on latest known national employers offer.
4. Future spending plans underestimated.	Possible	Medium	Service planning process and regular MTFs review identifies future budget pressures.
5. Anticipated savings not achieved.	Possible	High	Regular monitoring and reporting take place but the size of the funding cuts increase the likelihood of this risk into the future. None achievement of savings would require compensating reductions in planned spending within services. Principles to maintain General Reserve at least £10m. Availability of Transitional Funding
6. Revenue implications of capital programmes not fully anticipated.	Unlikely	Low	Revenue impacts considered in framing the capital programme. Given reduced availability of funding new projects primarily invest to save or regeneration activity with limited revenue cost impacts. Capital programme links to Council priorities.
7. Income Targets for business rates and council tax not achieved	Possible	High	Prudent approach taken in setting the forecast income levels. Rigorous monitoring processes in place, including through corporate performance arrangements to identify forecast shortfall and remedial action will be taken. Government Safety Net arrangements
8. Other Miscellaneous Income targets not achieved	Possible	Medium	Economic climate potential impact, mitigated by planned short term use of reserves. Regular monitoring / reporting and review of fees and charges undertaken.

## Narrative Statement – Looking Forward

Risk	Likelihood	Impact	Risk Management
9. Budget monitoring not effective	Unlikely	High	Regular monitoring / reporting in line with corporate performance management framework. Action plans developed to address problem areas.
10. Exit strategies for external funding ceasing/tapering not met.	Possible	Medium	Regular monitoring and reporting. Government policy has largely removed ring fencing providing greater flexibility. External Funding Strategy in place.
11. Loss of principal deposit.	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which focus on security of deposit rather than returns. Impact limited due to the strategy of a diverse portfolio and top rated institutions and greater use of low risk debt management approach.
12. Interest rates lower than expected.	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2018/2019 onwards factored into the MTFS.
13. All MTFS risks not adequately identified.	Unlikely	Low	Council's Risk Management Profile ensures all operational and strategic risks identified as part of annual service planning process.
14. Service pressures higher than anticipated including in related companies.	Possible	Medium	Additional resources earmarked as part of budget process and as part of outturn positions. Further pressures will be built into the MTFS as they arise. Maintain reserves at level sufficient to support pressures on one-off basis.

*K. Davison*

Karen Davison  
Head of Financial Management

20<sup>th</sup> July 2018



# Statement of Responsibilities for the Statement of Accounts

## The Council's Responsibilities

The Council is required:

1. To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director of Corporate Services. In the absence of a postholder the Head of Financial Management deputises as the Section 151 officer.
2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
3. To approve the Statement of Accounts.

## The Executive Director of Corporate Services' Responsibilities

As the Section 151 officer, the Executive Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2018.

The Executive Director of Corporate Services left the Council at the end of May 2018. Whilst his replacement has been appointed they will not commence in post until August 2018. In the meantime, Section 151 responsibilities have been delegated to the Head of Financial Management who will authorise the accounts for issue.

## Authorised for Issue Date

The unaudited accounts were certified on 31<sup>st</sup> May 2018 and the audited accounts are now authorised for issue on 20<sup>th</sup> July 2018.

## Certificate of the Head of Financial Management

*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.

*K. Davison*

Karen Davison  
Head of Financial Management

20<sup>th</sup> July 2018

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

## Opinion on the financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the state of the financial position of Sunderland City Council and its Group as at 31 March 2018 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response and key observations
<p><b>Property, plant and equipment valuations</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.</p> <p><i>Group audit – PPE valuations was also a Key Audit Matter for the Group audit, although most of the other components do not hold such assets.</i></p>	<p>We considered the Council's arrangements for ensuring that PPE values were reasonable and engaged our own expert to provide data to assist us in assessing the reasonableness of the valuations provided by the Council's valuer.</p> <p>We also assessed the competence, skills and experience of the valuer.</p> <p>We performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.</p> <p>There were no significant issues arising from our work.</p>
<p><b>Defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p><i>Group audit – Defined benefit liability valuation was also a Key Audit Matter for the Group audit.</i></p>	<p>We discussed with officers any significant changes to the pension estimates. In addition to carrying out analytical procedures on the pension disclosures and obtaining a letter of assurance from the auditor of Tyne and Wear Pension Fund, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by National Audit Office.</p> <p>There were no significant issues arising from our work.</p>

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

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

Based on our professional judgement, we determined materiality for Sunderland City Council and its Group for the financial statements as a whole as follows:

	Council	Group
Overall materiality	£11,906k	£12,577k  We set component materiality of the significant component, Together for Children Sunderland Limited, as £1,878k for the purposes of the Group audit.  All other components were audited to local statutory audit materiality, between £60k and £666k, being all below Group financial statement materiality. One component, Sunderland Homes Limited, was exempt from audit.
Basis for determining materiality	approximately 2% of operating expenses of continuing operations	approximately 2% of operating expenses of continuing operations
Rationale for benchmark applied	Operating expenses of continuing operations was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.	Operating expenses of continuing operations was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.
Performance materiality (Note 1)	£9,525k	£10,061k
Trivial level (Note 2)	£357k	£377k
Specific materiality	Officers remuneration – included in the correct banding Senior officers emoluments – only rounding errors accepted Members allowances £50k Termination benefits £250k	Officers remuneration – included in the correct banding Termination benefits £250k

Note 1 – Performance materiality: This is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

Note 2 – Trivial level: This is the level under which individual errors are not communicated to the Audit and Governance Committee. It is based on 3% of overall materiality.

## An overview of the scope of our audit

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 and its Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Executive Director of Corporate Services and the overall presentation of the financial statements. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed in the "Key audit matters" section of this report. In addition we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Our Group audit work was based on our assessment of the risk of material misstatement and the materiality of each component. Where other auditors carried out the statutory audit of other entities in the Group, we carried out appropriate procedures in relation to each component auditor's work sufficient to provide the assurance needed for Group audit purposes.

	Full scope audit: Sunderland City Council	Full scope audit: Together for Children Sunderland Ltd	Limited scope audit: Sunderland Care and Support Ltd	Other audit procedures: Other Group Entities
Percentage of Group operating expenses of continuing operations (chosen benchmark for materiality)	77.9%	17%	5%	0.1%
Percentage of Group revenues	80.9%	14%	5%	0.1%
Percentage of Group assets	97.8%	0.1%	0.2%	1.9%

## Other information

The Executive Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Executive Director of Corporate Services for the financial statements

As explained more fully in the Executive Director of Corporate Services' Statement of the Responsibilities for the Statement of Accounts, the Executive Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Executive Director of Corporate Services is also responsible for such internal control as the Executive Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Executive Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

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

### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph below, we are satisfied that, in all significant respects, Sunderland City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Basis for qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate.

Ofsted published a re-inspection report updating their July 2015 assessment on 25 July 2018. Although some aspects of children's services have improved, the categories of 'children who need help and protection' and 'leadership, management and governance' remain inadequate. Our qualification remains in relation to those services that continue to be assessed as inadequate. This qualification will remain until these services are no longer assessed as inadequate by Ofsted.

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves 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 2018.

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

### **Responsibilities of the Council**

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.

### **Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

## Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Other matters which we are required to address

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council or its Group and we remain independent of the Council and its Group in conducting our audit.

Our audit opinion is consistent with the Audit Completion Report to the Audit and Governance Committee.

## Use of the audit report

This report is made solely to the members of Sunderland City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

## Delay in certification of completion of the audit

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



Mark Kirkham

For and on behalf of Mazars LLP

Salvus House, Aykley Heads, Durham, DH1 5TS

31 July 2018



# Annual Governance Statement

## SCOPE OF RESPONSIBILITY

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

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code has been updated in line with the 2016 Framework issued by CIPFA and can be obtained from the Executive Director of Corporate Services. This Statement explains how the Council has complied with its Code in 2017/18.

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2018 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

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

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

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

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

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

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

## Annual Governance Statement

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

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

A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to ongoing review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 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 Corporate Services is designated Chief Finance Officer and fulfils this role through the following:

- Attendance at meetings of the Chief Officer's Group, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose.

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

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

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure

## Annual Governance Statement

that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

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

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

The Council's Code of Practice for Partnerships and supporting arrangements have been reviewed and new arrangements have been implemented.

Contractual arrangements with Together for Children Sunderland Ltd. clearly set out challenging targets around use of resources and improved outcomes for children and young people, following the 2015 OFSTED. Regular monitoring visits by OFSTED acknowledge improvement albeit from a low performance base.

An annual review of contractual governance arrangements is scheduled for 2018/19.

### REVIEW OF EFFECTIVENESS

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

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from Chief Officers through completion of controls assurance statements.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report.
- The external auditors (Mazars) Annual Audit Letter for 2016/17 concludes that 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people', except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015.

The Head of Assurance, Procurement and Performance Management has directed, co-ordinated and overseen the review and its findings and proposed improvements have been reported to the Chief Officer's Group for their consideration and approval of the Annual Governance Statement.

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

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

## Annual Governance Statement

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

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



Councillor Graeme Miller  
Leader of the Council



Irene Lucas  
Chief Executive



Karen Davison  
Head of Financial Management

Dated: 20<sup>th</sup> July 2018

# Financial Statements

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The Statement shows how the movement in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practice, and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net Increase / Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. The table below shows the details for both 2016/2017 and 2017/2018 as required by the Code of Accounting Practice.

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2016</b>		<b>17,974</b>	<b>147,048</b>	<b>11,671</b>	<b>40,612</b>	<b>217,305</b>	<b>203,162</b>	<b>420,467</b>
Movement in reserves during 2016/2017:								
Total Comprehensive Income and Expenditure		(57,680)	0	0	0	<b>(57,680)</b>	(72,179)	<b>(129,859)</b>
Adjustments between accounting basis & funding basis under regulations	7	36,344	0	(6,917)	(31,841)	<b>(2,414)</b>	2,414	<b>0</b>
Transfers to / (from) Earmarked Reserves	9	21,586	(21,586)	0	0	<b>0</b>	0	<b>0</b>
(Increase) / Decrease in 2016/2017		250	(21,586)	(6,917)	(31,841)	<b>(60,094)</b>	(69,765)	<b>(129,859)</b>
<b>Balance at 31 March 2017</b>		<b>18,224</b>	<b>125,462</b>	<b>4,754</b>	<b>8,771</b>	<b>157,211</b>	<b>133,397</b>	<b>290,608</b>
Movement in reserves during 2017/2018:								
Total Comprehensive Income and Expenditure		(66,241)	0	0	0	<b>(66,241)</b>	(8,892)	<b>(75,133)</b>
Adjustments between accounting basis & funding basis under regulations	7	69,674	0	2,209	(3,774)	<b>68,109</b>	(68,109)	<b>0</b>
Transfers to / (from) Earmarked Reserves	9	(3,083)	3,083	0	0	<b>0</b>	0	<b>0</b>
(Increase) / Decrease in 2017/2018		350	3,083	2,209	(3,774)	<b>1,868</b>	(77,001)	<b>(75,133)</b>
<b>Balance at 31 March 2018</b>		<b>18,574</b>	<b>128,545</b>	<b>6,963</b>	<b>4,997</b>	<b>159,079</b>	<b>56,396</b>	<b>215,475</b>

# Financial Statements

## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement is presented under the following Portfolios (\*):

### **Leader**

The Leader Portfolio provides Executive leadership to the council on all matters and particularly all major strategic, corporate and cross-cutting, reputational and commercially sensitive issues, strategic transport and the Budget and Capital Programme. The Portfolio also provides community leadership for partners, residents and other interests in order to improve the quality of life and satisfaction in the City. The Portfolio coordinates and apportions the roles and responsibilities on Executive Members. The Portfolio is also responsible in ensuring that the Council's approach to economic, social and physical regeneration of the City is integrated, enabling and effective.

### **Deputy Leader**

The Deputy Leader deputises for the Leader and has lead responsibility for matters relating to the 'Place' theme within the Council's outcome framework, with specific strategic leadership responsibility for the City Services and Responsive Service and Customer Care Portfolios. The Deputy Leader Portfolio has overall responsibility for the efficient, coordinated management and use of the Council's human and ICT resources.

### **Cabinet Secretary**

The Cabinet Secretary provides support and assistance to the Leader with responsibility for all matters relating to the 'People' theme within the Council's outcomes framework and has specific strategic leadership responsibility for the Children and Families, Health, Housing and Adult Services and Public Health, Wellness and Culture Portfolios. The Cabinet Secretary Portfolio has overall responsibility for the efficient, coordinated management and use of all of the Council's financial resources and assets.

### **Children's Services**

The Children's Services Portfolio provides leadership to improve the life chances of children and young people in the City. The portfolio is responsible for leading the city's response to education, skills and training issues and opportunities in order to promote economic and social regeneration.

### **Health, Housing and Adult Services**

The Health, Housing and Adult Services portfolio provides leadership and support for the Council and its partners in securing the social and health care of all adults. The Portfolio also provides leadership in ensuring that the Council's strategic and statutory roles in relation to housing are met and deliver the homes that meet the current and future needs of the City.

### **Public Health, Wellness and Culture**

The Public Health, Wellness and Culture Portfolio leads partners to achieve improvements in public health, health awareness and wellness in the city. The portfolio has responsibility to develop and promote the cultural strategy and initiatives.

### **City Services**

The City Services Portfolio has responsibility for ensuring that the council and its partners succeed in making the city attractive and accessible for all. The Portfolio provides leadership for the council and its partners to ensure that the local environment is well managed and meets customer expectations.

### **Responsive Services and Customer Care**

The Responsive Services and Customer Care Portfolio champions improvement in the responsiveness of services to local needs and customer feedback. The Portfolio provides leadership for the continuing development of area arrangements as a principal means of improving the relevance of services to local communities and circumstances. The Portfolio has responsibility for championing the continuing improvement of customer care policy and practice. The Portfolio is also responsible for developing the community's capacity to engage in the shaping, delivery and review of services and their neighbourhoods and provides leadership for the Council and its partners in order to make Sunderland a safer City.

\* The Portfolios reported in these accounts represent those in place during the 2017/2018 financial year. Portfolio arrangements have been amended by Council 16<sup>th</sup> May 2018.

## Financial Statements

### Comprehensive Income and Expenditure Statement

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

2016/2017 * restated				Notes	2017/2018		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
12,839	2,203	10,636	Leader		12,329	2,504	9,825
142,309	129,216	13,093	Deputy Leader		140,884	126,273	14,611
31,473	16,238	15,235	Cabinet Secretary		46,960	26,561	20,399
221,588	150,432	71,156	Children's Services *		203,680	128,059	75,621
144,687	64,898	79,789	Health, Housing and Adult Services		112,708	50,797	61,911
32,623	26,960	5,663	Public Health, Wellness and Culture		29,363	26,515	2,848
62,503	20,579	41,924	City Services *		64,600	22,440	42,160
8,801	2,735	6,066	Responsive Services and Customer Care		9,179	2,887	6,292
10,452	0	10,452	Exceptional item - severance costs		0	0	0
0	0	0	Exceptional item - IAS19 settlement adjustment		(24,380)	0	(24,380)
2,707	0	2,707	Exceptional item - equal pay settlement/provision		0	0	0
669,982	413,261	256,721	<b>Cost of Services</b>		595,323	386,036	209,287
43,657	0	43,657	Other operating expenditure	10	74,238	0	74,238
29,555	9,921	19,634	Financing and investment income and expenditure	11	34,290	6,409	27,881
0	262,332	(262,332)	Taxation and non-specific grant income and expenditure	12	0	245,165	(245,165)
743,194	685,514	57,680	<b>(Surplus) or Deficit on Provision of Services</b>	27	703,851	637,610	66,241
		4,879	(Surplus) or deficit on revaluation of non-current assets	23a			(12,418)
		67,300	Re-measurements of the net defined benefit liability / (asset)	43			21,310
		72,179	<b>Other Comprehensive Income and Expenditure</b>				8,892
		129,859	<b>Total Comprehensive Income and Expenditure</b>				75,133

\* 2016/2017 position has been restated to reflect £1.095m net expenditure relating to one service area which transferred from Children's Services to City Services during 2017/2018.

## Financial Statements

### Balance Sheet

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

31st March 2017 £'000		Notes	31st March 2018 £'000
894,723	Property, Plant and Equipment	13	<b>870,732</b>
12,192	Heritage Assets	14	<b>12,192</b>
60,458	Investment Property	15	<b>54,110</b>
2,192	Intangible Assets		<b>2,349</b>
21,915	Long Term Investments	16	<b>21,915</b>
55,095	Long Term Debtors	16	<b>56,481</b>
<b>1,046,575</b>	<b>Long Term Assets</b>		<b>1,017,779</b>
130,955	Short Term Investments	16	<b>60,142</b>
727	Inventories		<b>1,110</b>
44,992	Short Term Debtors	17	<b>70,401</b>
1,096	Assets Held for Sale	19	<b>486</b>
43,817	Cash and Cash Equivalents (In-hand & bank)	16/18	<b>92,278</b>
<b>221,587</b>	<b>Current Assets</b>		<b>224,417</b>
(9,430)	Cash and Cash Equivalents (overdrawn)	16/18	<b>(11,172)</b>
(34,052)	Short Term Borrowing	16	<b>(35,897)</b>
(62,787)	Short Term Creditors	20	<b>(59,202)</b>
(18,132)	Provisions	21	<b>(15,307)</b>
(2,548)	Grant Receipts in Advance - Capital	35	<b>(1,552)</b>
<b>(126,949)</b>	<b>Current Liabilities</b>		<b>(123,130)</b>
(235,655)	Long Term Borrowing	16	<b>(283,941)</b>
(610,754)	Other Long Term Liabilities	16	<b>(613,452)</b>
(4,196)	Provisions	21	<b>(6,197)</b>
<b>(850,605)</b>	<b>Long Term Liabilities</b>		<b>(903,590)</b>
<b>290,608</b>	<b>Net Assets</b>		<b>215,476</b>
157,211	Usable Reserves	9	<b>159,080</b>
133,397	Unusable Reserves	23	<b>56,396</b>
<b>290,608</b>	<b>Total Reserves</b>		<b>215,476</b>



## Financial Statements

### Cash Flow Statement

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

2016/2017 £'000		Notes	2017/2018 £'000
57,680	Net (surplus) or deficit on the provision of services		<b>66,241</b>
(58,116)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements		<b>(83,446)</b>
22,135	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		<b>37,856</b>
21,699	Net cash flows from operating activities	24	<b>20,651</b>
16,610	Investing activities	25	<b>(22,021)</b>
(21,106)	Financing activities	26	<b>(45,349)</b>
17,203	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(46,719)</b>
51,590	Cash and cash equivalents at the beginning of the reporting period		<b>34,387</b>
34,387	<b>Cash and cash equivalents at the end of the reporting period</b>	18	<b>81,106</b>

## Notes to the Financial Statements

	Page	
Note 1	Significant Accounting Policies	43
Note 2	Accounting standards that have been issued but have not yet been adopted	59
Note 3	Critical Judgements in applying accounting policies	59
Note 4	Assumptions made about the future and other major sources of estimation uncertainty	60
Note 5	Material items of income and expenditure	62
Note 6	Events after the Balance Sheet date	63
Note 7	Adjustments between accounting basis and funding basis under regulations	64
Note 8	Expenditure and Funding Analysis	67
Note 9	Transfers to/from Earmarked Reserves	71
Note 10	Other operating expenditure	74
Note 11	Financing and investment income and expenditure	74
Note 12	Taxation and non-specific grant income and expenditure	74
Note 13	Property, Plant and Equipment	75
Note 14	Heritage Assets	79
Note 15	Investment Properties / Land	79
Note 16	Financial Instruments	81
Note 17	Short Term Debtors	87
Note 18	Cash and cash equivalents	87
Note 19	Assets Held for Sale	87
Note 20	Short-Term Creditors	88
Note 21	Provisions	88
Note 22	Usable Reserves	89
Note 23	Unusable Reserves	89
Note 24	Cash Flow Statement – Operating Activities	93

## Notes to the Financial Statements

	Page	
Note 25	Cash Flow Statement – Investing Activities	93
Note 26	Cash Flow Statement – Financing Activities	93
Note 27	Expenditure and Income Analysed by Nature	94
Note 28	Trading Operations	96
Note 29	Pooled Budgets	96
Note 30	Agency Services	98
Note 31	Members' Allowances	98
Note 32	Officers' Remuneration	99
Note 33	External Audit Costs	101
Note 34	Dedicated Schools' Grant	102
Note 35	Grant Income	103
Note 36	Related Parties	105
Note 37	Capital Expenditure and Capital Financing	111
Note 38	Leases	111
Note 39	Private Finance Initiatives and Similar Contracts	113
Note 40	Impairment Losses	117
Note 41	Termination Benefits	118
Note 42	Pensions Schemes Accounted for as Defined Contribution Schemes	120
Note 43	Defined Benefit Pension Schemes	121
Note 44	Contingent Liabilities	126
Note 45	Financial Guarantees	126
Note 46	Contingent Assets	127
Note 47	Nature and Extent of Risk Arising from Financial Instruments	127
Note 48	Heritage Assets: Summary of Transactions	131
Note 49	Heritage Assets: Further Information on the Council's Holdings	131
Note 50	Trust Funds	131

# Notes to the Financial Statements

## Note 1 – Significant Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/2018 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the Local Government Act 2003, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 supported by International Financial Reporting Standards (IFRS).

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

### 1.2 Accrual of Income & Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.
- A de-minimis level of £5,000 is applied to accruals.

### 1.3 Cash and Cash Equivalents

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

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

# Notes to the Financial Statements

## 1.4 Exceptional Items

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

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

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

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

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

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

## 1.6 Charges to Revenue for Non-Current Assets

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

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

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

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

## 1.7 Employee Benefits

### Benefits Payable during Employment

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

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

# Notes to the Financial Statements

## Termination Benefits

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

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

## Post-Employment Benefits

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

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

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

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

## The Local Government Pension Scheme

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

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

## Notes to the Financial Statements

### a) Service cost comprising:

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

### b) Re-measurements comprising:

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

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

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

### Discretionary Benefits

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

### 1.8 Events after the Balance Sheet Date

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

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

# Notes to the Financial Statements

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

## 1.9 Financial Instruments

### Financial Liabilities

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

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

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

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

### Financial Assets

Financial assets are classified into two types:

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

#### Loans and Receivables

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

However, the Council has made loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is



## Notes to the Financial Statements

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

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

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

### Available-for-Sale Assets

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

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

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

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

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

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

## Notes to the Financial Statements

effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

### Other Investments

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

### 1.10 Government Grants & Contributions

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

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

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

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

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

### 1.11 Intangible Assets

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

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

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

## Notes to the Financial Statements

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

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

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

### 1.12 Interests in Companies & Other Entities

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

### 1.13 Joint Operations

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

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

### 1.14 Inventories

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

### 1.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. The only investment properties held by the Council are areas of land which are held for capital appreciation and therefore earn no rental income. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income

## Notes to the Financial Statements

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

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

### 1.16 Leases

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

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

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

#### (a) The Council as Lessee

##### Finance Leases

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

Lease payments are apportioned between:

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

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

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

##### Operating Leases

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

# Notes to the Financial Statements

## (b) The Council as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

### Operating Leases

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

### 1.17 Overheads & Support Services

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

### 1.18 Internal Interest

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

# Notes to the Financial Statements

## 1.19 Delegated Budgets

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

## 1.20 Property, Plant & Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

## Notes to the Financial Statements

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

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

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

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

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

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

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

### De-Minimis Levels

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

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

### Impairment

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

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

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

## Notes to the Financial Statements

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

### Depreciation

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

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

Depreciation is generally charged in the first full year following acquisition. However, where acquisitions and enhancement of buildings are revalued at 31st March, depreciation is charged in the year of acquisition or enhancement.

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

Asset Category	Years
Buildings	5 - 68
Infrastructure	10 - 40
Vehicles, plant and furniture	3 - 40

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

- Building structure;
- Mechanical and electrical.

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

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

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the



## Notes to the Financial Statements

gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

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

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

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

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

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

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

### 1.22 Heritage Assets

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

The Council recognises collections that are maintained on behalf of the Council by Tyne and Wear Museums for artefacts with a value in excess of £10,000, the value of this art collection is based on

## Notes to the Financial Statements

detailed insurance valuations (based on market values). In addition assets valuations held on the Council's insurance schedule for assets classified as historic assets with a value in excess of £10,000 are recorded as heritage assets.

Community Assets donated to the Council are carried at historic cost. Where this information is unavailable the Council has not undertaken additional valuations as the cost of revaluing elements of Community Assets outweighs the benefit of the disclosure.

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

### 1.23 Fair Value Measurement

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

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

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

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

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

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

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

### 1.24 Provisions

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

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

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

## Notes to the Financial Statements

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.

### 1.25 Contingent Liabilities

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

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

### 1.26 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.

### 1.27 Reserves

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

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

### 1.28 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.

### 1.29 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.

### 1.30 Schools

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

## Notes to the Financial Statements

### 1.31 Council Tax and Business Rates

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

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

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

### 1.32 Business Improvement District (BID)

A Business Improvement District (BID) scheme applies to a designated area within the City Centre. The scheme is funded by a BID levy paid by non-domestic ratepayers, including the Council.

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

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

The new standards to be adopted for the 2018/2019 Statement of Accounts are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers (including clarifications to the standard).

These will result in some additional disclosures in the accounts but are not expected to have a significant impact on the core statements. Restatement of 2017/2018's accounts will not be required.

In addition there may be minor changes relating to the following amendments but, again, these are not expected to impact significantly on the accounts:

- amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

## Note 3 – Critical Judgements in applying accounting policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

## Notes to the Financial Statements

- Valuation Newcastle Airport – the value of the Council’s investment in Newcastle Airport is based on the open market value of shares at 16<sup>th</sup> November 2012.
- Pension Fund Guarantor – Gentoo  
The Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees who were originally employed by the Council but transferred to Gentoo in March 2001. Under this guarantee, only the basic level of pension would be funded (no added years). Although facing similar pressures to the Council, Gentoo’s financial position is healthy and the likelihood of Gentoo ceasing to operate is highly unlikely. It is very difficult to estimate the potential cost to the Council if that were to happen as the Council only has partial liability and that liability will have significantly diminished since 2001 as a result of staff turnover and some of the affected staff retiring. The Council’s share of the potential deficit would need to be considered as part of the overall financial position of Gentoo at the point that it ceased operating and any liability relating to the Council would be repaid over an agreed repayment period. This guarantee has been judged to be an insurance contract and has been valued accordingly.
- Pension Fund Guarantor – other organisations  
The Council also acts as a joint guarantor (along with other councils) to the Tyne and Wear Pension Fund in respect of pensions for employees of several bodies such as the Association of North East Councils (ANEC) and the North East Regional Employers Organisation (NEREO). The councils involved have agreed with the Pension Fund administrators that, in the unlikely event of any of these bodies failing, any pension deficit would be repaid over an agreed repayment period. Independently, the Council has similar arrangements in place for possible pension deficits with several other organisations. These guarantees have been judged to be insurance contracts and have been valued accordingly.

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

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

The items in the Council’s Balance Sheet at 31<sup>st</sup> March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Uncertainty about future levels of funding for local government makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £1.749m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of £21.504m of which £3.394m relates to Insurance.	An increase over the forthcoming year of 10% in either the total number of insurance claims or the estimated average insurance settlement would each have the effect of adding £0.339m to the provision needed.*

## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provision – Business Rates	<p>Since the introduction of the business rates Retention Scheme effective from 1<sup>st</sup> April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses. This includes the relevant share of any historic appeals lodged, but still outstanding. Therefore, a provision has been recognised for the best estimate of the amount that will be successfully appealed (i.e. that businesses have been overcharged) in relation to 2017/2018 and previous years, regardless of when that appeal is raised or settled. The estimate has been calculated by applying historic trend analysis and local intelligence to open appeals lodged with the VOA as at 31 March 2017 and historic estimates for likely appeals raised relating to 2017/2018.</p>	<p>Any increase or decrease in appeals lodged would impact on the overall position of the Collection Fund and future income receivable via business rates.</p>
Arrears	<p>At 31<sup>st</sup> March 2018, the Council had a balance of debtors of £70.238m. A review of significant balances suggested that an impairment of doubtful debts of 20.10% (£14.117m) was appropriate. However it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £14.117m to be set aside as an allowance.*</p>
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>For funded LGPS benefits, the effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £30.06m. However, the assumptions interact in complex ways. During 2017/2018, the Council's actuaries advised that the net pension liability (for funded LGPS benefits) had increased by £10.54m as a result of estimates being corrected as a result of experience and had increased by a further £26.82m attributable to updating of financial and demographic assumptions.</p>
Fair value measurements	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for <i>similar</i> assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on</p>	<p>The Council uses the market approach that compares the asset to be valued with the prices obtained for other similar assets and the income approach that capitalises the potential income of the asset to measure the fair value of some of its surplus assets, investment properties and assets held for sale.</p>

## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's chief valuation officer and external valuer).</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 15 and 16 below.</p>	<p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding sales values, market rental, yields and vacancy levels (for investment properties).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.</p>

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

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

The loss on disposal of non-current assets of £58.318m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged to Other Operating Expenditure within the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the council tax payer.

The following assets have been transferred at a loss during 2017/2018:

## Notes to the Financial Statements

	Loss on Disposal £m	Date of Transfer
<b>Schools:</b>		
Hill View Infants School	2.312	1st April 2017
Hill View Junior School	2.732	1st April 2017
George Washington Primary School	4.332	1st April 2017
John F Kennedy Primary School	4.435	1st April 2017
Hetton Lyons Primary School	4.280	1st July 2017
South Hylton Primary School	3.389	1st July 2017
Thornhill School Business & Enterprise College	16.268	1st September 2017
Washington School	17.015	1st September 2017
Diamond Hall Junior School	5.256	1st October 2017
<b>Non Schools:</b>		
Other Net (Gains) and Losses	(1.701)	
<b>Total</b>	<b>58.318</b>	

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

#### Adjusting Events after the Balance Sheet date

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

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

Where events take place after 31<sup>st</sup> March which do not relate to conditions at 31<sup>st</sup> March but which provide information that is relevant to an understanding of the Council's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed.

#### Schools transferred to Academy Status after 31<sup>st</sup> March (non-adjusting events)

The following schools, which were part of the Council's asset base at 31<sup>st</sup> March 2018, have since transferred to Academy status and the values of the assets that will be written out of the accounts in 2018/2019 are as follows:

- Valley Road Community Primary School - £6.513m
- Highfield Community Primary School - £8.610m.



## Notes to the Financial Statements

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

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

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

#### **General Fund Balance**

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

#### **Capital Receipts Reserve**

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

#### **Capital Grants Unapplied**

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

## Notes to the Financial Statements

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

2016/2017				2017/2018		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
			<b>Adjustments to Revenue Resources</b>			
			Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
6,550	0	0	Pensions costs - transferred to (or from) the Pensions Reserve	(14,180)	0	0
(57)	0	0	Financial instruments - transferred to the Financial Instruments Adjustment Account	1,197	0	0
804	0	0	Council Tax and Business Rates - transfers to or from the Collection Fund Adjustment Account	1,911	0	0
450	0	0	Holiday pay - transferred to the Accumulated Absences Reserve	(491)	0	0
0	0	0	Equal Pay Settlements - transferred to the Unequal Pay/Back Pay Account	0	0	0
56,751	0	0	Reversal of items included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	109,504	0	0
(18,020)	0	0	Insertion of items not included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(15,389)	0	0
45	0	0	Deferred Capital Receipts Reserve - sale proceeds credited to the Comprehensive Income and Expenditure Statement as part of the gain/(loss) on disposal	46	0	0
46,523	0	0	Total adjustments to Revenue Resources	82,598	0	0

## Notes to the Financial Statements

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

2016/2017				2017/2018		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
			<b>Adjustments between Revenue and Capital Resources</b>			
(4,633)	4,633	0	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,808)	3,808	0
84	(84)	0	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	83	(83)	0
2	(2)	0	Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	2	(2)	0
4,548	(4,548)	0	Use of the Capital Receipts Reserve to finance revenue expenditure	0	0	0
(10,180)	0	10,180	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(9,201)	0	9,201
(10,179)	(1)	10,180	<b>Total adjustments between Revenue and Capital Resources</b>	<b>(12,924)</b>	<b>3,723</b>	<b>9,201</b>
			<b>Adjustments to Capital Resources</b>			
0	(7,018)	0	Use of the Capital Receipts Reserve to finance capital expenditure	0	(2,184)	0
0	0	(42,021)	Application of capital grants to finance capital expenditure	0	0	(12,975)
0	100	0	Writing down of long term debtor to Capital Adjustment Account	0	100	0
0	2	0	Cash payments in relation to deferred capital receipts	0	570	0
0	(6,916)	(42,021)	<b>Total adjustments to Capital Resources</b>	<b>0</b>	<b>(1,514)</b>	<b>(12,975)</b>
36,344	(6,917)	(31,841)	<b>Total Adjustments</b>	<b>69,674</b>	<b>2,209</b>	<b>(3,774)</b>

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

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

2016/2017				2017/2018		
Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
8,053	(2,583)	10,636	Leader	6,658	(3,167)	9,825
10,082	(3,011)	13,093	Deputy Leader	11,856	(2,755)	14,611
23,902	8,667	15,235	Cabinet Secretary	19,827	(572)	20,399
55,179	(15,977)	71,156	Children's Services	60,538	(15,083)	75,621
77,330	(2,459)	79,789	Health, Housing and Adult Services	60,241	(1,670)	61,911
2,872	(2,791)	5,663	Public Health, Wellness and Culture	(130)	(2,978)	2,848
26,291	(15,633)	41,924	City Services	23,632	(18,528)	42,160
5,109	(957)	6,066	Responsive Services and Customer Care	5,296	(996)	6,292
11,787	1,335	10,452	Exceptional item - severance costs	0	0	0
0	0	0	Exceptional item - IAS19 settlement adjustment	0	24,380	(24,380)
2,707	0	2,707	Exceptional item - equal pay settlement/provision	0	0	0
223,312	(33,409)	256,721	<b>Net Cost of Services</b>	<b>187,918</b>	<b>(21,369)</b>	<b>209,287</b>
(201,976)	(2,935)	(199,041)	Other Income and Expenditure	(191,351)	(48,305)	(143,046)
21,336	(36,344)	57,680	<b>(Surplus) or Deficit</b>	<b>(3,433)</b>	<b>(69,674)</b>	<b>66,241</b>
165,022			Opening General Fund Balance / Earmarked Reserves	143,686		
(21,336)			Surplus (deficit) in year	3,433		
<b>143,686</b>			Closing General Fund Balance / Earmarked Reserves	<b>147,119</b>		

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

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

- Adjustments for Capital Purposes
- The net change relating to Pension Adjustments
- Other differences

	2017/2018					
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Statutory Differences	Total Statutory Adjustments	Other (non- statutory) Adjustments	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Leader	2,792	372	3	3,167	0	3,167
Deputy Leader	1,969	802	(15)	2,756	(1)	2,755
Cabinet Secretary	13,487	(10,267)	20	3,240	(2,668)	572
Children's Services	11,501	1,807	(478)	12,830	2,253	15,083
Health, Housing and Adult Services	253	1,430	1	1,684	(14)	1,670
Public Health, Wellness and Culture	2,636	348	(5)	2,979	(1)	2,978
City Services	18,171	2,140	(15)	20,296	(1,768)	18,528
Responsive Services and Customer Care	552	446	(2)	996	0	996
Exceptional item - IAS19 settlement adjustment	0	(24,380)	0	(24,380)	0	(24,380)
Net Cost of Services	51,361	(27,302)	(491)	23,568	(2,199)	21,369
Other income and expenditure	29,876	13,122	3,108	46,106	2,199	48,305
Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services	81,237	(14,180)	2,617	69,674	0	69,674

## Notes to the Financial Statements

### Note 8 - Expenditure and Funding Analysis

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

- Adjustments for Capital Purposes
- The net change relating to Pension Adjustments
- Other differences

	2016/2017					
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Statutory Differences	Total Statutory Adjustments	Other (non-statutory) Adjustments	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Leader	2,507	76	0	2,583	0	2,583
Deputy Leader	2,756	289	(33)	3,012	(1)	3,011
Cabinet Secretary	6,121	(8,180)	(11)	(2,070)	(6,597)	(8,667)
Children's Services	13,009	2,250	583	15,842	135	15,977
Health, Housing and Adult Services	1,462	1,062	(44)	2,480	(21)	2,459
Public Health, Wellness and Culture	2,478	324	(11)	2,791	0	2,791
City Services	15,795	1,490	(27)	17,258	(1,625)	15,633
Responsive Services and Customer Care	824	140	(7)	957	0	957
Exceptional item - severance costs	4,548	(5,883)	0	(1,335)	0	(1,335)
Net Cost of Services	49,500	(8,432)	450	41,518	(8,109)	33,409
Other income and expenditure	(20,903)	14,982	747	(5,174)	8,109	2,935
Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus/deficit on the Provision of Services	28,597	6,550	1,197	36,344	0	36,344

Other differences have been represented between statutory differences and non-statutory differences in order to reflect the presentation required in 2017/2018.

# Notes to the Financial Statements

## Note 8 - Expenditure and Funding Analysis

### Adjustments for Capital Purposes

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

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

### Net Change for the Pensions Adjustments

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

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

### Other Statutory Adjustments

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

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

### Other Non-statutory Adjustments

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

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

## Notes to the Financial Statements

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

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/2018.

	Balance at 31 March 2016 £'000	Transfers Out 2016/2017 £'000	Transfers In 2016/2017 £'000	Balance at 31 March 2017 £'000	Transfers Out 2017/2018 £'000	Transfers In 2017/2018 £'000	Balance at 31 March 2018 £'000
<b>General Fund:</b>							
General Fund Balance	7,570	0	2,430	10,000	0	2,000	<b>12,000</b>
Balances held by schools under a scheme of delegation	10,404	(3,377)	1,197	8,224	(1,768)	118	<b>6,574</b>
	<b>17,974</b>	<b>(3,377)</b>	<b>3,627</b>	<b>18,224</b>	<b>(1,768)</b>	<b>2,118</b>	<b>18,574</b>
<b>Earmarked General Fund Reserves - Capital:</b>							
Riverside Transfer	9,953	(31)	0	9,922	(483)	0	<b>9,439</b>
Capital Priorities Reserve	7,043	(1,473)	3,302	8,872	(313)	0	<b>8,559</b>
Economic Strategy Reserve	0	0	4,100	4,100	0	3,000	<b>7,100</b>
Section 106 Reserves	2,721	(486)	1,508	3,743	(717)	2,181	<b>5,207</b>
Strategic Investment Plan Reserve	5,974	(2,357)	0	3,617	(1,683)	0	<b>1,934</b>
Commercial and Economic Development Activity	1,500	(48)	0	1,452	0	0	<b>1,452</b>
Other Earmarked Capital Reserves	6,417	(4,862)	0	1,555	(302)	0	<b>1,253</b>
	<b>33,608</b>	<b>(9,257)</b>	<b>8,910</b>	<b>33,261</b>	<b>(3,498)</b>	<b>5,181</b>	<b>34,944</b>
<b>Earmarked General Fund Reserves - Revenue:</b>							
Strategic Investment Reserve	43,223	(26,208)	11,946	28,961	(1,778)	2,392	<b>29,575</b>
Medium Term Planning Smoothing Reserve	10,865	(3,350)	1,426	8,941	(5,436)	4,671	<b>8,176</b>
Service Pressures Reserve	0	0	0	0	0	3,161	<b>3,161</b>
Street Lighting PFI Smoothing Reserve	5,396	(311)	0	5,085	(319)	0	<b>4,766</b>
Insurance Reserve	5,171	(214)	267	5,224	(740)	144	<b>4,628</b>
SIB Reserve	3,264	(3,779)	4,254	3,739	0	1	<b>3,740</b>
HCA Stadium Transfer	3,077	0	1	3,078	0	7	<b>3,085</b>
Improvement Priorities	0	0	0	0	0	3,000	<b>3,000</b>
Service Reduction Reserve	0	0	0	0	0	2,555	<b>2,555</b>



## Notes to the Financial Statements

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

	Balance at 31 March 2016 £'000	Transfers Out 2016/2017 £'000	Transfers In 2016/2017 £'000	Balance at 31 March 2017 £'000	Transfers Out 2017/2018 £'000	Transfers In 2017/2018 £'000	Balance at 31 March 2018 £'000
Sandhill Centre PFI Smoothing Reserve	2,519	0	0	2,519	(25)	0	2,494
Housing Benefit Smoothing Reserve	1,721	0	283	2,004	(61)	0	1,943
Education Redundancies Reserves	2,890	(283)	0	2,607	(1,060)	2	1,549
Riverside Transfer	1,704	(105)	3	1,602	(104)	3	1,501
House Sale Income	1,234	(60)	0	1,174	(99)	0	1,075
WNF-Software Centre	1,185	(66)	106	1,225	(209)	39	1,055
DSG Surplus	1,653	(1,653)	559	559	(559)	261	261
Other Earmarked Revenue Reserves	26,938	(12,874)	11,419	25,483	(11,011)	6,565	21,037
Troublesome Families Reserve	0	0	0	0	0	0	0
Adult Demand Pressures Reserve	1,400	(1,400)	0	0	0	0	0
Safeguarding Transitional Reserve	1,200	(1,200)	0	0	0	0	0
	113,440	(51,503)	30,264	92,201	(21,401)	22,801	93,601
<b>Capital Receipts Reserve</b>	11,671	(11,653)	4,736	4,754	(2,186)	4,395	6,963
<b>Capital Grants Unapplied</b>	40,612	(42,021)	10,180	8,771	(12,974)	9,201	4,998
<b>Total Usable Reserves</b>	217,305	(117,811)	57,717	157,211	(41,827)	43,696	159,080

## Notes to the Financial Statements

### Purpose of Earmarked Reserves

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

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

## Notes to the Financial Statements

Revenue Reserves:	Purpose of the Reserve
Riverside Transfer	Reserve established to fund on-going maintenance of Homes and Communities Agency land transferred to the Council.
House Sale Income	The reserve relates to the sale of clients homes that will be utilised to support future support needs of those clients.
WNF - Software Centre	Reserve established to help fund the development and running of Software Centre.
DSG Surplus	This reserve is the underspend from the Dedicated Schools Grant that will be utilised to support schools funding in future years.
Other Earmarked Revenue Reserves	Numerous small revenue reserves set up for specific purposes.

### Note 10 – Other operating expenditure

2016/2017 £'000		2017/2018 £'000
59	Parish Council Precept	63
16,396	Levies	15,855
2	Payments to the Government Housing Capital Receipts Pool	2
19,796	(Gain) / losses on the disposal of non current assets	58,318
7,404	(Gain) / losses on the derecognition of non current assets	0
43,657	<b>Total</b>	<b>74,238</b>

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

2016/2017 £'000		2017/2018 £'000
12,607	Interest payable and similar charges	12,936
14,770	Net interest on the net defined benefit liability	12,750
(4,097)	Interest receivable and similar income	(3,251)
(4,482)	Other Investment Income	(1,842)
(1,342)	Surplus on Trading Undertakings	(1,316)
2,036	Net income and expenditure in relation to investment properties and changes in their fair value	6,348
142	Disposals and impairments of subsidiaries	2,256
19,634	<b>Total</b>	<b>27,881</b>

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

2016/2017 £'000		2017/2018 £'000
(84,938)	Council tax income	(89,996)
(44,744)	Business rates income and expenditure	(42,456)
(100,486)	Non-ringfenced government grants *	(93,265)
(32,164)	Capital grants and contributions *	(19,448)
(262,332)	<b>Total</b>	<b>(245,165)</b>

\* Further analysis of grants is shown within Note 35.

## Notes to the Financial Statements

### Note 13 – Property, Plant and Equipment Movement on Balances 2017/2018

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

## Notes to the Financial Statements

### Note 13 – Property, Plant and Equipment Movement on Balances 2016/2017

	Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>							
At 1 April 2016	600,166	74,700	343,874	69,259	6,391	<b>1,094,390</b>	110,489
Additions	6,248	3,107	7,888	48,653	0	<b>65,896</b>	0
Donations	18,410	0	0	0	0	<b>18,410</b>	0
Recognition of PFI assets and Embedded Leases	0	88	211	0	0	<b>299</b>	211
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(27,623)	0	0	0	55	<b>(27,568)</b>	(8,867)
Revaluation increases / (decreases) recognised in the Provision of Services	(662)	0	0	0	0	<b>(662)</b>	0
Impairment recognised in the Provision of Services	(2,798)	0	(525)	0	0	<b>(3,323)</b>	0
Derecognition recognised in the Provision of Services	(7,764)	(387)	0	0	(43)	<b>(8,194)</b>	0
Disposals	(25,555)	0	0	0	(88)	<b>(25,643)</b>	0
Assets reclassified (to) / from Assets Held for Sale	(360)	0	0	0	(70)	<b>(430)</b>	0
Other movements in Cost or Valuation	576	958	15,540	(17,968)	894	<b>0</b>	0
<b>At 31 March 2017</b>	<b>560,638</b>	<b>78,466</b>	<b>366,988</b>	<b>99,944</b>	<b>7,139</b>	<b>1,113,175</b>	<b>101,833</b>
<b>Accumulated Depreciation</b>							
At 1 April 2016	55,037	47,439	108,775	0	23	<b>211,274</b>	15,726
Depreciation Charge	19,956	5,699	9,238	0	95	<b>34,988</b>	4,342
Depreciation written out to the Revaluation Reserve	(22,638)	0	0	0	(1)	<b>(22,639)</b>	(6,407)
Depreciation written out to the Provision of Services	(865)	0	0	0	0	<b>(865)</b>	0
Derecognition written out to the Provision of Services	(403)	(387)	0	0	0	<b>(790)</b>	0
Disposals	(3,513)	0	0	0	(3)	<b>(3,516)</b>	0
<b>At 31 March 2017</b>	<b>47,574</b>	<b>52,751</b>	<b>118,013</b>	<b>0</b>	<b>114</b>	<b>218,452</b>	<b>13,661</b>
Net Book Value							
At 31 March 2016	545,129	27,261	235,099	69,259	6,368	<b>883,116</b>	94,763
<b>At 31 March 2017</b>	<b>513,064</b>	<b>25,715</b>	<b>248,975</b>	<b>99,944</b>	<b>7,025</b>	<b>894,723</b>	<b>88,172</b>

# Notes to the Financial Statements

## Depreciation

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

- Land and Buildings - 5 to 68 years
- Vehicles, Plant and Equipment - 3 to 40 years
- Infrastructure - 10 to 40 years

## Capital Commitments

At 31<sup>st</sup> March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/2019 and future years budgeted to cost £35.658m (similar commitments at 31<sup>st</sup> March 2017 were £34.450m). The commitments are:

- International Advanced Manufacturing Park (IAMP) - £8.202m
- LED Street Lighting Phase 2 - £6.976m
- Vaux Phase 1 Development - £6.040m
- Northern Spire (New Wear Crossing) - £3.448m
- A19 Ultra Low Carbon Enterprise Zone - £2.385m
- Hylton Castle Redevelopment - £2.207m
- Port Remediation Works - Endurance Park - £1.209m
- Various other schemes - £5.191m

## Effects of Changes in Estimates

In 2017/2018 the Council has made no material changes to its accounting estimates for Property, Plant and Equipment.

## Revaluations

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

The significant assumptions applied in estimating the values are:

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

## Notes to the Financial Statements

- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses.
- The assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose.
- An assumption that the transaction takes place in the principle market, or in the absence of the principle market, the most advantageous market for the asset is used for assets valued at fair value.

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

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

There were no transfers between levels during the year.

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

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

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historic cost	0	74,496	376,232	141,294	0	592,022
Valued at:						
31 March 2018	151,263	0	0	0	384	151,647
31 March 2017	108,244	0	0	0	794	109,038
31 March 2016	62,816	0	0	0	4,957	67,773
31 March 2015	76,862	0	0	0	0	76,862
31 March 2014	91,453	0	0	0	0	91,453
<b>Total Cost or Valuation</b>	<b>490,638</b>	<b>74,496</b>	<b>376,232</b>	<b>141,294</b>	<b>6,135</b>	<b>1,088,795</b>

## Notes to the Financial Statements

### Note 14 – 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 2016	9,975	556	1,661	12,192
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
<b>31st March 2017</b>	<b>9,975</b>	<b>556</b>	<b>1,661</b>	<b>12,192</b>
<b>Cost or Valuation</b>				
1st April 2017	9,975	556	1,661	12,192
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
<b>31st March 2018</b>	<b>9,975</b>	<b>556</b>	<b>1,661</b>	<b>12,192</b>

Further details of the Council's Heritage Asset holdings can be found in Note 49.

### Note 15 – Investment Properties / Land

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

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

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



## Notes to the Financial Statements

2016/2017 £'000		2017/2018 £'000
	<b>Land held for capital appreciation valued at level 2 (other significant observable inputs) in fair value hierarchy</b>	
62,494	Balance at the start of the year	<b>60,458</b>
(3,020)	Disposals	<b>(4,446)</b>
984	Net gain / (losses) from fair value adjustments	<b>(1,902)</b>
	Transfers:	
0	To / (From) Property, Plant and Equipment	<b>0</b>
60,458	Balance at the end of the year	<b>54,110</b>

Major losses in 2017/2018 from fair value adjustments mainly reflect changes to planning status and market conditions (gains in 2016/2017 from fair value adjustments reflect changes reflect variations in the area of the developable land available and changes to market conditions).

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

There were no transfers between levels during the year.

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

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

## Notes to the Financial Statements

### Note 16 – Financial Instruments

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

Long Term	Current		Long Term	Current
31 March 2017 £'000	31 March 2017 £'000		31 March 2018 £'000	31 March 2018 £'000
		<b>Investments</b>		
0	130,955	Loans and receivables	0	60,142
16,415	0	Available-for-sale financial assets	16,415	0
5,500	0	Unquoted equity investment at cost	5,500	0
0	0	Financial assets at fair value through profit and loss	0	0
21,915	130,955	<b>Total Investments</b>	21,915	60,142
		<b>Debtors</b>		
55,095	0	Loans	56,481	651
0	43,817	Cash and Cash Equivalents	0	92,278
0	25,837	Receivables - short term debtors carried at cost	0	29,968
55,095	69,654	<b>Total included in Debtors</b>	56,481	122,897
0	19,155	Debtors that are not financial instruments	0	39,783
55,095	88,809	<b>Total Debtors</b>	56,481	162,680
		<b>Borrowings</b>		
(235,655)	(34,052)	Financial liabilities at amortised cost	(283,941)	(35,897)
0	(9,430)	Cash and Cash Equivalents	0	(11,172)
(235,655)	(43,482)	<b>Total included in Borrowings</b>	(283,941)	(47,069)
		<b>Other Long Term Liabilities</b>		
(84,164)	0	PFI and finance lease liabilities	(79,732)	0
(84,164)	0	<b>Total included in Other Long Term Liabilities</b>	(79,732)	0
(526,590)	0	Other Long Term Liabilities that are not financial instruments	(533,720)	0
(610,754)	0	<b>Total Other Long Term Liabilities</b>	(613,452)	0
		<b>Creditors</b>		
0	(4,246)	PFI and finance lease liabilities	0	(4,404)
0	(43,043)	Short Term Creditors carried at contract amount	0	(38,454)
0	(47,289)	<b>Total included in Creditors</b>	0	(42,858)
0	(15,498)	Creditors that are not financial instruments	0	(16,344)
0	(62,787)	<b>Total creditors</b>	0	(59,202)

# Notes to the Financial Statements

## Material Soft Loans Made by the Council

### Loan Notes in respect of IAMP LLP

During 2017/2018 IAMP LLP has been jointly established with South Tyneside Council in order to deliver the International Advanced Manufacturing Park to the north of Nissan. The Councils, through the LLP will (amongst other things) carry on the business of the joint acquisition, promotion, development and delivery of an International Advanced Manufacturing Park on the site which comprises of land in South Tyneside and Sunderland, together with the provision of all necessary infrastructure required for the delivery of the site. Land currently held by IAMP has been financed through Local Growth Funding grant and member loans in the form of Loan Notes.

2016/2017 £'000		2017/2018 £'000
0	Balance at start of year	0
0	Nominal value of new loans granted in the year	4,091
0	Fair Value adjustment on initial recognition	(1,271)
0	<b>Balance at end of year</b>	<b>2,820</b>

### Valuation Assumptions

The loan notes in respect of IAMP LLP for £4.091m have been made interest free and the interest rate at which the fair value of this soft loan has been made (3.15%) is arrived at by taking the cost to the Council if it had borrowed over a similar terms (2.55%) and adding an allowance for the risk that the loan might not be repaid (0.60%). Calculating the present value of all future cash receipts in respect of the IAMP loan notes using the 3.15% interest rate, results in a fair value of £2.820m.

### Unquoted Equity Instruments Measured at Cost

#### Siglion LLP

The Council has a 50% equity share in its Local Asset Backed Vehicle Siglion. The equity share is carried at cost of £5.000m and has not been valued as a fair value cannot be measured reliably. The company was formed in November 2014 with the primary purpose being to assist in the delivery of economic and regeneration benefits to Sunderland. It has no established trading history and there are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Siglion is wound up.

The draft accounts for Siglion LLP for the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, show a net profit before taxation of £1.650m (£0.979m in 2016/2017). The overall current net worth of the group is £15.517m.

#### Sunderland Lifestyle Partnership Ltd

The Council has a 50% equity share in its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd. The equity share is carried at cost of £0.500m, and has not been valued at fair value, as a fair value cannot be measured reliably. The joint venture, formed in June 2015, is a private company limited by shares and is owned by the Council and SLM in equal shares (50:50) which reflects the consideration each partner has contributed towards the business. It is managed by a board of directors with an equal number of representatives from each party with the purpose of the joint venture being to; oversee Sport and Leisure Management Ltd (as the operator) in delivery of the operating contract; act as landlord of the leisure facilities; provide strategic direction to further develop sports and leisure facilities and opportunities in the City and to set an annual business plan for the joint venture; and to monitor performance of Sport and Leisure Management (as operator) against the plan. It has no established trading history and there are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the equity share which is non-interest bearing and is not anticipated to be repaid until Sunderland Lifestyle Partnership is wound up.

The draft accounts for Sunderland Lifestyle Partnership Ltd for the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, show a net profit before taxation of £0.006m and indicates that no dividend is proposed. The overall current net worth of the group is £0.972m.

## Notes to the Financial Statements

### Income, Expense, Gains and Losses

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

2016/2017						2017/2018				
Financial Liabilities	Financial Assets			Total		Financial Liabilities	Financial Assets			Total
Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Assets and Liabilities at Fair Value through profit and loss			Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Assets and Liabilities at Fair Value through profit and loss	
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
(12,607)	0	0	0	(12,607)	Interest Expense	(12,936)	0	0	0	(12,936)
(12,607)	0	0	0	(12,607)	<b>Total expenses in Surplus or Deficit on the Provision of Services</b>	<b>(12,936)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(12,936)</b>
0	4,097	0	0	4,097	Interest Income	0	3,251	0	0	3,251
0	4,097	0	0	4,097	<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>3,251</b>	<b>0</b>	<b>0</b>	<b>3,251</b>
(12,607)	4,097	0	0	(8,510)	<b>Net Gain / (loss) for the year</b>	<b>(12,936)</b>	<b>3,251</b>	<b>0</b>	<b>0</b>	<b>(9,685)</b>

## Notes to the Financial Statements

### Fair Values of Financial Assets

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

31 March 2017	Financial assets measured at fair value			31 March 2018
£'000	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	£'000
	Available for sale:			
16,400	Equity Shareholding in Newcastle International Airport	Level 2	Inputs other than quoted prices in active markets that are observable for the asset *	16,400
15	Other financial instruments classified as Available for Sale	Level 1	Unadjusted quoted prices in active markets for identical shares **	15
16,415	<b>Total</b>			<b>16,415</b>

#### \*Equity shareholding in Newcastle International Airport Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4<sup>th</sup> May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16<sup>th</sup> November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 18.87% interest in NALAHCL, valued at £16.400m (£16.400m in 2016/2017). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2017/2018 the valuation has remained unchanged.

#### \*\*Other Financial Instruments Classified as Available for Sale

The Council holds a small number of various gilts and unit trusts with a value at cost of £0.015m (£0.015m in 2016/2017) 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 31<sup>st</sup> March 2018 was £0.164m in total (the value at 31<sup>st</sup> March 2017 was £0.159m). This is not considered to be material and these investments are included at cost in the balance sheet.

#### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

#### Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

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

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

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets held by the Council are classified as loans and receivables and long term debtors and creditors and are carried on the balance sheet at amortised cost. Their fair value

## Notes to the Financial Statements

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

- For loans from the PWLB payable, new borrowing (certainty) rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures as per interest rate notice number 127/18;
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

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

The fair values calculated are as follows:

31 March 2017		Financial Liabilities	31 March 2018	
Carrying Amount £'000	Fair Value Restated £'000		Carrying Amount £'000	Fair Value £'000
193,750	249,155	PWLB Debt	238,717	294,061
41,905	65,453	Non PWLB Debt	45,224	67,385
34,052	34,143	Short Term Borrowing	35,897	35,848
9,430	9,430	Bank Overdraft	11,172	11,172
84,164	84,164	Long Term PFI and Finance Lease Liability	79,732	79,732
4,246	4,246	Short Term PFI and Finance Lease Liability	4,404	4,404
43,043	43,043	Short Term Creditors	38,454	38,454
410,590	489,634	<b>Financial Liabilities</b>	<b>453,600</b>	<b>531,056</b>

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

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £294.061m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather

## Notes to the Financial Statements

than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £238.717m would be valued at £294.061m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption [charging a premium for the additional interest that will not now be paid]. The exit price for the PWLB loans including the penalty charge would be £366.026m.

31 March 2017		Financial Assets	31 March 2018	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
174,359	174,568	Deposits with Money Market Funds, Banks & Building Societies	152,214	152,235
413	413	Cash in Hand	206	206
55,095	55,095	Long Term Debtors	56,481	56,481
25,837	25,837	Short Term Debtors	29,968	29,968
255,704	255,913	<b>Financial Assets</b>	<b>238,869</b>	<b>238,890</b>

The fair value of the assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2018).

At 31<sup>st</sup> March 2018 the Council holds £0.740m of funds of Financial Assets in relation to the North Eastern Local Enterprise Partnership's Investment Fund and Enterprise Zone (£0.079m at 31<sup>st</sup> March 2017) and £0.760m of funds in relation to the Associated of North East Councils (£0.757m at 31<sup>st</sup> March 2017). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

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

2016/2017 £'000	Long Term Debtors	2017/2018 £'000
14,575	Long Term Loan Note - Newcastle Airport	14,575
18,500	Long Term Loan Note - Siglion	17,933
5,743	Property Lease Debtors	5,728
12,694	Advances to Tyne and Wear Fire and Rescue Authority	12,186
1,800	Loan to Leisure Joint Venture	1,700
0	Long Term Loan Note - IAMP LLP	2,820
1,783	Other Long Term Debtors	1,539
55,095	<b>Total</b>	<b>56,481</b>

Long Term Debtors included in the table above are predominately in respect of organisations linked to the Council with a very high degree of certainty regarding payment. With the exception of the Loan to IAMP LLP all financial instruments are at a market rate of interest, no early repayment or impairment is recognised and therefore the values of these long term debtors reflect the fair value of the debt. The loan notes in respect of IAMP LLP for £4.091m have been made interest free and the interest rate at which the fair value of this soft loan has been made (3.15%) is arrived at by taking the cost to the Council if it had borrowed over a similar terms (2.55%) and adding an allowance for the risk that the loan might not be repaid (0.60%). Calculating the present value of all future cash receipts in respect of the IAMP loan notes using the 3.15% interest rate, results in a fair value of £2.820m.

## Notes to the Financial Statements

### Note 17 – Short Term Debtors

2016/2017 £'000		2017/2018 £'000
7,463	Central government bodies	14,002
1,465	Other local authorities	12,489
3,542	NHS bodies	2,179
32,522	Other entities and individuals	41,731
44,992	<b>Total</b>	<b>70,401</b>

### Note 18 – Cash and cash equivalents

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

2016/2017 £'000		2017/2018 £'000
(9,016)	Cash held by the Council	(10,966)
43,403	Bank current accounts and Money Market Funds	77,041
0	Short-term deposits with banks and building societies	15,031
34,387	<b>Total Cash and Cash Equivalents</b>	<b>81,106</b>

This is presented on the Balance Sheet as follows:

2016/2017 £'000		2017/2018 £'000
43,817	Cash and Cash Equivalents (in hand & bank)	92,278
(9,430)	Cash and Cash Equivalents (overdrawn)	(11,172)
34,387	<b>Total Cash and Cash Equivalents</b>	<b>81,106</b>

### Note 19 – Assets Held for Sale

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

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

2016/2017 £'000		2017/2018 £'000
2,833	Balance outstanding at start of year	1,096
(2,218)	Assets Sold	(285)
50	Revaluation (Losses) / Gains	(325)
431	Net transfer from non-current assets to current assets at year end	0
1,096	<b>Balance outstanding at year-end</b>	<b>486</b>



## Notes to the Financial Statements

### Note 20 – Short-Term Creditors

2016/2017 £'000		2017/2018 £'000
(13,638)	Central government bodies	(13,581)
(5,416)	Other local authorities	(2,560)
(3,244)	NHS bodies	(2,991)
(40,489)	Other entities and individuals	(40,070)
(62,787)	<b>Total</b>	<b>(59,202)</b>

### Note 21 – Provisions

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

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

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

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

	Insurance Provision £'000	Other Provision £'000	Total £'000
<b>Balance at 31 March 2017</b>	<b>(3,482)</b>	<b>(18,846)</b>	<b>(22,328)</b>
Additional provisions made 2017/2018	(2,230)	(20)	(2,250)
Amounts used 2017/2018	1,765	333	2,098
Unused amounts reversed 2017/2018	553	423	976
<b>Balance at 31 March 2018</b>	<b>(3,394)</b>	<b>(18,110)</b>	<b>(21,504)</b>

Long Term provisions at 31st March 2018	(3,394)	(2,803)	(6,197)
Short Term Provisions at 31st March 2018	0	(15,307)	(15,307)

The nature of the individual provisions held at 31<sup>st</sup> March 2018 is detailed in the table below:

Nature of provision	2016/2017	2017/2018		
	£'000	Short Term £'000	Long Term £'000	Total £'000
Insurance provision	(3,482)	0	(3,394)	(3,394)
Unequal back pay provision	(10,530)	(10,355)	0	(10,355)
Guarantee bonds held relating to rents and highways works	(171)	0	(115)	(115)
Investment Grants - grants committed to businesses	(394)	0	(311)	(311)
Provision for potential costs of successful NNDR appeals	(7,241)	(4,761)	(2,377)	(7,138)
Potential grant repayment	(20)	0	0	0
Future staffing liabilities	(200)	0	0	0
Potential compensation payment	(26)	0	0	0
Ombudsman Ruling for Social Care Client	(264)	(191)	0	(191)
	(22,328)	(15,307)	(6,197)	(21,504)

## Notes to the Financial Statements

### Note 22 – Usable Reserves

The total Usable Reserves held by the Council are £159.080m at 31<sup>st</sup> March 2018 (£157.211m at 31<sup>st</sup> March 2017) and these are detailed in the Movement in Reserves Statement. Movements in the Council's Usable Reserves are also detailed in Note 9.

### Note 23 – Unusable Reserves

2016/2017 £'000		Note	2017/2018 £'000
173,277	Revaluation Reserve	23a	162,629
445,570	Capital Adjustment Account	23b	389,580
(1,198)	Financial Instrument Adjustment Account	23c	(2,395)
(526,590)	Pensions Reserve	23d	(533,720)
24,433	Deferred Capital Receipts Reserve	23e	23,817
4,559	Collection Fund Adjustment Account	23f	2,648
(2,687)	Accumulated Absence Account	23g	(2,196)
16,033	Available for Sale Financial Instrument Reserve	23h	16,033
133,397	<b>Total Unusable Reserve</b>		<b>56,396</b>

#### 23a) Revaluation Reserve

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

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

The Reserve contains only revaluation gains accumulated since 1<sup>st</sup> 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.

2016/2017 £'000		2017/2018 £'000
192,135	<b>Balance at 1 April</b>	173,277
14,323	Upward revaluation of assets	19,464
(19,202)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(7,046)
187,256	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	185,695
5,773	Difference between fair value depreciation and historical cost depreciation	6,039
8,206	Accumulated gains on assets sold or scrapped	17,027
13,979	Amount written off to the Capital Adjustment Account	23,066
173,277	<b>Balance at 31 March</b>	<b>162,629</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 additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance

## Notes to the Financial Statements

for the costs of acquisition, construction and subsequent costs.

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> 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.

2016/2017 £'000		2017/2018 £'000
421,383	<b>Balance at 1 April</b>	<b>445,570</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(38,311)	Charges for depreciation and impairment of non-current assets	<b>(41,776)</b>
203	Revaluation losses and reversal of prior year revaluation losses on Property, Plant and Equipment	<b>23</b>
(476)	Amortisation of intangible assets	<b>(341)</b>
(11,330)	Revenue expenditure funded from capital under statute	<b>(22,908)</b>
18,410	Donated Assets	<b>0</b>
(4,548)	Transformation costs	<b>0</b>
(7,404)	Gain / (Loss) on derecognition of non current assets to the Comprehensive Income and Expenditure Account	<b>0</b>
(24,344)	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>(62,044)</b>
(67,800)		<b>(127,046)</b>
13,979	Adjusting amounts written out of the Revaluation Reserve	<b>23,066</b>
(53,821)	Net written out amount of the cost of non current assets consumed in the year	<b>(103,980)</b>
	Capital financing applied in the year:	
7,018	Use of Capital Receipts to finance new capital expenditure	<b>2,184</b>
4,548	Use of Capital Receipts to finance transformation expenditure	<b>0</b>
8,537	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>23,890</b>
42,021	Application of grants to capital financing from the Capital Grants Unapplied Account	<b>12,975</b>
7,809	Statutory provision for the financing of capital investment charged against the General Fund balance	<b>8,378</b>
10,211	Capital expenditure charged against the General Fund balance	<b>7,011</b>
80,144		<b>54,438</b>
(100)	Writing down of Long Term Debtor	<b>(100)</b>
(2,036)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>(6,348)</b>
<b>445,570</b>	<b>Balance at 31 March</b>	<b>389,580</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 Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited

## Notes to the Financial Statements

to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31<sup>st</sup> March 2018 will be charged to the General Fund over the next 37 years.

2016/2017 £'000		2017/2018 £'000
(1,255)	<b>Balance at 1 April</b>	<b>(1,198)</b>
0	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	(1,271)
57	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	74
57	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,197)
(1,198)	<b>Balance at 31 March</b>	<b>(2,395)</b>

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

2016/2017 £'000		2017/2018 £'000
(452,740)	<b>Balance at 1 April</b>	<b>(526,590)</b>
(67,300)	Remeasurement of the net defined benefit liability	(21,310)
(43,150)	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	(13,020)
36,600	Employer's pensions contributions and direct payments to pensioners payable in the year	27,200
(526,590)	<b>Balance at 31 March</b>	<b>(533,720)</b>

### 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 Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

## Notes to the Financial Statements

2016/2017 £'000		2017/2018 £'000
24,480	<b>Balance at 1 April</b>	<b>24,433</b>
(45)	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	<b>(46)</b>
(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	<b>(570)</b>
24,433	<b>Balance at 31 March</b>	<b>23,817</b>

### 23f) Collection Fund Adjustment Account

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

2016/2017 £'000		2017/2018 £'000
5,363	<b>Balance at 1 April</b>	<b>4,559</b>
(804)	Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from the council tax and business rates income calculated for the year in accordance with statutory requirements	<b>(1,911)</b>
4,559	<b>Balance at 31 March</b>	<b>2,648</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<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/2017 £'000		2017/2018	
		£'000	£'000
(2,237)	<b>Balance at 1 April</b>		<b>(2,687)</b>
2,237	Settlement or cancellation of accrual made at the end of the preceding year	<b>2,687</b>	
(2,687)	Amounts accrued at the end of the current year	<b>(2,196)</b>	
(450)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements		<b>491</b>
(2,687)	<b>Balance at 31 March</b>		<b>(2,196)</b>

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

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

## Notes to the Financial Statements

2016/2017 £'000		2017/2018 £'000
16,033	<b>Balance at 1 April</b>	<b>16,033</b>
0	Upward / (downward) revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	0
16,033	<b>Balance at 31 March</b>	<b>16,033</b>

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

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

2016/2017 £'000		2017/2018 £'000
4,097	Interest received	2,883
(12,607)	Interest paid	(12,851)
4,482	Dividends received	1,842
(4,028)		<b>(8,126)</b>

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

2016/2017 £'000		2017/2018 £'000
65,644	Purchase of property, plant and equipment, investment property and intangible assets	68,774
130,000	Purchase of short-term and long-term investments	60,057
4,635	Other payments for investing activities	5,689
(4,733)	Net Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,110)
(160,000)	Proceeds from short-term and long-term investments	(130,955)
(18,936)	Other receipts from investing activities	(20,476)
16,610	<b>Net cash flows from investing activities</b>	<b>(22,021)</b>

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

2016/2017 £'000		2017/2018 £'000
(21,840)	Cash receipts of short and long-term borrowing	(54,357)
(3,419)	Other receipts from financing activities	0
4,003	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,264
150	Repayments of short and long term borrowing	4,326
0	Other payments for financing activities	418
(21,106)	<b>Net cash flows from financing activities</b>	<b>(45,349)</b>

## Notes to the Financial Statements

### Note 27 – Expenditure and Income Analysed by Nature

2017/2018	Leader	Deputy Leader	Cabinet Secretary	Children's Services	Health Housing and Adult Services	Public Health Wellness and Culture	City Services	Responsive Services and Customer Care	Corporate Activity and Exceptional Items	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(1,482)	(3,667)	(14,632)	(5,895)	(17,629)	(1,590)	(10,648)	(745)	(1,316)	(57,604)
Government grants	(711)	(119,215)	(8,958)	(116,722)	(16,949)	(24,131)	(5,735)	(1,357)	(112,713)	(406,491)
Other Grants, reimbursements and contributions	(311)	(3,391)	(2,971)	(5,442)	(16,219)	(794)	(6,057)	(785)	0	(35,970)
Interest and investment income	0	0	0	0	0	0	0	0	(5,093)	(5,093)
Income from non-domestic rates	0	0	0	0	0	0	0	0	(42,456)	(42,456)
Income from council tax	0	0	0	0	0	0	0	0	(89,996)	(89,996)
Total Income	(2,504)	(126,273)	(26,561)	(128,059)	(50,797)	(26,515)	(22,440)	(2,887)	(251,574)	(637,610)
Employee expenses	3,848	15,966	13,064	81,543	14,999	4,014	20,336	4,472	0	158,242
Other service expenditure	7,543	122,953	23,750	110,854	97,458	22,843	30,048	4,201	(24,380)	395,270
Depreciation, amortisation and impairment	938	1,965	10,146	11,283	251	2,506	14,216	506	0	41,811
Disposals and impairments of subsidiaries	0	0	0	0	0	0	0	0	2,256	2,256
Interest payments	0	0	0	0	0	0	0	0	25,686	25,686
Precepts and Levies	0	0	0	0	0	0	0	0	15,918	15,918
Payments to Housing Capital	0	0	0	0	0	0	0	0	2	2
Receipts Pool										
Gain/Loss on disposals/derecognition	0	0	0	0	0	0	0	0	58,318	58,318
Change in fair value of investment properties	0	0	0	0	0	0	0	0	6,348	6,348
Total Expenditure	12,329	140,884	46,960	203,680	112,708	29,363	64,600	9,179	84,148	703,851
Deficit of Provision of Services	9,825	14,611	20,399	75,621	61,911	2,848	42,160	6,292	(167,426)	66,241

## Notes to the Financial Statements

### Note 27 – Expenditure and Income Analysed by Nature

2016/2017 (restated)	Leader	Deputy Leader	Cabinet Secretary	Children's Services	Health Housing and Adult Services	Public Health Wellness and Culture	City Services	Responsive Services and Customer Care	Corporate Activity and Exceptional Items	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(1,317)	(3,066)	(13,916)	(6,814)	(17,100)	(1,046)	(10,413)	(476)	(1,342)	(55,490)
Government grants	(393)	(123,625)	(70)	(133,029)	(5,542)	(24,734)	(5,554)	(1,382)	(132,650)	(426,979)
Other Grants, reimbursements and contributions	(493)	(2,525)	(2,252)	(10,589)	(42,256)	(1,180)	(4,612)	(877)	0	(64,784)
Interest and investment income	0	0	0	0	0	0	0	0	(8,579)	(8,579)
Income from non-domestic rates	0	0	0	0	0	0	0	0	(44,744)	(44,744)
Income from council tax	0	0	0	0	0	0	0	0	(84,938)	(84,938)
Total Income	(2,203)	(129,216)	(16,238)	(150,432)	(64,898)	(26,960)	(20,579)	(2,735)	(272,253)	(685,514)
Employee expenses	3,795	12,318	16,762	126,187	16,620	4,389	20,774	4,472	13,159	218,476
Other service expenditure	7,916	127,273	9,249	82,774	126,934	26,007	29,545	3,549	0	413,247
Depreciation, amortisation and impairment	1,128	2,718	5,462	12,627	1,133	2,227	12,184	780	0	38,259
Disposals and impairments of subsidiaries	0	0	0	0	0	0	0	0	142	142
Interest payments	0	0	0	0	0	0	0	0	27,377	27,377
Precepts and Levies	0	0	0	0	0	0	0	0	16,455	16,455
Payments to Housing Capital	0	0	0	0	0	0	0	0	2	2
Receipts Pool										
Gain/Loss on disposals/derecognition	0	0	0	0	0	0	0	0	27,200	27,200
Change in fair value of investment properties	0	0	0	0	0	0	0	0	2,036	2,036
Total Expenditure	12,839	142,309	31,473	221,588	144,687	32,623	62,503	8,801	86,371	743,194
Deficit of Provision of Services	10,636	13,093	15,235	71,156	79,789	5,663	41,924	6,066	(185,882)	57,680



## Notes to the Financial Statements

### Note 28 – Trading Operations

The Council has two trading operations where the service is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of trading activity is as follows:

2016/2017				2017/2018		
Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000		Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000
5,289	(6,630)	(1,341)	General Highways	6,072	(7,329)	(1,257)
6,382	(6,383)	(1)	Buildings Maintenance	5,132	(5,191)	(59)
11,671	(13,013)	(1,342)		11,204	(12,520)	(1,316)

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Where these activities support other Council services, the expenditure relating to the trading operation is allocated to appropriate headings within Cost of Services. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 11).

### Note 29 – Pooled Budgets

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

#### Better Care Fund

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

- An overall integrated operating model
- Locality integrated teams across health and social care
- Development of integrated commissioning processes
- Development of shared intelligence processes
- Development of enhanced user focus

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

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

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

## Notes to the Financial Statements

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

2016/2017 £'000		2017/2018 £'000
	<b>Funding Provided to the Pooled Budget</b>	
(68,991)	Sunderland City Council	(13,227)
(95,758)	Sunderland Clinical Commissioning Group	(59,197)
(164,749)	<b>Total Funding</b>	<b>(72,424)</b>
	<b>Expenditure met from the Pooled Budget</b>	
72,375	Sunderland City Council	23,641
92,186	Sunderland Clinical Commissioning Group	48,783
164,561	<b>Total Expenditure</b>	<b>72,424</b>
(188)	<b>Net Surplus arising on the pooled budget</b>	<b>0</b>
(33)	<b>Sunderland City Council Share of Surplus</b>	<b>0</b>

### Mental Capacity Act / Deprivation of Liberties

The overall aim of this pooled budget is to facilitate the provision of Mental Capacity Act coordinators, by effective coordination of resources of the parties through the pooled budget, and enabling the parties to work closely together to provide the necessary resources to ensure so far as practicable, compliance with the Mental Capacity Act 2005 (as amended) insofar as it relates to the provision of Assessments.

2016/2017 £'000		2017/2018 £'000
	<b>Funding Provided to the Pooled Budget</b>	
(27)	Sunderland City Council	(27)
(36)	Sunderland Clinical Commissioning Group	(36)
(63)	<b>Total Funding</b>	<b>(63)</b>
	<b>Expenditure met from the Pooled Budget</b>	
63	Sunderland City Council	63
0	Sunderland Clinical Commissioning Group	0
63	<b>Total Expenditure</b>	<b>63</b>
0	<b>Net Surplus arising on the pooled budget</b>	<b>0</b>
0	<b>Sunderland City Council Share of Surplus</b>	<b>0</b>

## Notes to the Financial Statements

### Note 30 – Agency Services

Following the review of Better Care Fund arrangements for 2017/2018, some activity undertaken on behalf of Sunderland CCG no longer falls within the pooled arrangements. Activity which has been commissioned by the Council on behalf of the CCG, for which the Council has been fully re-imbursed, has been treated as Agency activity and both income and expenditure have been excluded from the Council's accounts. The Council has received commission of £0.500m relating to this.

The following activity has been excluded from the accounts:

2016/2017 £'000		2017/2018 £'000
	<b>Agency arrangements with Sunderland CCG</b>	
0	Expenditure excluded from Health, Housing and Adult Services Portfolio	<b>32,258</b>
0	Income excluded from Health, Housing and Adult Services Portfolio	<b>(32,258)</b>
0		<b>0</b>

As detailed within Related Party Transactions (Note 36), the Council provides support services to various other Authorities or Bodies. A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of income generated from this activity is relatively low in value and has therefore not been detailed in the accounts.

### Note 31 – Members' Allowances

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

2016/2017 £'000		2017/2018 £'000
1,139	Allowances	<b>1,133</b>
13	Expenses	<b>12</b>
1,152	<b>Total</b>	<b>1,145</b>

## Notes to the Financial Statements

### Note 32 – Officers’ Remuneration

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

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>2017/2018</b>								
<b>Senior Officer Emoluments exceeding £150,000 per year</b>								
Chief Executive - Irene Lucas	179,231	0	0	0	0	179,231	0	179,231
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>								
Executive Director of Corporate Services	131,300	0	0	0	0	131,300	22,923	154,223
Executive Director of People's Services	131,300	0	0	0	0	131,300	23,371	154,671
Executive Director of Economy & Place *	110,763	0	0	0	0	110,763	19,716	130,479
Executive Director of Childrens' Services **	109,417	0	0	0	0	109,417	19,476	128,893
Director of Strategy, Partnerships & Transformation	101,269	0	0	0	0	101,269	18,026	119,295

\* Postholder appointed June 2017

\*\* Postholder resigned January 2018

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

## Notes to the Financial Statements

### Note 32 – Officers’ Remuneration

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	Invoices paid relating to Interim Staffing Arrangements ***	Total Remuneration including Pension Contributions
	£	£	£	£	£	£	£	£	£
<b>2016/2017</b>									
<b>Senior Officer Emoluments exceeding £150,000 per year</b>									
Chief Executive - Irene Lucas	0	0	0	0	0	0	0	177,816	177,816
<b>Senior Officer Emoluments exceeding £50,000 but less than £150,000</b>									
Executive Director of Corporate Services	0	0	0	0	0	0	0	159,120	159,120
Executive Director of People's Services	115,433	0	0	0	0	115,433	18,306	0	133,739
Executive Director of Childrens' Services ****	96,452	0	0	0	0	96,452	15,336	0	111,788
Director of Strategy, Partnerships & Transformation	101,657	0	0	0	0	101,657	15,942	0	117,599
Executive Director of Commercial Development *	59,698	0	0	65,040	0	124,738	151,509	0	276,247
Chief Operating Officer - Place *	50,133	0	0	0	0	50,133	7,971	0	58,104
Executive Director of Enterprise Development **	59,498	0	0	33,697	0	93,195	0	0	93,195

\* Executive Director of Commercial Development post deleted mid-year. Chief Operating Officer - Place, reporting to the Chief Executive as an interim arrangement

\*\* Post deleted

\*\*\* Represents total cost to the Council, not just salary equivalent. Interim arrangements have been replaced with permanent/fixed term appointments with effect from 1st April 2017

\*\*\*\* Officer not in post for a full year.

## Notes to the Financial Statements

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown below:

2016/2017		Remuneration	2017/2018	
Non-Teaching Staff	Teaching Staff		Non-Teaching Staff	Teaching Staff
39	45	£50,000 - £54,999	20	38
20	19	£55,000 - £59,999	8	18
11	20	£60,000 - £64,999	3	17
12	20	£65,000 - £69,999	6	16
6	9	£70,000 - £74,999	2	8
5	6	£75,000 - £79,999	6	5
2	3	£80,000 - £84,999	3	1
9	1	£85,000 - £89,999	9	2
1	1	£90,000 - £94,999	1	1
1	1	£95,000 - £99,999	0	0
1	0	£100,000 - £104,999	1	1
1	0	£110,000 - £114,999	0	0
0	0	£115,000 - £119,999	1	0
1	0	£120,000 - £124,999	1	0
1	0	£130,000 - £134,999	0	0
1	0	£135,000 - £139,999	0	1
0	1	£140,000 - £144,999	0	0

### Note 33 – External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts:

2016/2017 £'000		2017/2018 £'000
136	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year (Mazars LLP)	136
14	Fees payable in respect of other services provided by Mazars LLP during the year	17
150	Total Costs	153

## Notes to the Financial Statements

### 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). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/2018 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2017/2018 before Academy recoupment	42,024	162,241	204,265
Academy figure recouped for 2017/2018	(7,201)	(96,360)	(103,561)
Total DSG after Academy recoupment for 2017/2018	34,823	65,881	100,704
Plus			
Brought forward from 2016/2017	559	0	559
Less			
Carry forward to 2018/2019 agreed in advance			0
Agreed initial budgeted distribution in 2017/2018	0	0	101,263
In Year Adjustments	(840)	0	(840)
Final budgeted distribution in 2017/2018	34,542	65,881	100,423
Less			
Actual central expenditure	34,281		34,281
Less			
Actual ISB deployed to schools		65,881	65,881
Plus			
Local authority contribution for 2017/2018	0	0	0
<b>Carry forward to 2018/2019</b>	<b>261</b>	<b>0</b>	<b>261</b>

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

## Notes to the Financial Statements

### Note 35 – Grant Income

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

2016/2017 £'000		2017/2018 £'000
	<b>Capital Grant Receipts in Advance</b>	
1,229	Department for Education	418
288	Communities and Local Government	7
39	Department for Transport	556
130	Environment Agency	0
574	Homes and Communities Agency	276
288	Other Capital Grants and Contributions	295
2,548	<b>Total</b>	<b>1,552</b>

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

2016/2017 £'000		2017/2018 £'000
	<b>Credited to Taxation and Non Specific Grant Income and Expenditure</b>	
	<b>Revenue Grants:</b>	
57,231	Revenue Support Grant	44,712
36,247	Top Up Grant	40,699
4,547	New Homes Bonus	3,727
14	Local Services Support Grant	14
2,447	Section 31 Business Rates Grant	4,113
100,486		93,265
	<b>Capital Grants, Contributions and Donations:</b>	
6,166	Ministry of Housing, Communities and Local Government	8,679
5,243	Department for Transport	5,535
1,555	Department for Education	1,694
18,410	Department for Education - Donated Assets	0
226	Homes and Communities Agency	298
228	Environment Agency	391
0	South Tyneside Council *	2,422
336	Other Capital Grants and Contributions	429
32,164		19,448
132,650	<b>Total</b>	<b>112,713</b>

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



## Notes to the Financial Statements

2016/2017 £'000		2017/2018 £'000
	<b>Credited to Services</b>	
	<b>Revenue Grants:</b>	
	Ministry of Housing, Communities and Local Government:	
0	Additional Better Care Fund	7,534
5,538	PFI	5,538
0	Improved Better Care Fund	1,802
0	Adult Social Care	1,575
1,001	Strengthening Families Grant	1,061
897	Independent Living Fund	868
584	New Burdens (various)	559
425	European Grants	518
0	Domestic Violence Abuse Fund	163
0	Flexible Homeless Support	152
48	Other grants	67
183	Sunderland, a City by the Sea	0
	Department for Work and Pensions:	
122,890	Housing Benefit	118,610
91	Welfare Reform Additional Burdens	202
41	Universal Credits	28
18	Other grants	50
	Department of Health:	
24,610	Public Health	24,003
214	Local Reform and Community Voices	217
	Department for Education:	
111,232	Dedicated Schools Grant	99,864
8,751	Pupil Premium	7,356
2,589	Universal Free School Meals	2,415
2,271	16-19 Bursary	2,225
585	PE and Sport	792
2,251	Education Services	533
363	SEN Reform	530
50	Extended Rights to Free Travel	46
360	Other grants	266
2,452	Together for Children Implementation	0
760	Adoption Reform	0
2,622	Skills Funding Agency	2,528
636	Youth Justice Board	644
355	Arts Council	448
58	Heritage Lottery Fund	131
74	Home Office	88
96	Other Grants	182
292,045		280,995
	<b>Grants applied to revenue expenditure funded from capital under statute:</b>	
0	Ministry of Housing, Communities and Local Government	7,984
3,197	Department of Health	3,360
1,155	Department for Education	773
610	Other Capital Grants	1,526
4,962		13,643
297,007	<b>Total</b>	294,638

# Notes to the Financial Statements

## Note 36 – Related Parties

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

### Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 35.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/2018 is shown in Note 31. During 2017/2018 financial year a number of Council members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £1.777m made by the Council in 2017/2018 (£2.738m in 2016/2017), of which £1.313m (£2.269m in 2016/2017) relates to payments to companies and £0.464m (£0.469m for 2016/2017) to voluntary organisations.

The figures stated above do not include transactions with Sunderland Care and Support Ltd, Together for Children Ltd or Sunderland Homes Ltd as transactions between these companies and the Council have been separately identified as part of the production of Group Accounts for 2017/2018.

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

### Officers

During 2017/2018 financial year Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £0.004m made by the Council in 2017/2018 (£0.002m in 2016/2017), all of which relates to payments to companies.

### Other Public Bodies

The Council has a pooled budget arrangement with Sunderland CCG for the provision of services to support reduced hospital admissions and length of stay. Transactions and balances outstanding are detailed in Note 29.

### Entities Controlled or Significantly Influenced by the Council

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

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

## Notes to the Financial Statements

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

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

The value of the contract for the period was £33.146m (£32.342m in 2016/2017). The pre audit operating loss for the period, before tax, amounted to £0.791m (£1.206m in 2016/2017) for the two companies.

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

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

- Redundancy related costs incurred by Sunderland Care & Support Ltd of £0.954m were funded by the Council in 2017/2018 (£1.651m in 2016/2017);
- Sunderland Care & Support Ltd bought back support services from the Council; £1.442m in 2017/2018 (£1.648m in 2016/2017);
- Sunderland Care & Support Ltd also managed home improvement agency and disabled facilities grants on behalf of the Council. Income and expenditure relating to this was £2.926m in 2017/2018 (£3.969m in 2016/2017).

At the year end, Sunderland Care & Support Ltd owed the Council £2.397m and the Council owed Care & Support Ltd £1.969m

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

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

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

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

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

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

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

## Notes to the Financial Statements

The initial value of the contract for the period was £51.077m, with the final contract value being £59.673m.

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

- As agreed under the terms of the contract, the council has met redundancy costs totalling £0.093m in the first year of operation;
- Grants received by the Council have been passed on to Together for Children (£22.190m), of this £15.107m has been passed from Together for Children to maintained schools;
- Together for Children bought back support services from the Council (£2.214m).

At the year end, Together for Children Ltd owed the Council £3.763m and the Council owed Together for Children Ltd £1.731m.

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

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

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

In 2017 the Council incorporated a wholly owned company, Sunderland Homes Ltd (SHL). The purpose of the company is to fill some of the identified gaps in Sunderland's housing provision by directly procuring residential developments of new homes for sale.

A pilot phase covering three development areas across the city is currently underway with house building expected to commence during 2018.

The draft accounts for the period 23<sup>rd</sup> February 2017 to 31st March 2018 show a net loss before taxation of £0.130m. Future year's accounts are anticipated to report profits pending development and subsequent sale of the pilot housing schemes.

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

### **Sunderland Live Ltd (subsidiary in 2016/2017)**

Sunderland Live Ltd was formed in April 2013 as a local authority trading company to deliver the Council's core events programme as well as additional events as requested by both the Council and other clients in both the public and private sector. The company's aim was to continually develop its high-quality events programme that benefits the local economy and increases the City's profile. At March 2017 Cabinet, a new delivery model for Sunderland events was approved and Sunderland Live was subsequently wound up at the end of 2016/2017.

The value of the contract for 2016/2017 was £0.930m. The audited operating profit for 2016/2017, before tax, amounted to £0.098m, reflecting the decision to write off all outstanding liabilities with the Council.

There are no related party transactions relating to 2017/2018.

### **Siglion LLP (joint venture)**

On 7<sup>th</sup> November 2014 the Council and Carillion (Maple Oak) Limited formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50% of the LLP. Siglion has a wholly owned subsidiary (Siglion Nominee Limited) and Siglion and Siglion Nominee Limited have formed two further LLPs. These are Siglion Investments LLP and Siglion Developments LLP. Igloo Regeneration Ltd has been appointed to deliver a range of services including development management in relation to a number of regeneration sites and following the acquisition from the Council of a number of investment properties including ground leases, retail properties, industrial properties and managed

## Notes to the Financial Statements

workspaces, strategic asset management. In consideration of this transaction, the Council received loan notes totalling £23.5m. These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up. Loan Note B may be repaid and hence the value reduces over time as investment properties are disposed of. During 2017/2018 £0.567m of disposal proceeds were received by the council and hence loan Note B has subsequently been reduced to £17.933m.

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

- Improving the concentration of new economic activity in the city centre;
- Creating a city centre that supports such higher value job creation;
- Bringing dormant sites back into use;
- Offering a wider choice of housing to the market; and
- Positioning Sunderland as a place to invest.

Siglion's year end is 31<sup>st</sup> December, in line with Carillion's financial statements. The information presented in the Council's accounts has therefore had to be restated to 31<sup>st</sup> March and includes three months of management accounts (January 2018 to March 2018). The draft accounts for Siglion LLP for the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, show a net profit before taxation of £1.650m (£0.979m in 2016/2017). The overall current net worth of the group is £15.517m.

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

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

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

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

The purpose of the JV is to:

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

The key objectives in forming this partnership are:

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

The value of the contract for the period was £1.958m (£2.710m in 2016/2017).

## Notes to the Financial Statements

In order to help the Joint Venture to fund initial capital works, both the Council and SLM have provided loans to the Joint Venture (£2.000m and £0.700m respectively), and SLM has also provided an equity investment of £0.500m. The Council's loan is repayable over 20 years with the first principal repayment occurring during 2016/2017. The final principal repayment is payable during 2035/2036. £1.800m is outstanding at the end of 2017/2018 (£1.900m in 2016/2017).

The draft accounts for Sunderland Lifestyle Partnership Ltd for the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, show a net profit before taxation of £0.006m and indicates that no dividend is proposed. The overall current net worth of the group is £0.972m.

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

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

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

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

The draft accounts for the year ending 31<sup>st</sup> March 2018 shows a small loss of £0.002m (2017 - £NIL profit). All land held by the LLP has been financed through member loans and Local Growth Funding grant.

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

### **Newcastle Airport**

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4<sup>th</sup> May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council originally held a shareholding of 1,845 shares representing an 18.45% interest in this company. These shares are not held for trading outside of the LA7.

On 16<sup>th</sup> November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors Ltd. As a result, the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council as a result acquired an additional 42 shares and now holds an 18.87% interest in Newcastle Airport Local Authority Holding Company Limited, valued at £16.400m using the open market value of the shares.

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation but no such events have occurred during 2017/2018 with the result that the valuation has remained unchanged.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing

## Notes to the Financial Statements

services for both commercial and freight operators. A dividend of £1.347m was received for the year ended 31<sup>st</sup> December 2017 (£4.138 for the year ended 31<sup>st</sup> December 2016).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £6.884m and a profit after tax of £4.408m for the year ended 31<sup>st</sup> December 2017. In the previous year, the Group made a loss before tax of £2.266m and a loss after tax of £0.499m.

### Port of Sunderland

The Port of Sunderland is owned and operated by Sunderland City Council therefore transactions relating to the City's Port activities are included within the financial statements.

The Port generated turnover of £5.651m in the 2017/18 financial year (2016/2017 turnover £5.928m). Investment in recent years in the Port's asset base and the securing of new cargo activity through the Port has enabled positive trading to continue in 2017/18. The overall net trading surplus for the 2017/2018 financial year totalled £0.243m (2016/2017 surplus £0.764m).

### Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee, and an independent charity, whose principal activity is to "promote, maintain, improve and advance education, particularly by the production of educational plays and the encouragement of the Arts".

Established in 1973, the Empire Theatre Trust was originally responsible for running the Empire Theatre, but now sub-leases the building to the operational partner Ambassador Theatre Group (ATG), through both a lease agreement and a management contract which were granted in 2004 for a 25 year period. The Empire Theatre Trust has recently undergone modernisation, and the Trust's board has been reconstituted and now comprises 2 representatives of the City Council, 2 representatives of ATG and an additional 7 independent Trustees. The role of the new trustees is to create a resilient and robust governance structure to oversee the performance of ATG, ensuring that the Theatre is operating to its full potential, develop a strong and meaningful partnership with local businesses and organisations, identify and develop new income sources and growth opportunities, as well as supporting the city's wider cultural agenda. The Trustees are collectively responsible for directing the affairs of the Trust, ensuring that it is solvent, well run, and delivering its charitable objects. Trustees are also directors of the charitable company.

Through the management agreement ATG are paid a fixed annual management fee by the Council, which in 2017/2018 totalled £0.252m (£0.430m in 2016/2017). In 2017/2018 the turnover of the Trust was £0.019m and under company law audited accounts are not required. The Trust made a small surplus of £4,759 in 2017/2018 (surplus of £14 for 2016/2017) which will increase its reserve to meet future costs. The Trust reserves at 31 March 2018 now stand at £11,956 (£7,196 as at 31 March 2017). In 2017/2018 the Council made a contribution of £15,163 (£9,350 for 2016/2017) to the Trust.

The responsibility for repairs and maintenance of the theatre building sits with ATG as the sub-tenant.

### Other Relevant Information

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

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

## Notes to the Financial Statements

### Note 37 – Capital Expenditure and Capital Financing

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

2016/2017 £'000		2017/2018 £'000
351,491	Opening Capital Financing Requirement	<b>354,080</b>
88	Recognition and Derecognition of Embedded Lease Assets	<b>(12)</b>
211	Recognition of PFI Assets	<b>237</b>
	<i>Capital Investment</i>	
65,896	Property, Plant and Equipment	<b>66,554</b>
0	Investment Properties	<b>0</b>
0	Long Term Debtors	<b>4,091</b>
660	Intangible Assets	<b>499</b>
15,878	Revenue Expenditure Funded from Capital under Statute	<b>22,908</b>
	<i>Sources of Finance</i>	
(11,566)	Capital Receipts	<b>(2,184)</b>
(50,558)	Government grants and other contributions	<b>(36,865)</b>
	Sums set aside from revenue:	
(10,211)	Direct revenue contributions	<b>(7,011)</b>
(7,809)	MRP	<b>(8,378)</b>
354,080	Closing Capital Financing Requirement	<b>393,919</b>
	<i>Explanation of movements in year</i>	
(207)	(Decrease) in underlying need to borrow (supported by government financial assistance)	<b>(286)</b>
6,855	Increase / (decrease) in underlying need to borrow (unsupported by government financial assistance)	<b>44,532</b>
(192)	Increase / (decrease) in underlying need to borrow (finance leases)	<b>(251)</b>
(3,867)	Increase / (decrease) in underlying need to borrow (PFI contracts)	<b>(4,156)</b>
2,589	Increase / (decrease) in Capital Financing Requirement	<b>39,839</b>

### Note 38 – Leases

#### a) Council as Lessee

##### Finance Leases

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

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

2016/2017 £'000		2017/2018 £'000
11,000	Other Land & Buildings	<b>10,668</b>
503	Vehicles, Plant, Furniture and Equipment	<b>252</b>
11,503		<b>10,920</b>



## Notes to the Financial Statements

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

2016/2017 £'000		2017/2018 £'000
	Finance Lease Liabilities (net present value of minimum lease payments)	
263	Current	228
5,983	Non-current	5,752
0	Finance costs payable in future years	0
6,246	Minimum lease payments	5,980

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

2016/2017 Minimum Lease Payments £'000	2016/2017 Finance Lease Liabilities £'000		2017/2018 Minimum Lease Payments £'000	2017/2018 Finance Lease Liabilities £'000
263	263	Not later than one year	228	228
312	312	Later than one year and not later than five years	95	95
5,671	5,671	Later than five years	5,657	5,657
6,246	6,246		5,980	5,980

### Operating Leases

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

The Council has use of a small number of properties by entering into operating leases. The annual payment in 2017/2018 was £0.376m (2016/2017 £0.403m). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

2016/2017 £'000		2017/2018 £'000
36	Not later than one year	10
113	Later than one year but not later than five years	139
254	Later than five years	227
403		376

### b) Council as Lessor

#### Operating Leases

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

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

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

## Notes to the Financial Statements

2016/2017 £'000		2017/2018 £'000
5,211	Not later than one year	5,174
12,046	Later than one year but not later than five years	10,950
173,207	Later than five years	151,699
190,464		167,823

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

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

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

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

- Fair value of the services received during the year: debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost: an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent: increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; and
- Payment towards liability: applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

#### Current PFI Schemes

- Sandhill View  
The Council entered into Sandhill PFI Contract in September 2001 and the Sandhill View Academy and Community Learning Centre subsequently became operational as a multi community use facility in September 2002. The Council receives annual grant of £1.549m towards the cost of this 25 year scheme. Sandhill View school transferred to Academy status on 1<sup>st</sup> July 2015 and part of the asset operated by the Academy on a long-term lease transferred from the Council's Balance Sheet. The Council still retains the overall liability to the PFI contractor to pay the unitary charge for the entire facility with the cost relating to the school being subsequently recovered from the Academy.
- Replacement Street Lighting and Highway Signs  
The Council entered into a PFI contract, on 12 August 2003, to provide replacement street lighting and highway signs, this includes on-going maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028. The Council receives annual grant of £2.185m towards the cost of this scheme.
- Waste Management Partnership  
The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. In April 2014, a 25 year Energy from Waste facility became operational under a PFI contract, led by

## Notes to the Financial Statements

Gateshead Council. The Council receives annual grant of £1.805m towards the cost of this scheme.

### Property, Plant and Equipment Assets

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

2016/2017 Sandhill View £'000	2016/2017 Street Lighting £'000	2016/2017 Waste Partnership £'000		2017/2018 Sandhill View £'000	2017/2018 Street Lighting £'000	2017/2018 Waste Partnership £'000
2,094	34,843	64,896	Cost / Valuation	2,094	35,079	61,065
47	13,614	0	Accumulated Depreciation	93	14,981	2,908
2,047	21,229	64,896	Net Book Value	2,001	20,098	58,157

### Service Concession Liabilities

The following transactions were processed during 2016/2017 and 2017/2018:

2016/2017 Sandhill View £'000	2016/2017 Street Lighting £'000	2016/2017 Waste Partnership £'000		2017/2018 Sandhill View £'000	2017/2018 Street Lighting £'000	2017/2018 Waste Partnership £'000
1,762	2,631	3,417	Provision of Services	1,604	2,761	5,039
0	371	831	Lifecycle costs	0	385	830
242	928	2,537	Repayment of Capital	397	1,000	2,610
735	1,579	1,255	Interest	712	1,502	1,198
170	125	116	Contingent rent	260	115	224
2,909	5,634	8,156	Total payment	2,973	5,763	9,901
(1,549)	(2,185)	(1,805)	PFI grant receivable	(1,549)	(2,185)	(1,805)
1,360	3,449	6,351	Net payment	1,424	3,578	8,096

Although the payments made to the contractor are described as unitary payments, they have been determined through competitive tendering to reflect the cost of the services and works provided, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

2016/2017 £'000		2017/2018 £'000
85,871	Balance outstanding at the start of the year	82,164
0	Additions	0
(3,707)	Repayment of capital	(4,007)
82,164	Balance outstanding at the year end	78,157

## Notes to the Financial Statements

### Future Unitary Charge Payments

The unitary charge payments are subject to annual indexation in line with inflation and can be reduced if the contractor fails to meet prescribed availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the three PFI contracts at 31 March 2018 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2018/2019	8,885	4,177	1,147	3,591	17,800
Payable within 2 to 5 years	34,677	17,257	6,752	12,485	71,171
Payable within 6 to 10 years	43,337	24,861	10,720	9,351	88,269
Payable within 11 to 15 years	23,592	13,302	8,829	2,840	48,563
Payable within 16 to 20 years	22,560	13,206	9,652	1,459	46,877
Payable within 21 to 25 years	4,520	5,354	1,195	115	11,184
<b>Total</b>	<b>137,571</b>	<b>78,157</b>	<b>38,295</b>	<b>29,841</b>	<b>283,864</b>

### Significant contractual information – terms of the arrangement

- Sandhill View

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

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

- Replacement Street Lighting and Highway Signs

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

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

- Waste Management Partnership

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

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

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

- Sandhill View

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

## Notes to the Financial Statements

- Replacement Street Lighting and Highway Signs

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

- Waste Management Partnership

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

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

- Sandhill View

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

- Replacement Street Lighting and Highway Signs

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

- Waste Management Partnership

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

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

- Sandhill View

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

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

- Replacement Street Lighting and Highway Signs

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

- Waste Management Partnership

The Energy from Waste facility and waste transfer station is under the operational control of SITA South Tyne and Wear during the contract. The Council retains legal title to the land relating to its Waste Transfer Station and the asset will revert to the Council at the end of the contract period.

The Energy from Waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the Councils to operate along with a lease of the underlying land.

## Notes to the Financial Statements

### Significant contractual information – renewal and termination options

- Sandhill View

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

- Replacement Street Lighting and Highway Signs

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

- Waste Management Partnership

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

### Note 40 – Impairment Losses

During 2017/2018, the Council recognised impairment losses totalling £8.107m (£3.323m in 2016/2017). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are demolition and regeneration works at sites within the city (£5.337m), minor transport modernisation works (£0.595m), and works to various schools (£0.865m).

## Notes to the Financial Statements

### Note 41 – Termination Benefits

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

The Council terminated the contracts of a number of employees in 2017/2018, incurring liabilities of £2.381m (£11.683m in 2016/2017). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

#### 2017/2018 Exit Packages:

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

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

## Notes to the Financial Statements

### Note 41 – Termination Benefits

#### 2016/2017 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	99	510	0	510	26	138	9	147	648	9	657
£20 - £40	10	247	0	247	3	25	76	101	272	76	348
£40 - £60	4	77	96	173	1	19	23	42	96	119	215
£60 - £80	1	8	66	74	1	23	54	77	31	120	151
	114	842	162	1,004	31	205	162	367	1,047	324	1,371
<u>Voluntary</u>											
£0 - £20	137	1,331	99	1,430	31	163	13	176	1,494	112	1,606
£20 - £40	75	1,474	682	2,156	7	210	0	210	1,684	682	2,366
£40 - £60	40	779	1,203	1,982	2	56	47	103	835	1,250	2,085
£60 - £80	10	197	501	698	0	0	0	0	197	501	698
£80 - £100	11	267	702	969	0	0	0	0	267	702	969
£100 - £150	14	443	1,215	1,658	0	0	0	0	443	1,215	1,658
£150 - £200	3	118	378	496	0	0	0	0	118	378	496
£200 - £250	2	105	329	434	0	0	0	0	105	329	434
	292	4,714	5,109	9,823	40	429	60	489	5,143	5,169	10,312
<b>Total</b>	<b>406</b>	<b>5,556</b>	<b>5,271</b>	<b>10,827</b>	<b>71</b>	<b>634</b>	<b>222</b>	<b>856</b>	<b>6,190</b>	<b>5,493</b>	<b>11,683</b>

In addition to the costs analysed above, the Council has incurred a further £0.623m in 2016/2017 relating to pension costs for employees whose contracts were terminated in 2015/2016 and who were disclosed in the 2015/2016 Statement of Accounts.



## Notes to the Financial Statements

### Note 42 – Pensions Schemes Accounted for as Defined Contribution Schemes

#### Teachers' Pension Scheme

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

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

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

In 2017/2018, the Council paid £5.756m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2016/2017 were £7.103m and 16.5%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £5.498m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 43.

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

#### NHS Staff Pension Scheme

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

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

In 2017/2018, the Council paid £0.068m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.4% of pensionable pay. The figures for 2016/2017 were £0.076m and 14.3%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £0.080m.

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

# Notes to the Financial Statements

## Note 43 – Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

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

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

### Discretionary Post-Retirement Benefits

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

### Transactions Relating to Post-employment Benefits

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

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

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

## Notes to the Financial Statements

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2016/2017 £m	2017/2018 £m	2016/2017 £m	2017/2018 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	22.33	<b>23.49</b>	0.00	<b>0.00</b>
Past service costs	6.05	<b>1.16</b>	0.00	<b>0.00</b>
(Gain)/loss from settlements	0.00	<b>(24.38)</b>	0.00	<b>0.00</b>
Financing and Investment Income and Expenditure				
Net interest expense	13.46	<b>11.70</b>	1.31	<b>1.05</b>
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	41.84	<b>11.97</b>	1.31	<b>1.05</b>
Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(144.70)	<b>(14.14)</b>	0.00	<b>0.00</b>
Actuarial gains and losses arising on changes in demographic assumptions	3.76	<b>0.00</b>	1.77	<b>0.00</b>
Actuarial gains and losses arising on changes in financial assumptions	296.36	<b>26.82</b>	3.22	<b>0.42</b>
Actuarial gains and losses arising from liability experience	(92.14)	<b>10.54</b>	(0.97)	<b>(2.33)</b>
Net increase in assets / liabilities arising from disposals	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	105.12	<b>35.19</b>	5.33	<b>(0.86)</b>
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	9.15	<b>(12.51)</b>	(2.60)	<b>(1.67)</b>
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	32.69	<b>24.48</b>	3.91	<b>2.72</b>
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	41.84	<b>11.97</b>	1.31	<b>1.05</b>

## Notes to the Financial Statements

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

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2016/2017 £m	2017/2018 £m	2016/2017 £m	2017/2018 £m
Present value of the defined benefit obligation	1,638.11	<b>1,623.22</b>	42.03	<b>38.45</b>
Fair value of plan assets	1,153.55	<b>1,127.95</b>	0.00	<b>0.00</b>
Sub-total	(484.56)	<b>(495.27)</b>	(42.03)	<b>(38.45)</b>
Other movements in the liability (asset)	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Net liability arising from defined benefit obligation	(484.56)	<b>(495.27)</b>	(42.03)	<b>(38.45)</b>

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2016/2017 £m	2017/2018 £m	2016/2017 £m	2017/2018 £m
Opening balance at 1 April	1,401.53	<b>1,638.11</b>	40.61	<b>42.03</b>
Current service cost	22.33	<b>23.49</b>	0.00	<b>0.00</b>
Interest cost	46.87	<b>40.12</b>	1.31	<b>1.05</b>
Contributions from scheme participants	5.91	<b>4.65</b>	0.00	<b>0.00</b>
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	3.76	<b>0.00</b>	1.77	<b>0.00</b>
Actuarial gains/losses arising from changes in financial assumptions	296.36	<b>26.82</b>	3.22	<b>0.42</b>
Actuarial gains/losses arising from liability experience	(92.14)	<b>10.54</b>	(0.97)	<b>(2.33)</b>
Net increase in liabilities arising from disposals	0.00	<b>(76.99)</b>	0.00	<b>0.00</b>
Past service costs (including curtailments)	6.05	<b>1.16</b>	0.00	<b>0.00</b>
Liabilities assumed on entity combinations	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Benefits paid	(52.56)	<b>(44.68)</b>	(3.91)	<b>(2.72)</b>
Liabilities extinguished on settlements	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Closing balance at 31 March	1,638.11	<b>1,623.22</b>	42.03	<b>38.45</b>

## Notes to the Financial Statements

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2016/2017 £m	2017/2018 £m	2016/2017 £m	2017/2018 £m
Opening fair value of scheme assets	989.40	<b>1,153.55</b>	0.00	<b>0.00</b>
Interest income	33.41	<b>28.42</b>	0.00	<b>0.00</b>
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	144.70	<b>14.14</b>	0.00	<b>0.00</b>
Net increase in liabilities arising from disposals	0.00	<b>(52.61)</b>	0.00	<b>0.00</b>
The effect of changes in foreign exchange rates	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Contributions from employer	32.69	<b>24.48</b>	3.91	<b>2.72</b>
Contributions from employees into the scheme	5.91	<b>4.65</b>	0.00	<b>0.00</b>
Benefits paid	(52.56)	<b>(44.68)</b>	(3.91)	<b>(2.72)</b>
Settlements	0.00	<b>0.00</b>	0.00	<b>0.00</b>
Closing balance at 31 March	1,153.55	<b>1,127.95</b>	0.00	<b>0.00</b>

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	2016/2017			2017/2018		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	59.5	7.4	66.9	<b>60.7</b>	<b>6.3</b>	<b>67.0</b>
Property	0.0	9.2	9.2	<b>0.0</b>	<b>8.5</b>	<b>8.5</b>
Government Bonds	3.9	0.0	3.9	<b>4.0</b>	<b>0.0</b>	<b>4.0</b>
Corporate Bonds	11.5	0.0	11.5	<b>11.7</b>	<b>0.0</b>	<b>11.7</b>
Cash	2.6	0.0	2.6	<b>3.7</b>	<b>0.0</b>	<b>3.7</b>
Other	3.5	2.4	5.9	<b>3.5</b>	<b>1.6</b>	<b>5.1</b>
<b>Total assets</b>	<b>81.0</b>	<b>19.0</b>	<b>100.0</b>	<b>83.6</b>	<b>16.4</b>	<b>100.0</b>

### Basis for Estimating Assets and Liabilities

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

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

## Notes to the Financial Statements

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/2017	2017/2018	2016/2017	2017/2018
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.8 years	<b>22.9 years</b>	22.8 years	<b>22.9 years</b>
Women	26.3 years	<b>26.4 years</b>	26.3 years	<b>26.4 years</b>
Longevity at 65 for future pensioners				
Men	25.0 years	<b>25.1 years</b>	n/a	<b>n/a</b>
Women	28.6 years	<b>28.7 years</b>	n/a	<b>n/a</b>
RPI	3.1%	<b>3.2%</b>	3.1%	<b>3.2%</b>
CPI	2.0%	<b>2.1%</b>	2.0%	<b>2.1%</b>
Rate of increase in salaries	3.5%	<b>3.6%</b>	n/a	<b>n/a</b>
Pension account revaluation rate	2.0%	<b>2.1%</b>	n/a	<b>n/a</b>
Rate of increase in pensions	2.0%	<b>2.1%</b>	2.0%	<b>2.1%</b>
Rate for discounting scheme liabilities	2.6%	<b>2.6%</b>	2.6%	<b>2.6%</b>
Long-term expected rate of return on assets in the scheme	2.6%	<b>2.6%</b>	2.6%	<b>2.6%</b>

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

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	<b>47.90</b>	<b>47.61</b>
Rate of increase in salaries (increase or decrease by 0.1%)	<b>6.66</b>	<b>6.58</b>
Rate of increase in pensions (increase or decrease by 0.1%)	<b>23.91</b>	<b>23.52</b>
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	<b>30.06</b>	<b>30.62</b>

### Impact on the Council's Cash Flows

The Council anticipates making £24.160m expected contributions to the scheme in 2018/2019.

The weighted average duration of the defined benefit obligation for scheme members is 18.7 years in 2017/2018 (18.7 years in 2016/2017).

## Notes to the Financial Statements

### Note 44 – Contingent Liabilities

The Council has a number of outstanding equal pay complaints from staff, (both existing and former), who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council in relation to previously operated bonus schemes. These are grievances and claims which concern identical issues. The Employment Tribunal claims have been stayed by the Tribunal to enable without prejudice settlement discussions to take place. Following settlement discussions, a significant number of claims and grievances have been settled. Efforts are on-going to conclude Settlement Agreements in the residual cases.

The Environment Agency has confirmed that the Council is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works and the respective parties' share of such costs cannot yet be accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. Arrangements were put in hand to instruct an independent third party to undertake a detailed investigation of the site on behalf of all of the interested parties, in order to obtain a clearer understanding of the condition of the land. The investigation has now concluded and a report was submitted to the Environment Agency in September 2016 for their consideration. Their response is awaited. In the event that the Agency does consider that remediation work is required, the parties affected will have a right of appeal. The position is being kept under regular review and it is considered prudent to continue to treat this as a contingent liability.

### Note 45 – Financial Guarantees

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 Council is liable for claims for a period of 35 year from the date of transfer (2001 to 2036). The amount included in the Agreement stipulates that the Council's maximum liability to the Group in respect of all claims howsoever made shall not exceed in aggregate the sum of £240.0m and as yet no claims have been made. The Council currently has an environmental warranty insurance policy in place to cover any potential claims, with the next policy due in 2021. The excess on the existing policy as well as provision for future policy costs has been set aside within the Insurance Fund.

In addition to this, the Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees who were originally employed by the Council but transferred to Gentoo in March 2001. Under this guarantee, only the basic level of pension would be funded (no added years). Although facing similar pressures to the Council, Gentoo's financial position is healthy and the likelihood of Gentoo ceasing to operate is highly unlikely. It is very difficult to estimate the potential cost to the Council if that were to happen as the Council only has partial liability and that liability will have significantly diminished since 2001 as a result of staff turnover and some of the affected staff retiring. The Council's share of the potential deficit would need to be considered as part of the overall financial position of Gentoo at the point that it ceased operating and any liability relating to the Council would be repaid over an agreed repayment period.

The Council also acts as a joint guarantor (along with other councils) to the Tyne and Wear Pension Fund in respect of pensions for employees of several bodies such as the Association of North East Councils (ANEC) and the North East Regional Employers Organisation (NEREO). The councils involved have agreed with the Pension Fund administrators that, in the unlikely event of any of these bodies failing, any pension deficit would be repaid over an agreed repayment period. Independently, the Council has similar arrangements in place for possible pension deficits with several other organisations.

These guarantees have all been judged to be insurance contracts and have been valued accordingly.

# Notes to the Financial Statements

## Note 46 – Contingent Assets

### Section 106 Agreements

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

The Council has several large agreements in place with potential future contributions of £15.425m as well as numerous smaller agreements with various developers, however the timing of contributions is uncertain as these are only payable to the Council when certain trigger points are met at the respective developments.

## Note 47 - Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit Risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity Risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

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

### Credit Risk

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

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



## Notes to the Financial Statements

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

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £152.2m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that a default was likely to crystallise. Deposit protection arrangements will limit any losses that might arise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience and current market conditions.

	Amount at 31 March 2018 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2018 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2018 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2017 £'000
Bonds and other securities	0	0	0	0	0
Customers	14,175	6.69	0	949	1,471
<b>Financial Assets</b>	<b>14,175</b>		<b>0</b>	<b>949</b>	<b>1,471</b>

## Notes to the Financial Statements

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

The Council does not generally allow credit for customers, such that £14.175m is beyond its due date for payment. The past due amount can be analysed by age as follows:

31 March 2017 £'000		31 March 2018 £'000
9,431	Less than 3 months	13,416
164	Three to 6 months	213
325	Six months to one year	332
94	More than one year	214
10,014		14,175

### Liquidity Risk

The Council manages its liquidity position through risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed. If unexpected movements happen the Council has ready access to a facility to borrow from the Public Works Loan Board and from money markets. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities borrowing is as follows:

31 March 2017 £'000	Loans Outstanding	31 March 2018 £'000
34,052	Less than 1 year	35,897
5,406	Maturing in 1-2 years	6,266
15,219	Maturing in 2-5 years	17,600
5,337	Maturing in 5-10 years	394
15,014	Maturing in 10-20 years	15,010
15,000	Maturing in 20-30 years	15,000
64,500	Maturing in 30-40 years	64,500
115,179	Maturing in 40-50 years	165,171
0	Maturing in more than 50 years	0
269,707	<b>Total</b>	<b>319,838</b>

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

### Market Risk

#### Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

## Notes to the Financial Statements

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

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

According to this assessment strategy, at 31 March 2018, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2017 £'000		31 March 2018 £'000
(471)	Increase in interest payable on variable rate borrowings	(476)
2,210	Increase in interest received on variable rate borrowings	1,602
1,739	<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>1,126</b>
(365)	Decrease in fair value of fixed rate investment assets	(211)
(365)	<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>(211)</b>
57,930	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	<b>69,181</b>

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

### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16.400m (2016/2017 £16.400m) in Newcastle Airport which is not listed on the stock exchange, a £5.000m (2016/2017 £5.000m) equity share in its Local Asset Backed Vehicle, Siglion, and a £0.500m (2016/2017 £0.500m) equity share in its Leisure Joint Venture, Sunderland Lifestyle Partnership. Whilst these holdings are generally illiquid and are not anticipated to be sold the Council is consequently exposed to losses arising from movements in the prices of the shares. The Airport shares were re-valued in 2012/2013 as a result of a change in strategic partner for the Airport during the re-financing process, which provided a 'market' price on which to base the valuation of the shares held by the council.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires

## Notes to the Financial Statements

shareholdings in return for 'open book' arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings. The Newcastle Airport shares are classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. A general shift of 5% in the general price of shares in Newcastle Airport (positive or negative) would thus have resulted in a £0.820m gain or loss being recognised in the Other Comprehensive Income and Expenditure for 2017/2018.

The Council also holds a small number of various gilts and unit trusts with a value at cost of £0.015m (2016/2017 £0.015m) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in Other Comprehensive Income and Expenditure.

### Foreign Exchange Risk

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

## Note 48 – Heritage Assets: Summary of Transactions

There have been no transactions during 2016/2017 or 2017/2018.

## Note 49 – Heritage Assets: Further Information on the Council's Holdings

### Collections maintained by Tyne & Wear Museums

Sunderland City Council own a number of artefacts that are managed by Tyne & Wear Museums with a value in excess of £10,000.

### Statues, Monuments and Public Art

The values of statues, monuments and public art where the value can be separately identified have been classified as heritage assets. In the future all capital expenditure in excess of £10,000 on such items will be classified as heritage assets.

### Other Historic Assets

Other objects held by the Council with a value in excess of £10,000 that can be classified as historic assets. Items include, for example, the book of remembrance, copy of the Lindisfarne gospels and miners' banners.

## Note 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 2018 the Council was responsible for 41 trust funds:

	31 March 2017 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	31 March 2018 £'000
Health, Housing and Adult Services	72	0	0	0	72
Childrens Services	48	0	30	0	78
Total	120	0	30	0	150

# Collection Fund Account

## Collection Fund Account for Year Ended 31 March 2018

2016/2017				Note	2017/2018		
Council Tax £'000	Business Rates £'000	Total £'000			Council Tax £'000	Business Rates £'000	Total £'000
96,449	0	96,449	<b>Income</b>				
0	95,101	95,101	Council Tax Payers	1	102,543	0	102,543
96,449	95,101	191,550	Income from Business Ratepayers	2	0	89,688	89,688
					102,543	89,688	192,231
			<b>Expenditure</b>				
			Apportionment of Previous Years' Surplus				
2,500	0	2,500	Sunderland City Council		2,500	0	2,500
157	0	157	Tyne and Wear Fire and Rescue Authority		154	0	154
186	0	186	Police and Crime Commissioner for Northumbria		189	0	189
2,843	0	2,843			2,843	0	2,843
83,363	43,539	126,902	Precepts, Demands and Shares:				
5,142	889	6,031	Sunderland City Council		89,914	40,901	130,815
6,305	0	6,305	Tyne and Wear Fire and Rescue Authority		5,387	835	6,222
0	491	491	Police and Crime Commissioner for Northumbria		6,824	0	6,824
0	44,393	44,393	Central Government - Transitional Protection Payable		0	3,619	3,619
94,810	89,312	184,122	Central Government - Share		0	41,736	41,736
					102,125	87,091	189,216
0	742	742	Charges to Collection Fund				
0	343	343	Disregarded Amounts - Enterprize Zones		0	707	707
277	1,114	1,391	Cost of Collection - Business Rates		0	341	341
(429)	(25)	(454)	Write Offs	3	229	1,462	1,691
0	3,371	3,371	Provision for Bad Debts	3	99	(737)	(638)
(152)	5,545	5,393	Provision for Business Rate Appeals	4	0	(211)	(211)
					328	1,562	1,890
(1,052)	244	(808)	<b>(Deficit) / Surplus for the Year</b>		<b>(2,753)</b>	<b>1,035</b>	<b>(1,718)</b>
5,990	197	6,187	Balance brought forward as at 1 April		4,938	441	5,379
4,938	441	5,379	<b>Fund Balance Carried Forward as at 31 March</b>		<b>2,185</b>	<b>1,476</b>	<b>3,661</b>
			<b>Fund allocated to</b>				
4,342	216	4,558	Sunderland City Council		1,924	723	2,647
268	4	272	Tyne and Wear Fire and Rescue Authority		115	15	130
328	0	328	Police and Crime Commissioner for Northumbria		146	0	146
0	221	221	Central Government		0	738	738
4,938	441	5,379			<b>2,185</b>	<b>1,476</b>	<b>3,661</b>

## Collection Fund Account

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

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to council tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Sunderland, the council tax precepting bodies are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

In 2013/2014, the local government finance regime was revised with the introduction of the retained business rates scheme. Whilst the main aim of the scheme is to give Councils a greater incentive to grow businesses, it also increases the financial risk due to non-collection and the volatility of the business rates tax base.

The scheme allows the Council to retain a proportion of the business rates received. The Sunderland share is 49% with the remainder paid to precepting bodies. For Sunderland the business rates precepting bodies are Central Government (50% share) and Tyne and Wear Fire and Rescue Authority (1% share).

Business rates surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

## Notes to the Collection Fund Account

### Note 1 – Income from Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the council tax Base.

The basic amount of council tax for a Band D property, inclusive of major preceptors, was £1,470.77 for 2017/2018 (£1,402.72 for 2016/2017), is multiplied by the proportion specified for the particular band to give an individual amount due.

The council tax Base for 2017/2018 was 69,402 (67,556 in 2016/2017). The increase between financial years is as a result of a combination of new builds, a reduction in the level of council tax Discounts and Exemptions, and an increase to the anticipated collection rate.

The Tax Base for 2017/2018 was approved by Cabinet on 11<sup>th</sup> January 2017 and was calculated as follows:

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	181	5/9	101
A	77,507	6/9	51,671
B	17,665	7/9	13,739
C	16,250	8/9	14,445
D	8,393	1	8,393
E	3,070	11/9	3,752
F	1,036	13/9	1,496
G	619	15/9	1,032
H	18	18/9	36
Net effect of Premiums and Discounts			(24,206)
Total			70,459
Anticipated Collection Rate			98.5%
<b>Tax Base for the Calculation of Council Tax</b>			<b>69,402</b>

### Note 2 – Income from Business Ratepayers

The Council collects business rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

The business rates share payable for 2017/2018 was estimated before the start of the financial year as £41.736m to Central Government, £0.835m to Tyne and Wear Fire and Rescue Authority and £40.901m to Sunderland Council. These sums have been paid in 2017/2018 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each council identifying the expected level of retained business rates and a top up or tariff amount to ensure that all councils receive their baseline amount. Tariffs due from councils payable to Central Government are used to finance the top ups to those councils who do not achieve their targeted baseline funding. In this respect Sunderland received a top up grant to the General Fund in 2017/2018 to the value of £40.699m (£36.247m in 2016/2017).

The total income from business rates payers collected in 2017/2018 was £89.688m (£95.101m in 2016/2017). This sum includes £3.619m of transitional protection payments from ratepayers, which

## Notes to the Collection Fund Account

under Government regulation should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to Central Government to £45.355m.

In addition to the top up, a 'safety net' figure is calculated at 92.5% of the baseline amount which ensures that authorities are protected to this level of business rates income. The Council does not qualify for a safety net payment for 2017/2018.

For 2017/2018, the total business rates rateable value at the year-end is £231.865m (£226.154m in 2016/2017). The national multipliers for 2017/2018 were 46.6p (48.4p for 2016/2017) for qualifying small businesses, and the standard multiplier being 47.9p (49.7p for 2016/2017) for all other businesses.

### Note 3 – Council Tax/Business Rates Bad Debt Provision

The Collection Fund provides for bad debts on arrears on the basis of prior years' experience, and a formulaic approach to outstanding debt levels.

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. Most of these sums relate to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts and as such have already been accounted for in a previous period.

The level of bad debt provision and the relevant preceptors share is as follows:

2016/2017				2017/2018		
Council Tax £'000	Business Rates £'000	Total £'000		Council Tax £'000	Business Rates £'000	Total £'000
5,013	5,397	10,410	Balance as at 1 April	4,584	5,372	9,956
(277)	(1,114)	(1,391)	Write Offs	(229)	(1,461)	(1,690)
(152)	1,089	937	Contribution to provision	328	724	1,052
4,584	5,372	9,956	Balance as at 31 March	4,683	4,635	9,318
			Balance allocated to:			
4,031	2,632	6,663	Sunderland City Council	4,123	2,271	6,394
0	2,686	2,686	Central Government	0	2,318	2,318
248	54	302	Tyne and Wear Fire and Rescue Authority	247	46	293
305	0	305	Police and Crime Commissioner for	313	0	313
4,584	5,372	9,956		4,683	4,635	9,318



## Notes to the Collection Fund Account

### Note 4 – Business Rate Provision for Valuation Appeals

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2018.

The level of appeals provision and the relevant preceptors share is as follows:

2016/2017 £'000		2017/2018 £'000
11,407	Balance as at 1 April	14,778
(3,156)	Use of provision	(5,511)
6,527	Contribution to provision	5,300
14,778	Balance as at 31 March	14,567
	Balance allocated to:	
7,241	Sunderland City Council	7,138
7,389	Central Government	7,283
148	Tyne and Wear Fire and Rescue Authority	146
14,778		14,567

## Group Accounts Narrative Statement

The Council's standard financial statements consider the Council only as a single entity. However, the Council delivers some of its activities through a number of wholly owned subsidiaries and joint ventures, thus a full picture of the Council's economic activity and financial position is not presented in the Council's single entity financial statements. Group financial statements are therefore produced to reflect the full extent of the Council's economic activity and financial position. The group accounts consolidate the results and balances of the Council with those organisations considered to be part of the group:

- Subsidiaries
  - Sunderland Care and Support (Holding Company) Ltd;
  - Together for Children Ltd;
  - Sunderland Homes Ltd;
  - Sunderland Live Ltd (2016/2017 only);
- Joint Ventures
  - Siglion LLP;
  - Sunderland Lifestyle Partnership Ltd;
  - IAMP LLP.

Further detail on the relationship between the Council and these organisations is presented in Note 36, Related Parties, of the Council's single entity accounts.

### Preparation of Group Accounts

The group accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Local Government Act 2003 and The Accounts and Audit Regulations 2015.

In preparing the group accounts all statutory main group statements have been incorporated, along with specific notes where balances are materially different from those within the Council's accounts.

The financial statements required under the Code are detailed below:

#### 1. Movement in Reserves Statement (MiRS)

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

#### 2. Comprehensive Income and Expenditure Statement

This reports the net cost for the year of all group functions and demonstrates how that cost has been met from general government grants and income from local taxpayers.

#### 3. Balance Sheet

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

#### 4. Cash Flow Statement

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

#### 5. Notes to the Accounts

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the group's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net (Increase) / Decrease before Transfers to / (from) earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the group. The table below shows the details for both 2016/2017 and 2017/2018 as required by the Code of Accounting Practice.

	Council					Subsidiaries	Group	
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Council's share of group reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2016</b>	<b>17,974</b>	<b>147,048</b>	<b>11,671</b>	<b>40,612</b>	<b>217,305</b>	<b>203,162</b>	<b>19,987</b>	<b>440,454</b>
Movement in reserves during 2016/2017:								
Total Comprehensive Income and Expenditure	(57,680)	0	0	0	<b>(57,680)</b>	(72,179)	<b>(6,697)</b>	<b>(136,556)</b>
Adjustments between accounting basis & funding basis under regulations	36,344	0	(6,917)	(31,841)	<b>(2,414)</b>	2,414	<b>0</b>	<b>0</b>
Transfers to / (from) Earmarked Reserves	21,586	(21,586)	0	0	<b>0</b>	0	<b>0</b>	<b>0</b>
Restatement of Unusable Reserves	0	0	0	0	<b>0</b>	0	<b>(1,211)</b>	<b>(1,211)</b>
(Increase) / Decrease in 2016/2017	250	(21,586)	(6,917)	(31,841)	<b>(60,094)</b>	(69,765)	<b>(7,908)</b>	<b>(137,767)</b>
<b>Balance at 31 March 2017 (restated)</b>	<b>18,224</b>	<b>125,462</b>	<b>4,754</b>	<b>8,771</b>	<b>157,211</b>	<b>133,397</b>	<b>12,079</b>	<b>302,687</b>
Movement in reserves during 2017/2018:								
Total Comprehensive Income and Expenditure	(66,241)	0	0	0	<b>(66,241)</b>	(8,892)	<b>(22,266)</b>	<b>(97,399)</b>
Adjustments between accounting basis & funding basis under regulations	69,674	0	2,209	(3,774)	<b>68,109</b>	(68,109)	<b>0</b>	<b>0</b>
Transfers to / (from) Earmarked Reserves	(3,083)	3,083	0	0	<b>0</b>	0	<b>0</b>	<b>0</b>
Restatement of Unusable Reserves	0	0	0	0	<b>0</b>	0	<b>(2,344)</b>	<b>(2,344)</b>
(Increase) / Decrease in 2017/2018	350	3,083	2,209	(3,774)	<b>1,868</b>	(77,001)	<b>(24,610)</b>	<b>(99,743)</b>
<b>Balance at 31 March 2018</b>	<b>18,574</b>	<b>128,545</b>	<b>6,963</b>	<b>4,997</b>	<b>159,079</b>	<b>56,396</b>	<b>(12,531)</b>	<b>202,944</b>

## Group Comprehensive Income and Expenditure Statement

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

This statement includes an adjustment between the group accounts and the single entity accounts of £91.924m (£35.295m in 2016/2017). This figure represents the purchase and sale of services between all group members.

2016/2017				Notes	2017/2018		
Gross Expenditure restated £'000	Gross Income restated £'000	Net Expenditure restated £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
12,818	2,170	10,648			Leader	12,329	2,487
142,309	128,367	13,942	Deputy Leader	140,825	124,200	16,625	
31,471	15,292	16,179	Cabinet Secretary	46,966	25,000	21,966	
221,509	150,432	71,077	Children's Services	206,072	130,780	75,292	
144,615	66,797	77,818	Health, Housing and Adult Services	120,245	59,260	60,985	
32,802	27,374	5,428	Public Health, Wellness and Culture	29,074	26,985	2,089	
62,497	20,186	42,311	City Services	64,600	21,410	43,190	
8,788	2,011	6,777	Responsive Services and Customer Care	9,169	1,960	7,209	
10,452	0	10,452	Exceptional item - severance costs	0	0	0	
2,707	0	2,707	Exceptional item - equal pay settlement/provision	0	0	0	
669,968	412,629	257,339	<b>Cost of Services</b>	<b>629,280</b>	<b>392,082</b>	<b>237,198</b>	
43,657	0	43,657	Other operating expenditure	74,238	0	74,238	
29,826	9,702	20,124	Financing and investment income and expenditure	35,290	6,300	28,990	
0	262,332	(262,332)	Taxation and non-specific grant income and expenditure	0	245,165	(245,165)	
743,451	684,663	58,788	<b>(Surplus) or Deficit on Provision of Services</b>	<b>738,808</b>	<b>643,547</b>	<b>95,261</b>	
13	489	(476)	Joint ventures accounted for on an equity basis	1	828	(827)	
(927)	0	(927)	Tax expenses of subsidiaries	(190)	4,576	(4,766)	
742,537	685,152	57,385	<b>Group (Surplus) / Deficit</b>	<b>738,619</b>	<b>648,951</b>	<b>89,668</b>	
			<u>Items that will not be reclassified to (surplus)/deficit on Provision of Services</u>				
		4,879	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(12,418)	
		74,292	Re-measurements of the defined benefit liability			20,149	
		79,171	<b>Other Comprehensive Income and Expenditure</b>			7,731	
		136,556	<b>Total Comprehensive Income and Expenditure</b>			97,399	

\* 2016/2017 has been represented to show joint venture activity on separate line.

## Group Comprehensive Income and Expenditure Statement

### Reconciliation of the Single Entity Comprehensive Income and Expenditure Statement to the Group Comprehensive Income and Expenditure Statement

This table shows how the group entities have contributed to the overall (surplus) / deficit shown in the group income and expenditure account.

2016/2017 £'000		2017/2018 £'000
129,859	Total comprehensive income on the Council's Comprehensive Income and Expenditure Statement (2017/2018 includes Exceptional Item relating to Pensions of (24.380m)) *	75,133
	Add (surplus) / deficit attributable to subsidiaries:	
7,075	Sunderland Care and Support Ltd (reflected on the Health, Housing and Adult Services Portfolio)	791
98	Sunderland Live Ltd (reflected on the Public Health, Wellness and Culture Portfolio)	(482)
0	Together for Children Ltd (reflected on the Childrens Services Portfolio) (reflected as Exceptional Item relating to Pensions) *	(1,726)
		24,380
0	Sunderland Homes Ltd (reflected on the Health, Housing and Adult Services Portfolio)	130
	Add (surplus) / deficit attributable to joint venture:	
(489)	Siglion LLP	(825)
13	Sunderland Lifestyle Partnership Ltd	(3)
0	IAMP LLP	1
136,556	<b>Total</b>	<b>97,399</b>

\* Exceptional Items relating to Pensions exist in Council's single entity accounts and in Together for Children's accounts but net to nil in the Group Accounts.

## Group Balance Sheet

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

## Group Balance Sheet

31st March 2017 restated £'000		Notes	31st March 2018 £'000
919,657	Property, Plant and Equipment		893,322
12,192	Heritage Assets		12,192
60,458	Investment Property		54,110
2,192	Intangible Assets		2,349
16,415	Long Term Investments		16,415
7,416	Investments in Associates		8,243
55,095	Long Term Debtors		56,481
1,073,425	<b>Long Term Assets</b>		1,043,112
130,955	Short Term Investments		60,142
727	Inventories		1,110
44,817	Short Term Debtors	6	74,296
1,096	Assets Held for Sale		486
46,922	Cash and Cash Equivalents (In-hand & bank)	2	101,040
224,517	<b>Current Assets</b>		237,074
(9,430)	Cash and Cash Equivalents (overdrawn)	2	(11,172)
(34,052)	Short Term Borrowing		(35,897)
(62,968)	Short Term Creditors	7	(64,173)
(18,016)	Provisions		(15,307)
(2,548)	Grant Receipts in Advance - Capital		(1,552)
0	Corporation Tax Liability		0
(127,014)	<b>Current Liabilities</b>		(128,101)
(235,655)	Long Term Borrowing		(283,941)
(544,226)	Defined Benefit Pension Scheme Liability	9	(579,270)
(84,164)	Other Long Term Liabilities		(79,732)
(4,196)	Provisions		(6,197)
(868,241)	<b>Long Term Liabilities</b>		(949,140)
302,687	<b>Net Assets</b>		202,945
18,224	General Fund		18,574
125,462	Earmarked General Fund Reserves		128,545
4,754	Capital Receipts Reserve		6,963
8,771	Capital Grants Unapplied		4,998
1,916	Profit and Loss - Investments in Associates		2,743
(14,289)	Profit and Loss - Sunderland Care and Support Ltd		(15,080)
0	Profit and Loss - Together for Children Ltd		(22,654)
0	Profit and Loss - Sunderland Homes Ltd		(130)
(482)	Profit and Loss - Sunderland Live Ltd		0
144,356	<b>Usable Reserves</b>		123,959
173,277	Revaluation Reserve		162,629
24,934	Revaluation Reserve - Associates		22,590
445,570	Capital Adjustment Account		389,580
(1,198)	Financial Instrument Adjustment Account		(2,395)
(526,590)	Pensions Reserve		(533,720)
24,433	Deferred Capital Receipts Reserve		23,817
4,559	Collection Fund Adjustment Account		2,648
(2,687)	Accumulated Absence Account		(2,196)
16,033	Available for Sale Financial Instruments Reserve		16,033
158,331	<b>Unusable Reserves</b>		78,986
302,687	<b>Total Reserves</b>		202,945

## Group Cash Flow Statement

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

2016/2017 £'000		Notes	2017/2018 £'000
59,031	Net (surplus) or deficit on the provision of services		95,743
(60,941)	Adjust net (surplus) or deficit on the provision of services for non cash movement		(118,605)
22,135	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		37,856
20,225	Net cash flows from operating activities		14,994
16,610	Investing activities	4	(22,021)
(21,106)	Financing activities	5	(45,349)
15,729	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(52,376)</b>
53,221	Cash and cash equivalents at the beginning of the reporting period		37,492
37,492	<b>Cash and cash equivalents at the end of the reporting period</b>	2	<b>89,868</b>



# Notes to the Group Financial Statements

## Note 1 – Accounting Policies

The group accounting policies are largely the same as those specified within the Council only statement, however there are some slight divergences from these policies within the group as well as issues applicable to the subsidiary companies only. These are detailed below:

- **Deferred Tax**

Deferred tax is recognised in respect of an obligation to pay more tax in the future or a right to pay less tax in the future as at the Balance Sheet date. This represents differences between the company's taxable profits and its results as stated in the financial statement.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to be resolved, based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

- **Pensions**

The group accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

It should be noted that the Financial Statements for the Council's subsidiary companies should be prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position under FRS102 is not significantly different under IAS19.

- **Group Transactions**

The Council both commissions services from and provides support services to the subsidiary companies. All transactions between members of the group have been treated as arm's length.

- **Consolidation of Subsidiaries**

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

- **Consolidation of Joint Ventures**

Joint Ventures have been consolidated using the equity method. An investment is brought into the group balance sheet and adjusted by the Council's share in the joint venture's net asset movement. The Council's share of the joint venture's operating results for the year is included within the group income and expenditure account.

- **Capital Expenditure**

The de-minimus level for capital expenditure for the subsidiary companies is £5,000 which is lower than that of the Council.

- **Accounting Standards**

The accounts for the subsidiary companies have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Differences between these standards and the Code would have no material effect on the Group Statements.

## Notes to the Group Financial Statements

### Note 2 – Group Cash and Cash Equivalents

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

2016/2017 £'000		2017/2018 £'000
46,922	Cash and Cash Equivalents (in hand & bank)	101,040
(9,430)	Cash and Cash Equivalents (overdrawn)	(11,172)
37,492	<b>Total Cash and Cash Equivalents</b>	<b>89,868</b>

### Note 3 – Group Cash Flow Statement – Operating Activities

The net cash flows for operating activities include the following items in respect of interest transactions according to the requirements of the code:

2016/17 £'000		2017/2018 £'000
4,099	Interest received	2,890
(12,607)	Interest paid	(12,851)
4,482	Dividends received	1,842
(4,026)		(8,119)

### Note 4 – Group Cash Flow Statement – Investing Activities

2016/2017 £'000		2017/2018 £'000
65,644	Purchase of property, plant and equipment, investment property and intangible assets	68,774
130,000	Purchase of short-term and long-term investments	60,057
4,635	Other payments for investing activities	5,689
(4,733)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,110)
(160,000)	Proceeds from short-term and long-term investments	(130,955)
(18,936)	Other receipts from investing activities	(20,476)
16,610	<b>Net cash flows from investing activities</b>	<b>(22,021)</b>

### Note 5 – Group Cash Flow Statement – Financing Activities

2016/2017 £'000		2017/2018 £'000
(21,840)	Cash receipts of short and long-term borrowing	(54,357)
(3,419)	Other receipts from financing activities	0
4,003	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,264
150	Repayments of short and long term borrowing	4,326
0	Other payments for financing activities	418
(21,106)	<b>Net cash flows from financing activities</b>	<b>(45,349)</b>

## Notes to the Group Financial Statements

### Note 6 – Group Short Term Debtors

2016/2017 £'000		2017/2018 £'000
10,494	Central government bodies	21,816
1,470	Other local authorities	12,530
4,113	NHS bodies	3,750
28,740	Other entities and individuals	36,200
44,817	<b>Total</b>	<b>74,296</b>

### Note 7 – Group Short Term Creditors

2016/2017 £'000		2017/2018 £'000
(14,280)	Central government bodies	(17,933)
(5,416)	Other local authorities	(2,965)
(3,247)	NHS bodies	(3,189)
(40,025)	Other entities and individuals	(40,086)
(62,968)	<b>Total</b>	<b>(64,173)</b>

### Note 8 – Property, Plant and Equipment

On 1<sup>st</sup> June 2015 the Council transferred a number of leisure assets to its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd.

As these assets were transferred under a long term lease, the Council has written these assets out of its accounts, reducing assets by £52.289m in 2015/2016. Under the accounting requirements applicable to Sunderland Lifestyle Partnership, the Joint Venture has accounted for these assets at the present value of the minimum lease payments.

In order to comply with the Council's accounting requirements, within the Council's Group Statements, the Council's share of these assets (50%) has been re-instated at a valuation of £22.590m (£24.934m in 2016/2017).

### Note 9 – Group Reserves

#### Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

It should be noted that the Financial Statements for the Council's subsidiary companies should be prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position under FRS102 is not significantly different under IAS19.

The Pensions Reserves within the subsidiary companies are subsets of the Profit and Loss Reserves for those companies and are therefore shown on the Balance Sheet within Usable Reserves. The Pension Reserve held by the Council is shown on the Balance Sheet under Unusable Reserves. The table below presents the Pension Reserve activity for each member of the group.

## Notes to the Group Financial Statements

2016/2017					2017/2018			
Council	SCAS	Sunderland Live	Total Group		Council	SCAS	Together for Children	Total Group
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
(452,740)	(9,410)	(270)	(462,420)	<b>Balance at 1 April</b>	<b>(526,590)</b>	<b>(17,200)</b>	<b>0</b>	<b>(543,790)</b>
(67,300)	(6,910)	(82)	(74,292)	Remeasurement of the net defined benefit liability/(asset)	<b>(21,310)</b>	<b>860</b>	<b>301</b>	<b>(20,149)</b>
(43,150)	(4,890)	(42)	(48,082)	Items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	<b>(13,020)</b>	<b>(4,610)</b>	<b>(30,812)</b>	<b>(48,442)</b>
36,600	4,010	26	40,636	Employer's pensions contributions and direct payments to pensioners payable in the year	<b>27,200</b>	<b>2,630</b>	<b>3,281</b>	<b>33,111</b>
0	0	(68)	(68)	Less deferred tax offset against liability	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	0	0	Less adjustment for disposals / acquisitions	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(526,590)</b>	<b>(17,200)</b>	<b>(436)</b>	<b>(544,226)</b>	<b>Balance at 31 March</b>	<b>(533,720)</b>	<b>(18,320)</b>	<b>(27,230)</b>	<b>(579,270)</b>

### Share Capital Reserve

Two ordinary shares of £1 have been allotted and fully paid for in Sunderland Care and Support Ltd as well as one ordinary share of £1 in Sunderland Homes Ltd. All subsidiaries in the group are ultimately owned 100% by the Council.

### Note 10 – Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the group are not materially different from those within the Council only statements.

### Note 11 – Group Financing and Investment Income and Expenditure

2016/2017 restated £'000		2017/2018 £'000
12,607	Interest payable and similar charges	<b>12,936</b>
15,041	Net interest on the net defined benefit liability (asset)	<b>13,750</b>
(4,099)	Interest receivable and similar income	<b>(3,258)</b>
(4,261)	Other Investment Income	<b>(1,842)</b>
(1,342)	Surplus on Trading Undertakings	<b>(1,200)</b>
2,036	Income and expenditure in relation to investment properties and changes in their fair value	<b>6,348</b>
142	Disposals and impairments of subsidiaries	<b>2,256</b>
<b>20,124</b>	<b>Total</b>	<b>28,990</b>

# Notes to the Group Financial Statements

## Note 12 – Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

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

A proportion of employees of Sunderland Care and Support Ltd and Together for Children Ltd are members of the Local Government Pension Scheme.

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

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

### Discretionary Post-Retirement Benefits

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

### Transactions Relating to Post-employment Benefits

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

The subsidiary companies within the group do not raise council tax receipts and therefore the costs of post-employment / retirement benefits are not transferred to unusable reserves. These future liabilities are reflected within each company's Profit or Loss position on the Balance Sheet.

## Notes to the Group Financial Statements

### Note 13 – Termination Benefits

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

The Group terminated the contracts of a number of employees in 2017/2018, incurring liabilities of £3.503m (£14.112m in 2016/2017). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

#### 2017/2018 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<b>Compulsory</b>											
£0 - £20	43	280	20	300	50	289	16	305	569	36	605
£20 - £40	7	58	189	247	11	172	123	295	230	312	542
£40 - £60	7	81	287	368	1	43	0	43	124	287	411
£60 - £80	2	30	98	128	2	89	65	154	119	163	282
£80 - £100	2	32	139	171	0	0	0	0	32	139	171
	61	481	733	1,214	64	593	204	797	1,074	937	2,011
<b>Voluntary</b>											
£0 - £20	34	239	17	256	11	66	10	76	305	27	332
£20 - £40	7	63	145	208	4	32	95	127	95	240	335
£40 - £60	3	82	82	164	0	0	0	0	82	82	164
£60 - £80	2	26	115	141	0	0	0	0	26	115	141
£80 - £100	2	38	136	174	0	0	0	0	38	136	174
	48	448	495	943	15	98	105	203	546	600	1,146
<b>Total</b>	<b>109</b>	<b>929</b>	<b>1,228</b>	<b>2,157</b>	<b>79</b>	<b>691</b>	<b>309</b>	<b>1,000</b>	<b>1,620</b>	<b>1,537</b>	<b>3,157</b>

In addition to the costs analysed above, the Group has incurred a further £0.346m in 2017/2018 relating to pension costs for employees whose contracts were terminated in 2016/2017 and who were disclosed in the 2016/2017 Statement of Accounts.

## Notes to the Group Financial Statements

### Note 13 – Termination Benefits

#### 2016/2017 Exit Packages:

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
<u>Compulsory</u>											
£0 - £20	99	510	0	510	26	138	9	147	648	9	657
£20 - £40	10	247	0	247	3	25	76	101	272	76	348
£40 - £60	4	77	96	173	1	19	23	42	96	119	215
£60 - £80	1	8	66	74	1	23	54	77	31	120	151
	114	842	162	1,004	31	205	162	367	1,047	324	1,371
<u>Voluntary</u>											
£0 - £20	137	1,331	99	1,430	31	163	13	176	1,494	112	1,606
£20 - £40	171	1,509	682	2,191	7	210	0	210	1,719	682	2,401
£40 - £60	53	819	1,203	2,022	2	56	47	103	875	1,250	2,125
£60 - £80	12	198	501	699	0	0	0	0	198	501	699
£80 - £100	11	267	702	969	0	0	0	0	267	702	969
£100 - £150	14	443	1,215	1,658	0	0	0	0	443	1,215	1,658
£150 - £200	3	118	378	496	0	0	0	0	118	378	496
£200 - £250	2	105	329	434	0	0	0	0	105	329	434
	403	4,790	5,109	9,899	40	429	60	489	5,219	5,169	10,388
<b>Total</b>	<b>517</b>	<b>5,632</b>	<b>5,271</b>	<b>10,903</b>	<b>71</b>	<b>634</b>	<b>222</b>	<b>856</b>	<b>6,266</b>	<b>5,493</b>	<b>11,759</b>

In addition to the costs analysed above, the Group has incurred a further £2.353m in 2016/2017 relating to pension costs for employees whose contracts were terminated in 2015/2016 and who were disclosed in the 2015/2016 Statement of Accounts.

## Notes to the Group Financial Statements

### Note 14 – Officers’ Remuneration

Employees of the group receiving more than £50,000 remuneration for the year (excluding employer’s pension contributions) are shown below:

2016/2017	Remuneration	2017/2018
Non-Teaching Staff		Non-Teaching Staff
39	£50,000 - £54,999	28
20	£55,000 - £59,999	16
11	£60,000 - £64,999	5
12	£65,000 - £69,999	6
6	£70,000 - £74,999	2
5	£75,000 - £79,999	6
3	£80,000 - £84,999	3
9	£85,000 - £89,999	12
1	£90,000 - £94,999	4
1	£95,000 - £99,999	0
1	£100,000 - £104,999	1
1	£110,000 - £114,999	0
0	£115,000 - £119,999	1
1	£120,000 - £124,999	1
1	£130,000 - £134,999	0
1	£135,000 - £139,999	0
0	£140,000 - £144,999	0

Please note that the table above does not include Teaching staff or Senior Officers of the Council whose remuneration costs are disclosed in Note 32 of the Council’s single entity accounts.

### Note 15 – Audit Exemptions for Subsidiaries

Sunderland Homes Ltd is exempt from the audit requirements of the Companies Act 2006 by virtue of Section 479A. As the majority of Sunderland Homes Ltd’s activity during the year has been within the Council’s Group, the Council has opted, under section 479C of the Companies Act, to provide a statutory guarantee over the liabilities of Sunderland Homes Ltd as at 31<sup>st</sup> March 2018.

Liabilities due to organisations outside of the Group total £0.024m.



## Glossary of Terms

### **Accrual**

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

### **Accounting Policies**

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

### **Actuarial Gains and Losses**

Are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions -charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

### **Agency Services**

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

### **Amortisation**

Is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

### **Appropriations**

Are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

### **Assets**

An asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets are ones that may change in value on a day-to-day basis (e.g. Inventories). Non-current assets are tangible assets that yield benefit to the Council and the services it provides for a period of more than one year (e.g. Land and Buildings).

### **Available for Sale Assets**

Are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups);
- The sale is highly probable, with the Council committed to a plan to sell the asset;
- An active programme to locate a buyer and complete the plan has been initiated; and
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### **Bad Debts and Bad Debt Provisions**

Bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

## Glossary of Terms

### **Balance Sheet**

A statement of the recorded assets, liabilities and other balances at the year end.

### **Balances**

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

### **Business Rates (also known as Non-Domestic Rates)**

All non-domestic properties are valued by the Valuation Office Agency and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate with the proceeds shared between Central Government, the Council and Tyne and Wear Fire Authority on a defined basis.

### **Capital Expenditure**

Is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

### **Capital Financing**

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

### **Capital Financing Requirement (CFR)**

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

### **Capital Grants**

Are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

### **Capital Receipts**

Money received from the sale of land or other capital assets. Capital receipts are held by the 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.

### **Cash**

Comprises cash on hand and demand deposits, including uncleared BACS payments and unrepresented cheques.

### **Cash Equivalents**

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **CIPFA (the Chartered Institute of Public Finance and Accountancy)**

Provides guidance in the interest of public services. It is the professional body for accountants working in the UK public sector (and local government in particular). It provides financial and statistical information for local authority and other public sector bodies, and advises central government and other bodies on public finance.

### **Code of Practice on Local Authority Accounting in the UK**

'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Council.

### **Collection Fund**

The fund maintained by the Council into which are paid the amounts of council tax and business rates which it collects and out of which are to be paid precepts issued by major precepting authorities, central government and its own demands.

## Glossary of Terms

### **Community Assets**

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

### **Componentisation**

Is the allocation of the overall value of a significant non-current asset into separate components with materially different useful lives. This ensures that the depreciation charged more accurately reflects the consumption of economic benefits, recognising that some components will wear out more quickly than others. There is no minimum requirement for the number of components for a non-current asset, and the number will vary depending on the nature and complexity of the asset.

### **Constructive Obligation**

An obligation that derives from the Council's action where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### **Contingencies**

Are funds set aside as a reserve to meet the cost of unforeseen items of expenditure, shortfalls in income and to provide for inflation. This is not included in individual budgets because their precise value cannot be determined in advance.

### **Contingent Asset**

A contingent asset is a 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**

Are either:

Possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or Present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

### **Contingent Rents**

Are lease payments that changes as a result of changes occurring subsequent to the inception of the lease, other than the passage of time (such as indexation of a long-term contract).

### **Contributions paid to the Pension Fund**

Cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

### **Council Tax**

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

### **Creditors**

Are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include receipts in advance, where the Council receives income from external bodies or individuals in advance of service provision.

### **Current Assets**

Are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

### **Current Liabilities**

Are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

## Glossary of Terms

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

Is the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Services for which the employees worked.

### ***Curtailement***

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

### ***Debtors***

Are amounts owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year. The technical definition is: financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

### ***Defined Benefit Scheme (Pensions)***

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

### ***Defined Contribution Scheme (Pensions)***

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

### ***Depreciation***

Is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

### ***Discretionary Benefits***

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

### ***Estimation Techniques***

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

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

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

### ***Events after the Balance Sheet Date***

Are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

## Glossary of Terms

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

### ***Fair Value***

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

### ***Financial Instruments***

Are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### ***General Fund***

This accounts for the services of the Council except for the Collection Fund. The net cost is met by the council tax, Government Grants and business rates.

### ***Government Grants***

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

### ***Grants***

Are assistance by other bodies in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

### ***Gross Expenditure***

Is the total cost of providing the Council's services before taking into account income.

### ***Historical Cost***

Refers to the original monetary value of an asset.

### ***IASs (International Accounting Standards)***

Are accounting pronouncements issued by the International Accounting Standards Board (IASB). They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole. The main standards referred to within this document are IAS 19 Employee Benefits, which primarily gives a framework for the required pension fund disclosures, and IAS 16 Property, Plant and Equipment which prescribes the accounting treatment of property, plant and equipment assets.

### ***Impairment***

Is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

## Glossary of Terms

### ***Income***

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

### ***Infrastructure Assets***

These are non-current assets which cannot be sold or given away; expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways, footpaths and bridges.

### ***Intangible Assets***

Are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

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

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

### ***International Financial Reporting Standards (IFRS)***

Standards issued by the International Accounting Standards Board (IASB) which present the Council's accounts in a consistent and comparable format with other organisations internationally.

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

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

### ***Investment Properties***

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

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

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

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

### ***Joint Ventures***

A Joint Venture exists where the Council and another party exercise joint control over an entity with decisions relating to the organisation requiring unanimous consent by the parties sharing control.

### ***Leasing***

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

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease.

## Glossary of Terms

### **Levies**

Similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through council tax as with precepting bodies; they are items of expenditure on the face of the Comprehensive Income and Expenditure Account.

### **Liabilities**

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

### **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.

### **Local Government Pension Scheme (LGPS)**

Is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities.

### **Long Term Contracts**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

### **Minimum Lease Payments**

Are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- b) For a lessor, any residual value guaranteed to the lessor by:
  - (i) The lessee;
  - (ii) A party related to the lessee; or
  - (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

### **Minimum Revenue Provision**

Is the minimum amount which must be charged to a council's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

### **Net Book Value**

The amount at which non-current assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

### **Net Interest on the Net Defined Benefit Liability/Asset, i.e. net interest expense for the authority**

Is the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / asset at the beginning of the period - taking into account any changes in the net defined benefit liability / asset during the period as a result of contribution and benefit payments.

### **Net Realisable Value**

Is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

## Glossary of Terms

### ***Non-current Assets***

Are those that yield benefits to the local authority and the services it provides for a period of more than one year.

### ***Non-Operational Assets***

Non-current assets held by a council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### ***Operational Assets***

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### ***Past Service Costs (Pensions)***

For a defined benefit pension scheme, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

### ***Pension fund***

An employees' pension fund is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

### ***Post Balance Sheet Events***

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### ***Precept***

The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Council on their behalf.

### ***Prior Period Adjustments***

Those material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### ***Projected Unit Method***

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases and;
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time.

### ***Provisions***

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

### ***Private Finance Initiatives (PFI)***

PFI's are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements.



## Glossary of Terms

### ***Prudential Framework***

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of council capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework councils are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that councils will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all councils must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of its budget setting process.

### ***Public Sector Audit Appointments Ltd***

As independent company incorporated by the Local Government Association. The company is responsible for appointing auditors to Local Government, Police and local NHS bodies. Before April 2015, its responsibilities were discharged by the Audit Commission.

### ***Public Works Loan Board (PWLB)***

A Central Government agency, which lends money to councils at lower interest rates than those generally available from the private sector. Councils are able to borrow a proportion of their requirements to finance capital spending from this source.

### ***Related Parties***

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of a council include:

- central government;
- councils and other bodies precepting or levying demands on the council tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- 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.

### ***Related Party Transaction***

Is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

## Glossary of Terms

### **Reserves**

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

### **Residual value**

Is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### **Retirement Benefits (Pensions)**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Return on plan assets**

Shows the difference between the actual return and interest income on pension fund assets notionally allocated to the Council (separate to the amount disclosed within Net Interest). It is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure excluding amounts included in net interest on the net defined benefit liability/asset.

### **Revenue Contributions**

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

### **Revenue Expenditure**

Expenditure incurred on the day-to-day running of the Council, the costs principally include employee expenses, capital financing charges and general running costs.

### **Revenue Expenditure Funded by Capital under Statute**

This is expenditure that is legally allowed to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example, improvement grants.

### **Revenue funding**

Is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

### **Revenue Support Grant (RSG)**

A grant paid by Central Government to Local Authorities to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between council tax and business rates income and the Council's spend.

### **Scheme Liabilities (Pensions)**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

### **Settlement (Pensions)**

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## Glossary of Terms

### ***Specific Grants***

Government grants to councils in aid of particular services.

### ***Strain on the fund***

When a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council's consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

### ***Subsidiaries***

A subsidiary exists where the Council exercises control and gains benefits / exposure to risk arising from this control.

### ***Support services or overheads***

Are those that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

### ***Trust Funds***

Funds administered by the Council on behalf of charitable organisations and / or specific organisations.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

### ***Unusable reserves***

Are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences.

### ***Usable reserves***

Are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'.

### ***Useful Life***

The period over which the Council will derive benefits from the use of a non-current asset.