Sunderland City Council

Statement of Accounts

2016/2017

Contents

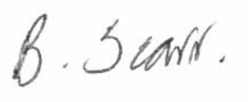
Introduction

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

With regard to corporate governance, the Council considers an annual review of its Local Code of Corporate Governance. The 2016/2017 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 2017/2018.

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

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



Councillor Paul Watson
Leader of the Council

Barry Scarr
Executive Director of Corporate Services

Dated: 21st July 2017

Certification of the Statement of Accounts

Statement of Accounts 2016/2017 (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 2016/2017 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31st March 2017 and its income and expenditure for the year then ended.

Barry Scarr
Executive Director of Corporate Services

Dated: 31st May 2017

Audited Statement of Accounts 2016/2017 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 2016/2017 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 21st July 2017 in accordance with The Accounts and Audit Regulations 2015.

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

Dated: 21st July 2017

Audited Statement of Accounts 2016/2017 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2016/2017 in accordance with The Accounts and Audit Regulations 2015.

Barry Scarr
Executive Director of Corporate Services

Dated: 21st July 2017

Narrative Statement

An Introduction to Sunderland

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

Sunderland has over 127,000 households, with a population of 277,000.

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

Council's Performance

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 that 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.

This Corporate Plan sets out our key priorities for the next four years allowing us to describe and clearly see how our collective hard work contributes to the City Vision.

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

REGENERATING THE CITY
We need to create the conditions to influence and enable the regeneration of Sunderland.

SAFEGUARDING OUR RESIDENTS
Everyone has the right to feel safe. This means preventing and reducing the risk of significant harm to vulnerable children and adults from abuse or other types of exploitation, whilst supporting individuals in maintaining control over their lives and in making informed choices without coercion.

FUTURE COUNCIL
Our track record in achieving transformational change is strong. We are strengthening the role and capacity of elected members as community leaders and the focus of the Council to drive change and improvement in the city.

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

REGENERATING THE CITY

- Focus on investment and key economic projects bringing jobs to the city.
  - Employment up by 3.5% in 2016 and the increase was greater than that for the North East (1.1%) or Great Britain (0.4%).
  - 1,176 jobs created by businesses in 2016/2017 with the support of the Council's Business Investment Team.
  - 117 new investment enquires received by the Business Investment Team in 2016/2017.
  - Evolve – the city's archetype business incubator, operating at full capacity and demonstrating turnover of successfully established businesses. The more recently constructed Washington Business Centre increased occupancy by 26% and Software Centre by 15%.
  - Visible progress made on key economic projects including the new Wear Bridge, transport infrastructure, Vaux site and the International Advanced Manufacturing Park (IAMP).
- A renewed focus on housing and place shaping developments such as Chapelgarth & Seaburn.
  - 727 new homes built, 84 of those larger family / executive style homes.
  - 29 major planning applications received for further housing developments.
- Develop the cultural offer, reviewing traditional services to consider alternative models and firmly establishing Sunderland as a City of Culture.
  - City of Culture bid submitted.
  - Move from traditional library services to enhanced digital offer. Use of digital library services increased across the year almost doubling (99% increase) in the last quarter in comparison to the previous quarter.
  - 358,753 visits to museums, 178,572 visits to arts centres, and 285,772 visits to the Empire Theatre.
- Improving education and skills ensuring our people are ready for school, ready for work and ready for life.
  - Early years 'Good Level of Development' increased to 68% in summer 2016 from 66% in summer 2015.
  - At Key Stage 2, 61% achieved at least the expected level in reading, writing and maths in summer 2016, placing Sunderland joint top in both the North East and statistical neighbour group and 7% above the national average (54%).

- At GCSE, 59% of students achieved a grade C or higher in Maths and English in summer 2016 – an increase on the previous year at 53%.
- 98.7% of all school leavers had a destination offer of education, training or employment through the September guarantee, only 1 other authority achieved higher in the North East and in the statistical neighbour group.
- Secondary school persistent absence reduced by 1.9% to 14.9% absence, and primary down by 0.8% to 8.5% absence.

SAFEGUARDING OUR RESIDENTS

- Transform Children's Services to improve outcomes for children.
  - Together for Children (TfC) company established and operational 1st April 2017, with contract performance management arrangements in place to get to a 'good' inspection outcome. Performance improvements made in 2016/2017 ensuring the new company starts in a better position than at the outcome of the Ofsted inspection 2015. Improvements include:
    - Percentage of re-referrals to Children's Social Care down to 25.3% from 29.5% (March 2017 from March 2016).
    - 88% reduction in the number of unallocated cases (10 in March 2017 from 89 in March 2016. 269 as at the Ofsted inspection May 2015.
    - Care Leavers in touch with the local authority 60% or above through-out the year, double the figure as at the Ofsted inspection May 2015 (30%).
- Adult Social Care & Health. Integration and whole-system approach:
  - Delayed transfers attributable to adult social care reduced from 1.09 per 10,000 population to 0.37 (2015/2016 to 2016/2017).
  - 5.4% reduction in the numbers of older people in permanent adult care (2015/2016 to 2016/2017).
  - The percentage of people receiving adult services having a review within the year increased by 14% (2015/2016 to 2016/2017).
- Develop the support available to local people to improve their health and wellbeing.
  - New adult treatment services for substance misuse was commissioned from 1st July 2016. 106 successful completions from the service as at 31st March 2017.
  - Evidence gathered from the public and stakeholders in support of the development of a Cumulative Impact Policy in relation to alcohol in the city. Proposed consultation timeline agreed with Trading Standards to culminate final proposals in December 2017.
  - Fully revised specification developed to improve substance misuse services for young people and included within Together for Children contract by 31 March 2017.
  - Over 1200 members of the public and stakeholder engaged with to support the re-design and re-procurement of 0-19 services during 2017/2018.
  - Smoking quit rate above the national target of 45% at 48% for 2016/2017
  - New local Healthy Living Pharmacy Scheme developed in collaboration with the Local Pharmaceutical Committee
  - 298 new Sunderland Health Champions recruited, an increase of 20% active Health Champions.
- Community Safety. Led work on an intelligence based approach to community safety through leading the Strategic Intelligence Assessment to inform the Safer Sunderland Strategy.
  - Very high levels of feelings of safety maintained - 97% feel safe (Qtr. 4 2016/2017)

FUTURE COUNCIL

- New ways of delivering services implemented with 1,009 full time equivalent employees now working in local authority controlled organisations. There are 289 fewer employees employed by the Council overall.
- Maximising digital and self-serve capabilities. Over a fifth (22%) of all customer contact now self-serve - up 6% (Qtr.4 2015/2016 to Qtr. 4 2016/2017).
- An increased focus on effective and efficient business management:
  - There were 8,345.7 fewer days lost to sickness absence in 2016/2017 than in 2015/2016. The 12 month rate per FTE (which takes into account reducing employee numbers) reduced from 11.83 to 10.28 (13% reduction).
  - 1,086 fewer working days lost due to employee suspension (3,264 days/32 staff within 2015/2016, reduced to 2,178 days/26 staff within 2016/2017)
  - A range of business management metrics in place.

- Maximising the amount of money available to the Council to spend on ensuring high quality vital services whilst ensuring a balanced budget.
  - £46.6m saving delivered for 2016/2017
  - Business rates in year collection has remained consistently high at 97.5% as has in year collection of Council Tax at 95.8% with longer term collection rates in excess of 98.5%.

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 significantly 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:

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.

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.

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

There will be far wider 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 collation 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 Council's Corporate Delivery Plan 2017/2018 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 2017/2018 therefore includes a focus on the following for performance improvement under the updated plan themes of City, People & Council.

CITY

- Business start-ups and business growth for small and medium enterprises (SMT's) whilst continuing to promote inward investment.
  - Although business survival for new businesses (after 1 year) is better for Sunderland than nationally, the business start-up rate (per 10,000 population for the city at 37.2 for 2015, is lower than the North

East (NE) at 44.6 and significantly lower than the rate of England & Wales at 67.3. Our priority actions focus on increasing occupancy in our business incubators not yet fully occupied through a focussed marketing strategy, supporting businesses through our Business Investment Team with a particular focus on SME's and continuing to attract investment through MAKE It Sunderland.

- Continuing to focus on key economic projects and employment growth sectors such as software development and advanced manufacturing to deliver new jobs.
  - Although employment has increased there is still a need for more and better jobs in the city, particularly with the median weekly wage for Sunderland residents (at £483.20) lower than the NE (£492.20) and Great Britain (£541.00). Our priority actions focus on continuing to support key economic projects that are expected to attract well-paid jobs, including the International Advanced Manufacturing Park (IAMP) and city centre development including the Vaux site.

- Levering economic interest and increased spend in the city through the delivery of internationally renowned events, engaging and involving local people, through volunteering opportunities.
  - With latest figures (for 2015) showing a 3.6% reduction in the number of visitors to the city we have ambitious plans to attract national recognition of Sunderland as a City of Culture with an event programme to match our ambitions and we will look to be less reliant on the traditional council led cultural offer. Recognising the opportunities to involve and engage local people we have set targets for volunteer involvement.
  - There are lower levels of participation in activity (1x30 min of sport, per week) in the city (32.6% October 2015/2016) compared with England (36.1%) contributing to other poor health outcomes. Our priorities focus on delivering a range of sports events through our events calendar and we will monitor participation (attendances and cardholders) for our Everyone Active partnership.

- Place-shaping for better living and working through regeneration, infrastructure development, more and better housing and high quality and sustainable environments.
  - Although more housing is being built each year, the proportion of larger properties in Council Tax Bands C-G remains static at 23.5% and is lower than the NE (29%) and England (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 engaging housing developers, building on work already completed on a Housing Prospectus for Sunderland. We will facilitate market development in areas of high housing demand such as Washington, directly intervene in the development of large housing sites at Chapelgarth and Seaburn through Siglion, and the development of smaller sites through Sunderland Homes Limited.

- Improving public health outcomes to improve healthy life expectancy, thereby supporting more people to be 'in work'.
  - Residents in Sunderland have poorer health outcomes than elsewhere. Healthy life expectancy is lower for males and females (Males: S/land 58.8, NE 59.6, England 63.4. Females: S/land 60.1, NE 60.1, England 64.1 (2013 to 2015)), and there are a range of other poorer health outcomes including obesity, hospital admissions due to alcohol, smoking prevalence and teenage conceptions and best start in life through breast feeding. Our priorities focus a whole system approach with a new model for 0-19 services, a review of sexual health services and action plan to reduce teenage pregnancies. We will ensure effective commissioning and develop a wider set of contract management performance measures to support this.

PEOPLE

- Through our strategic commissioning, ensure our new organisation "Together for Children" delivers and is externally recognised for delivering the best possible outcomes for children and young people as well as strengthening our Safeguarding Board arrangements. We have set clear performance targets to be met in 2017/2018 to improve on current performance. The measures and targets are set out below:
  - Referrals with a decision within 24 hours (target 95%)
  - Percentage of children subject to a child protection plan who have received a statutory visit within 10 working days (95%)
  - Percentage of case file audits rated as requires improvement or better (target 70%, new measure)
  - Rate of first time-entrants to the youth justice system (target 560)
  - Percentage of Looked after Children who have received a statutory visit within 6 weeks (target 98%)

  - Care leavers in touch with Together for Children within 8 weeks of the previous contact or entering the cohort (80%)
  - Percentage of young people who have reached school again in employment, education or training (92.8%)
  - Percentage of Looked after Children aged 4-17 with an up to date Personal Education Plan (90%).

- Transforming the way we support adults with social care needs and developing more preventative ways of reducing and managing demand whilst achieving significant cost saving.
  - With an ageing population and less than one fifth (18.8%) of our levels of contact to Adults Services in 2016/2017 resulting in services offered, our priorities focus very much on managing demand and prevention. We will closely monitor admissions (which at 458 for 2016/2017 exceeded the 418 target), the number of bed weeks in care (which at 55,150 also exceeded the target of 52,953) and home care services to reduce current weekly cost.

- Maximising opportunities from the apprenticeship levy and work in partnership with others to promote higher level skills.
  - Whilst education outcomes for children in the city are improving post age 16 there are skills challenges. Achievement of A-level by the age of 19 (at 51.8% 2015/2016) is lower than England and fewer residents are qualified at NVQ Level 4 or above (Sunderland 25.9%, NE, 31.3%, GB 38.2% 2016). Our priorities focus on maximising the Apprenticeship Levy within the Council and working in partnership with others on skills for the local labour market – such as the successful Work Discovery Programme.

- Continue to lead partnership activity to mitigate the impacts of Welfare Reform.
  - The continued roll out of welfare reform presents challenges in the city with 283 households affected by the benefit cap and 4,304 affected by under-occupancy. Our priorities focus on mitigating the impacts of welfare reform through: 1) Delivering targeted / welfare rights advice and awareness campaigns and maximising the use of funding streams linked to welfare reform programme. 2) Improving resilience, digital inclusion and financial inclusion. 3) The further targeting of Crisis Support.

COUNCIL

- Being both an effective collaborator and an effective commissioner;
- Sustaining services that matter and developing appropriate structures for delivery and;
- Continuing to be more financially self-sufficient, maximising income for delivery.

As we face the financial challenges ahead of us to 2020, with a further £44.67m savings in 2017/2018, we will deliver our transformation programme and we will seek to maximise every opportunity for external funding whilst simultaneously maximising council tax and business rates. We will also seek to maximise business efficiency through alternative delivery of services to achieve the further savings required and by reducing waste in the system. We will achieve the latter by continuing to closely monitor the set of ‘business management metrics’ put in place at the outset of 2016/2017, taking appropriate action as required.

Narrative Statement

Funding Context and Financial Planning

2016/2017 represented the seventh year of the implementation of the Government's plans to eliminate the national deficit. During that period the Government has regularly revised its forecasts. Its current stated intention is to continue with reductions, to reduce the national deficit to £20.6bn in 2020/2021 and eliminate it as soon as reasonably practicable after this date.

The government funding reductions and cost pressures over the seven year period 2010/2011 to 2016/2017 has meant Sunderland City Council has had to achieve savings of over £250m.

£46.4m of these reductions were achieved in 2016/2017 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.

In addition to the government's funding reductions the general economic situation has continued to impact on the Council's financial position in 2016/2017:

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

Looking to 2017/2018, further reductions in Government funding and cost pressures mean that the budget has been set taking account of a further £45m of savings, comprising £31m of service savings, use of balances and applying a council tax increase and social care levy within the limits set by government. 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 plans for 2017/2018 is set out in the Budget Report to Council of 1st March 2017.

Looking to the medium term, the Government has published indicative funding figures through to 2019/2020. The figures take no account of the proposed Business Rates review and the move to 100% Retained Business Rates, which remains a significant risk to the Council's financial position. Based on this indicative settlement and estimated cost pressures, the savings requirement for 2017/2018 to 2019/2020 is £74m. The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.

The Council continues to plan for these further significant reductions and risks through an approved Efficiency Strategy covering 2017/2018 to 2019/2020.

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

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

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

- Ensuring resources are targeted on statutory services and protecting key priority services with a focus on need rather than want.
- Redesigning and reshaping services to deliver required outcomes at least cost. There will be a focus on commissioning, shifting from the Council directly delivering services, to a role of shaping, facilitating and enabling services. This will draw on the work of the Intelligence Hub to ensure a sound evidence base for desired outcomes from commissioned activity.
- Strategic commissioning based on outcomes with reduced 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 2017/2018 reserves are being used specifically to support the overall Council position, in addition to use of reserves for existing purposes. At this stage, it is anticipated that useable reserves will decrease significantly by 2019/2020.

A range of workforce planning measures have continued to support a reduction in the size of the workforce in a planned and managed way. A combination of measures, including restrictions on external recruitment, internal redeployments, early retirements, a voluntary severance scheme and more latterly application of the Council's redundancy policy has meant that the workforce now stands at 2930 (excluding maintained schools and council controlled companies) enabling significant annual on-going savings to be secured.

Four Year Capital Programme

The Council is continuing to focus its capital programme on economic regeneration, with a four year programme from 2017/2018 to 2020/2021 of £320m. This will help support Sunderland to contribute towards meeting the three themes of the 3,6,9 Vision, which has built on and replaces the Economic Master Plan, the main objective of which is to improve Sunderland's economic prosperity.

Some examples of our major schemes are:

- City Deal – International Advanced Manufacturing Park (IAMP) £92m 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.

- New Wear Crossing (SSTC Phase 2) £117m total
  A new bridge construction across the river Wear, as part of phase 2 of the Sunderland Strategic Transport Corridor to provide a continuous route between the A19 and the Port of Sunderland via the city centre to support the economic regeneration of the City. Funded primarily by Central Government, along with Council support.

- SSTC Phase 3 – link road £57m total
  The third phase of the Sunderland Strategic Transport Corridor to provide a new improved link road from the New Wear Crossing to city centre. Primarily funded from the Local Growth Fund.

- Vaux Phase 1 £26m total
  Provision of the first phase of development on the former Vaux site via the construction of a building which will provide 5,481m² (c.59,000 sq ft) of lettable business space along with strategic infrastructure including roads, utilities, parking, landscaping, public realm and external works. Funded by the Local Growth Fund and Council resources.

- 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.

- LED Street Lighting Phase 2 £10m total
  The planned replacement of a further 24,513 residential lamps LED lamps in order to improve energy efficiency. Funded primarily by a SALIX 5 year interest free loan.

- 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.

- 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.

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

Capital Expenditure and Funding

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

Capital Expenditure and Funding	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total**
Portfolio:	**£m**	**£m**	**£m**	**£m**	**£m**
Leader	56	45	17	20	138
Deputy Leader	2	0	0	0	2
Cabinet Secretary	14	9	0	0	23
Children's	5	1	0	0	6
Health, Housing & Adult Services	0	0	0	0	0
Public Health, Wellness & Culture	6	4	0	0	10
City Services	74	51	16	0	141
Responsive Services & Customer Care	0	0	0	0	0
Total Expenditure	**157**	**110**	**33**	**20**	**320**
Grants and Contributions	49	72	17	10	148
Capital Receipts	2	2	0	0	4
Reserves and Revenue	11	1	0	0	12
Borrowing	95	35	16	10	156
Total Funding	**157**	**110**	**33**	**20**	**320**

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.

Private Finance Initiative schemes – on-going position

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

For each of these schemes, the Council makes agreed payments which are increased each year by inflation. Payments remaining to be made under the three PFI contracts at 31 March 2017 (excluding any estimation of inflation) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2017/2018	8,679	4,003	1,155	3,763	17,600
Payable within 2 to 5 years	34,056	17,013	5,969	13,230	70,268
Payable within 6 to 10 years	43,136	24,310	10,274	10,783	88,503
Payable within 11 to 15 years	27,164	15,725	9,220	3,488	55,597
Payable within 16 to 20 years	22,534	12,851	9,604	1,752	46,741
Payable within 21 to 25 years	9,035	8,262	3,076	299	20,672
Total	144,604	82,164	39,298	33,315	299,381

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

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

Changes in Statutory Functions and planned future developments in service delivery

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

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

The Council entered into a new Section 75 agreement with Sunderland Clinical Commissioning Group to create a pooled budget, with an initial budget of £157m as part of its plans for the BCF from 1 April 2016. The agreement was signed in April 2016 continuing a pooled commissioning budget across health and social care.

Future Developments
The Council continues to examine the most appropriate service delivery approach for a number of services, both to generate financial savings and ensure the best possible outcomes for the reducing level of available resource.

Children's Company – Together for Children
The Local Authority has been working closely with the Department for Education (DfE) since the July 2015 Ofsted report to look at how things can be done differently to ensure the best possible outcome for children and families. Cabinet on 20th April 2016 agreed in principle to establish a company to deliver children's services on behalf of the Council. This was followed by further reports to Cabinet in June and September 2016 which set out recommendations in respect of the scope of services to be performed by Together for Children (TfC), the terms of a Memorandum of Understanding between the Council and the Department for Education, and to

record the key principles for the proposed governance and service contract arrangements for TfC. Cabinet agreed on the 22nd March 2017 to the go-live of Together for Children from the 1st April 2017.

Housing Company – Sunderland Homes Limited

The recent Housing Development Plan highlighted gaps in the current housing provision within Sunderland. In order to address some of the gaps the Council established Sunderland Homes Limited in 2016/2017. The company will directly procure residential developments of new homes for sale and rent. Cabinet approved the establishment of the company on 22nd March 2017 and Sunderland Homes Limited will commence trading in 2017/2018.

Narrative Statement

Financial Performance of the Council 2016/2017

The estimated net revenue expenditure for 2016/2017 to be met from Government Grants and local taxpayers was approved at £223.570m. The Council's Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates was set at £1,233.28 for 2016/2017, inclusive of the social care levy. This represented a 2% Council Tax increase from the 2015/2016 Band D Council Tax level and a 2% social care levy. The Council again set the lowest Council Tax level in the whole of the North East region for 2016/2017 and has continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

In overall terms, the Council achieved a surplus of £0.757m for the financial year. This net underspend has been transferred to the Strategic Investment Reserve to support transitional arrangements arising from implementation of the savings programmes for 2017/2018. In summary terms, the outturn position takes account of the following variations to budget during 2016/2017:

- Debt charge and interest on investment savings of £7.247m, over and above that utilised to fund in year service pressures. In addition to savings arising from slippage in the capital programme, additional savings have been generated by retrospectively applying the Minimum Revenue Provision debt reprofiling agreed by Cabinet in February 2017. In addition to supporting the budget position going forward this has also resulted in additional savings in 2016/2017.
- Other net corporate budget savings of £3.023m in respect of:
  - contingencies, salaries underspends captured corporately as a result of acceleration of the 2017/18 savings plans, additional income, 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.
  - funding of corporate cost pressures including the 2016/2017 late public health grant announcement budget shortfall, and agreed delays in implementation of 2016/2017 savings plans as previously agreed by Cabinet.
- Additional one-off income of £4.100m in respect of the Newcastle Airport re-financing exercise completed in year as reported at third review.
- Earmarking of Specific Reserves to meet:
  - Invest to save costs of £4.835m to enable service transformation and delivery of 2020 savings plans as set out in the third review report to cabinet including in relation to People services, investment in local services, ICT, and the children's company set up costs.
  - Provision for anticipated future service pressures of £2.248m.
- Earmarking of a £4.100m as an Economic Strategy reserve to enable the Council to progress economic regeneration activity and address potential impacts of Brexit.
- An increase to the General Fund balance of £2.430m to bring the general fund balance to £10m.

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

- Children's Safeguarding
  Pressures have continued in respect of Children's Safeguarding with an overspend at outturn of £6.789m, primarily in relation to:
  - the continued use of agency social workers and interim management arrangements.
  - the continued fluctuation in the number of looked after children throughout 2016/2017.
  - Additional legal costs associated with supporting children reflecting the increased caseload and referrals to external legal providers and Barristers costs.
- Adult Social Care
  Pressures have arisen primarily due to a combination of packages demand being higher than that originally forecast when the budget was set in January 2016, and pressures in Sunderland Care and Support. The final outturn position is an overspend of £3.078m.

Narrative Statement

The table below summarises the financial position for the year 2016/2017 for the Council's General Reserve, and also shows the original budget and the revised budget positions for 2016/2017. 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 100% retained business rates, a review of the Council's level of general fund balances has been undertaken. In light of the outturn position the general fund balances have been increased by £2.430m to bring the level of balances to £10.0m. This level of general fund balance will represent 4.56% of the Council's net budget requirement and is considered a more prudent and appropriate level for a large unitary council.

Financial position for the year 2016/2017 for General Fund Balances

	2016/2017 Original Estimate £'000	2016/2017 Revised Estimate £'000	2016/2017 Actual £'000	2015/2016 Actual £'000
Net Expenditure on Service Provision	222,306	222,427	224,918	229,493
Levies and Precepts	16,455	16,455	16,455	16,988
(Surplus) / Deficit from Trading Operations	(699)	(820)	(1,598)	(1,171)
Academy transfers	0	0	142	1
Taxation and non-specific grant income and expenditure:				
Council Tax and Business Rates Receipts	(130,151)	(130,151)	(130,486)	(123,033)
Non-ringfenced Government Grants	(100,397)	(100,397)	(100,486)	(113,299)
Transfers to / (from) Earmarked Reserves	(7,514)	(7,514)	(11,375)	(8,979)
Total	0	0	(2,430)	0
Addition to / (use of) General Fund	0	0	2,430	0
General Fund Balance brought forward	7,570	7,570	7,570	7,570
General Fund Balance carried forward	7,570	7,570	10,000	7,570

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 2016/2017 amounted to a net use of balances of £2.180m (£0.744m net return to balances in 2015/2016, as a result of increased spending by schools and is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement on the Education cost of service line. School balances are fully committed and are required to meet the challenges in respect of reduced funding in 2017/2018 and future years.
As a result, the balance of this reserve as at 31st March 2017 decreased to £8.224m compared to £10.404m as at 31st March 2016. Further details are set out in Note 9 to the Accounts.

Equal Pay claims

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council in relation to previously operated bonus schemes. Claims have been stayed by the Employment Tribunal to enable, without prejudice, settlement discussions. There are a number of grievances concerning identical issues. Following settlement discussions, a significant number of claims and grievances have been settled. Efforts are on-going to reach settlements in residual cases.

Narrative Statement

Pensions

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

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

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2016 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2017.

The Council continues to comply fully with this Standard and the Accounting Policy (Note 1) and the Notes to the Core Financial Statements provide details of the necessary disclosures required.

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

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit of £526.590m reflected in Note 23, as assessed by the Actuary, as at 31st March 2017, 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.

Balance Sheet Position

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

	Balance as at 31 March 2016 £m	**Balance as at 31 March 2017 £m**
Non-current assets	1,038	1,046
Net current assets	147	95
Long term liabilities and provisions	(765)	(851)
Net Assets	**420**	**290**
Represented by:		
Usable reserves	217	157
Unusable reserves	203	133

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.

Narrative Statement

The Group balance sheet position is:

	Balance as at 31 March 2016 £m	Balance as at 31 March 2017 £m
Non-current assets	1,066	1,073
Net current assets	149	98
Long term liabilities and provisions	(775)	(868)
Net Assets	**440**	**303**
Represented by:		
Usable reserves	217	158
Unusable reserves	229	158
Profit/(Loss) in subsidiaries and associates*	(6)	(13)

* The subsidiaries accounts contain liabilities relating to future retirement benefits. The liability relating to Sunderland Care and Support Ltd has had a substantial impact on the net worth of the subsidiary as presented on its balance sheet, however, this liability is being addressed on an on-going basis. Arrangements for funding the deficit mean that the financial position of the company remains sustainable as it has up to 24.2 years in which to address the pension fund projected deficit.

Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals during 2016/2017

Capital Expenditure for the year totalled £77.886m. Expenditure on non-current assets was £65.896m (Note 13), whilst expenditure on intangible assets was £0.660m. The remainder of £11.330m 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 £10.099m, Capital Receipts of £7.018m, Government Grants and other Contributions of £50.558m, and Revenue Contributions from Reserves of £10.211m.

The Council spent £4.201m on the purchase of land and property during 2016/2017. This included strategic land acquisitions that will be used to regenerate the city centre and acquisitions to allow infrastructure works to go ahead developing land around the enterprise zone area which will benefit economic growth.

The Council is involved in a number of major projects. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2016/2017, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

	Expenditure during 2016/2017 £'000	Total Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2017
New Wear Bridge Crossing (SSTC Phase 2)	32,930	117,600	ongoing
City Deal development (IAMP)	3,330	91,934	ongoing
A19 Ultra Carbon Enterprise Zone	3,323	24,000	ongoing
Investment Corridors	2,283	9,460	ongoing
Vaux Phase 1 Development	2,055	25,812	ongoing

There were three sales of surplus assets to developers over £500,000; the sale of land at Philadelphia (£1.678m), the sale of Belford House (£0.527m) and the sale of The Close, Rock Lodge Road (£0.510m). There were no other major asset disposals (over £0.500m) made during the year. In addition six schools became academies as disclosed in Note 5. In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

Narrative Statement

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 2nd March 2016 detailed the 2016/2017 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 1st April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2016/2017 were originally set as follows:

- Authorised Limit for External Debt for 2016/2017 of £541.902m.

- Operational Boundary for External Debt for 2016/2017 of £458.953m.

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 2016/2017. The highest level attained by the Council in respect of these limits, during 2016/2017, was £352.375m
In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full Council each year. The Policy for 2016/2017 is included in detail within Nature and Extent of Risk Arising from Financial Instruments
The Council's strategy for 2016/2017 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 4.00% for long-term borrowing was set in light of the views prevalent at the time the Treasury Management policy was set in March 2016. Volatility in the financial markets both pre and post Brexit vote saw considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates which the Council has taken advantage of.

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 £20m 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**
47½ years	15/06/2016	17/06/2016	17/06/2063	2.55	10.0
46½ years	01/07/2016	05/07/2016	05/01/2063	2.15	10.0

The Monetary Policy Committee, (MPC) cut the Bank of England Base Rate from 0.50% to 0.25% on 4th August, the first change since 5th March 2009, in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, there has been higher economic growth in the second half 2016 than that forecast and inflation forecasts have risen as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently it is likely that the MPC will do nothing to dampen growth prospects by raising the Base Rate again, until Brexit negotiations have been concluded. This position could be affected by the result of the UK election in June 2017 or if strong domestically generated inflation were to emerge.

PWLB rates have been very volatile during 2016/2017 in response to economic news and world events. The overall longer run expectation has been that gilt yields and PWLB rates will rise slowly with a move back from bonds to equities after a historic long term trend over the last twenty five years of falling bond yields.

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

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future years' capital programmes and to help support the Council's revenue budget. The average rate of the Council's borrowing at 3.32% is in the top quartile when benchmarked against other authorities and the 0.83% rate of return achieved on investments in 2016/2017 (benchmark rate of 0.20%) represents a very good achievement, especially when short-term investment rates continue to remain very low, and this helps to show how proactive Treasury Management can have significant positive effects on the Council's resources.

Minimum Revenue Provision

The Council is required to repay an element of its capital financing requirement each year through a revenue charge known as the Minimum Revenue Provision (MRP). Local authorities have significant discretion in determining the level of MRP which they consider prudent. The Council's MRP policy for 2015/2016 and 2016/2017 was reviewed as part of the budget setting process for 2016/2017 and Council approved changes identified to the way in which MRP was calculated that reduces the pressure on revenue budgets whilst still ensuring that a prudent level of provision is set aside. A further review of MRP was undertaken to determine how much additional MRP has been charged to the revenue account had the annuity basis used to calculate MRP, that was introduced from 2015/2016, been adopted from 1st April 2008 (being the date when regulations came into force). It was established that around £43.5m less MRP would have been charged between 1st April 2008 and 31st March 2016 had the annuity basis been adopted during this period.

Council on 1st March 2017 approved that the Councils MRP Policy Statement for 2016/2017 be revised and an adjustment made to MRP calculations for 2016/2017 and future years through calculating MRP using the annuity method from 1st April 2008. The re-phasing of the MRP does not impact on the cost of actual debt to the Council, rather it re-profiles the years over which the provision for debt is made. It also approved recommendations that the £43.5m overprovision of MRP in previous years is used to reduce MRP for 20 years from 2016/2017 by a fixed amount of £2.176m each year until 2036/2037.

Narrative Statement

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 2015/2016 and 2016/2017 are presented below:

	2015/2016	2016/2017
Working capital ratio	2.3	1.7
Long term borrowing to long term assets	0.2	0.2
Usable non-school reserves : gross spend (cost of services)	32%	22%
School balances : Dedicated Schools Grant	9%	7%
Council Tax collection rate (In Year)	95.73%	95.77%
Business Rate collection rate (In Year)	97.16%	97.46%
Net cost per head of population	£944	£926

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 1.7 indicating no liquidity problems.

Ratio of long term borrowing to long term assets

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

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

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure, including those earmarked for specific purposes. A higher ratio indicates that the Council has a greater ability to fund unexpected pressures from available resources. The Council has non-school reserves equivalent to 22% 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 2016/2017 was 0.07.

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 2016/2017 was 95.77%.

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 2016/2017 was 97.46%.

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 2016/2017 Cost of Services, the Council's net cost per head was £926.

Narrative Statement

Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31st March 2017. 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 2016/2017, 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 (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

8. Group Accounts

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

- Sunderland Care and Support Ltd;
- Sunderland Live Ltd;

- Siglion LLP (Joint Venture);
- Sunderland Lifestyle Partnership Ltd (Joint Venture).

B. Scarr.

Barry Scarr
Executive Director of Corporate Services

21st July 2017

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

The Executive Director of Corporate Services' Responsibilities

The Executive Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017 ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2017.

Authorised for Issue Date

The unaudited accounts were certified on 31st May 2017 and the accounts are now authorised for issue on 21st July 2017.

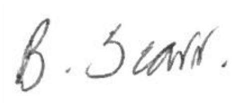
Certificate of the Executive Director of Corporate Services

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

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

I have also:

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



Barry Scarr
Executive Director of Corporate Services

21st July 2017

Independent Auditors' Report to the Members of Sunderland City Council

Opinion on the Council financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
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 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Sunderland City Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Executive Director of Corporate Services and auditor

As explained more fully in the Statement of 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
• give a true and fair view of the financial position of Sunderland City Council as at 31 March 2017 and of its expenditure and income for the year then ended;

• give a true and fair view of the financial position of the Group as at 31 March 2017 and of its expenditure and income for the year then ended; and

• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:
• in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);

• 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 the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Independent Auditors' Report to the Members of Sunderland City Council

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

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.
We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

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

Qualified conclusion

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

Delay in certification of completion of the audit

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

Mark Kirkham
For and on behalf of Mazars LLP
Salvus House Aykley Heads Durham DH1 5TS

31 July 2017

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 2016/2017.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31st March 2017 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

Arrangements are in place to measure the quality of 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, although the delegation arrangements need to be updated following recent senior management changes. The Council’s

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

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

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

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

A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to 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 fulfills 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 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 are being implemented.

An Improvement Board, chaired by a Children's Commissioner, is in place to oversee improvements to Children's Safeguarding services following the inadequate rating by OFSTED. Recent monitoring visits by OFSTED have confirmed that steady progress is being made.

REVIEW OF EFFECTIVENESS

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

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report.
- The external auditors (Mazars) Annual Audit Letter for 2015/2016 concludes that, in all significant respects, the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015.

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

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

Annual Governance Statement

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

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

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

Dated: 21st July 2017

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The 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 practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Increase / Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. The table below shows the details for both 2015/2016 and 2016/2017 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**
Balance at 31 March 2015		**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**391,546**
Movement in reserves during 2015/2016:								
Total Comprehensive Income and Expenditure		(27,787)	0	0	0	**(27,787)**	56,708	**28,921**
Adjustments between accounting basis & funding basis under regulations	7	16,446	0	3,643	35,340	**55,429**	(55,429)	**0**
Transfers to / (from) Earmarked Reserves	9	12,085	(12,085)	0	0	**0**	0	**0**
(Increase) / Decrease in 2015/2016		744	(12,085)	3,643	35,340	**27,642**	1,279	**28,921**
Balance at 31 March 2016		**17,974**	**147,048**	**11,671**	**40,612**	**217,305**	**203,162**	**420,467**
Movement in reserves during 2016/2017:								
Total Comprehensive Income and Expenditure		(57,680)	0	0	0	**(57,680)**	(72,179)	**(129,859)**
Adjustments between accounting basis & funding basis under regulations	7	36,344	0	(6,917)	(31,841)	**(2,414)**	2,414	**0**
Transfers to / (from) Earmarked Reserves	9	21,586	(21,586)	0	0	**0**	0	**0**
(Increase) / Decrease in 2016/2017		250	(21,586)	(6,917)	(31,841)	**(60,094)**	(69,765)	**(129,859)**
Balance at 31 March 2017		**18,224**	**125,462**	**4,754**	**8,771**	**157,211**	**133,397**	**290,608**

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.

In accordance with changes to the Code, the Cost of Services analysis is now presented in line with the Council's internal management reporting arrangements (2015/2016 analysis was previously presented in a prescribed national format). In addition, Health, Housing and Adult Services income and expenditure for 2015/2016 has been restated for a material prior period adjustment.

2015/2016 (restated)					**2016/2017**		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
14,396	3,704	10,692	Leader		**12,839**	**2,203**	**10,636**
149,751	131,233	18,518	Deputy Leader		**142,309**	**129,216**	**13,093**
34,695	18,657	16,038	Cabinet Secretary		**31,473**	**16,238**	**15,235**
223,396	155,455	67,941	Children's Services		**223,146**	**153,085**	**70,061**
139,354	62,487	76,867	Health, Housing and Adult Services		**144,687**	**64,898**	**79,789**
33,466	24,653	8,813	Public Health, Wellness and Culture		**32,623**	**26,960**	**5,663**
64,278	17,168	47,110	City Services		**60,945**	**17,926**	**43,019**
11,843	3,303	8,540	Responsive Services and Customer Care		**8,801**	**2,735**	**6,066**
5,224	0	5,224	Exceptional item - severance costs		**10,452**	**0**	**10,452**
1,896	206	1,690	Exceptional item - equal pay settlement/provision		**2,707**	**0**	**2,707**
678,299	416,866	261,433	**Cost of Services**		**669,982**	**413,261**	**256,721**
93,680	0	93,680	Other operating expenditure	10	**43,657**	**0**	**43,657**
27,950	7,214	20,736	Financing and investment income and expenditure	11	**29,555**	**9,921**	**19,634**
0	348,062	(348,062)	Taxation and non-specific grant income and expenditure	12	**0**	**262,332**	**(262,332)**
799,929	772,142	27,787	**(Surplus) or Deficit on Provision of Services**	27	**743,194**	**685,514**	**57,680**
			Items that will not be reclassified to (surplus)/deficit on Provision of Services				
		(1,858)	(Surplus) or deficit on revaluation of non-current assets	23a			**4,879**
		(54,850)	Re-measurements of the defined benefit liability	43			**67,300**
		(56,708)	**Other Comprehensive Income and Expenditure**				**72,179**
		(28,921)	**Total Comprehensive Income and Expenditure**				**129,859**

Financial Statements

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a 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 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 2016 £'000		Notes	**31st March 2017 £'000**
883,116	Property, Plant and Equipment	13	**894,723**
12,192	Heritage Assets	14	**12,192**
62,494	Investment Property	15	**60,458**
2,007	Intangible Assets		**2,192**
21,915	Long Term Investments	16	**21,915**
56,624	Long Term Debtors	16	**55,095**
1,038,348	**Long Term Assets**		**1,046,575**
161,055	Short Term Investments	16	**130,955**
754	Inventories		**727**
37,209	Short Term Debtors	17	**44,992**
2,833	Assets Held for Sale	19	**1,096**
62,055	Cash and Cash Equivalents (In-hand & bank)	16/18	**43,817**
263,906	**Current Assets**		**221,587**
(10,465)	Cash and Cash Equivalents (overdrawn)	16/18	**(9,430)**
(29,756)	Short Term Borrowing	16	**(34,052)**
(58,120)	Short Term Creditors	20	**(62,787)**
(16,479)	Provisions	21	**(18,132)**
(2,148)	Grant Receipts in Advance - Capital	35	**(2,548)**
(116,968)	**Current Liabilities**		**(126,949)**
(218,163)	Long Term Borrowing	16	**(235,655)**
(541,113)	Other Long Term Liabilities	16	**(610,754)**
(5,543)	Provisions	21	**(4,196)**
(764,819)	**Long Term Liabilities**		**(850,605)**
420,467	**Net Assets**		**290,608**
217,305	Usable Reserves	9	**157,211**
203,162	Unusable Reserves	23	**133,397**
420,467	**Total Reserves**		**290,608**

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.

2015/2016 £'000		Notes	**2016/2017 £'000**
27,787	Net (surplus) or deficit on the provision of services		**57,680**
(141,210)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(58,116)**
124,020	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**22,135**
10,597	Net cash flows from operating activities	24	**21,699**
(60,948)	Investing activities	25	**16,610**
3,658	Financing activities	26	**(21,106)**
(46,693)	**Net (increase) or decrease in cash and cash equivalents**		**17,203**
4,897	Cash and cash equivalents at the beginning of the reporting period		**51,590**
51,590	**Cash and cash equivalents at the end of the reporting period**	18	**34,387**

Notes to the Financial Statements

Notes to the Financial Statements

Notes to the Financial Statements

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/2017 financial year and its position at the year end of 31 March 2017. 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 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017 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 projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds;
- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities at current bid price;
    - unquoted securities based on professional estimate;
    - unitised securities at current bid price;
    - property at market value;
- The change in the net pension liability is analysed into the following components:

a) Service cost comprising:

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

b) Re-measurements comprising:

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

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

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

Discretionary Benefits

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

1.8 Events after the Balance Sheet Date

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

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

Notes to the Financial Statements

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

1.9 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- 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 that the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of the soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

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

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

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

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

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

1.10 Government Grants & Contributions

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

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

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

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

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

Business Improvement District (BID)

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

1.11 Intangible Assets

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

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

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

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

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

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

1.12 Interests in Companies & Other Entities

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

1.13 Joint Operations

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

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

1.14 Inventories

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

1.15 Investment Property

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

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

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

1.16 Leases

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

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

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

(a) The Council as Lessee

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

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General

Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

(b) The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

1.17 Overheads & Support Services

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

Notes to the Financial Statements

1.18 Internal Interest

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

1.19 Delegated Budgets

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

1.20 Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

De-Minimis Levels

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

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

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

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

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

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

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

1.23 Contingent Liabilities

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

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

1.24 Contingent Assets

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

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

1.25 Reserves

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

1.26 Revenue Expenditure Funded from Capital under Statute

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

1.27 VAT

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

1.28 Heritage Assets

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

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

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

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

1.29 Schools

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

1.30 Fair Value Measurement

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

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

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

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

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

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

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

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

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 if 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 mist 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 and prepayments and appeals.

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

The code for 2017/2018 has not introduced any accounting standards which are expected to impact on the accounts.

Note 3 – Critical Judgements in applying accounting policies

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

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

Notes to the Financial Statements

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

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

The items in the Council's Balance Sheet at 31st March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £2.237m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of £22.328m of which £3.482m 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 £0.348m to the provision needed.*
Provision – Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses. This includes the relevant share of any historic appeals lodged, but still 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 2016/2017 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.	Any increase or decrease in appeals lodged would impact on the overall position of the Collection Fund and future income receivable via Business Rates.
Arrears	At 31st March 2017, the Council had a balance of debtors of £57.835m. A review of significant balances suggested that an impairment of doubtful debts of 24.69% (£14.278m) was appropriate. However, significant changes to the current economic climate could affect the adequacy of this provision.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £14.278m to be set aside as an allowance.*

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the pension liability of £30.33m. However, the assumptions interact in complex ways. During 2016/2017, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £92.14m as a result of estimates being corrected as a result of experience but had increased by £300.12m attributable to updating of financial and demographic assumptions.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for *similar* assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 15 and 16 below.	The Council uses the market approach that compares the asset to be valued with the prices obtained for other similar assets and the income approach that capitalises the potential income of the asset to measure the fair value of some of its surplus assets, investment properties and assets held for sale. The significant unobservable inputs used in the fair value measurement include management assumptions regarding sales values, market rental, yields and vacancy levels (for investment properties). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.

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

Notes to the Financial Statements

Note 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £19.797m 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 2016/2017:

	Loss on Disposal £m	Date of Transfer
Schools:		
Burnside Academy Inspires	**1.960**	1st July 2016
Fatfield Academy	**5.534**	1st July 2016
New Silksworth Academy Infants	**1.692**	1st September 2016
New Silksworth Academy Juniors	**5.048**	1st September 2016
Dubmire Primary	**4.696**	1st October 2016
Gillas Lane Primary Academy	**1.990**	1st October 2016
Non Schools:		
Other Net (Gains) and Losses	**(1.123)**	
Total	**19.797**	

In addition three new schools, valued at £18.410m were built under the Priority School Building Programme and donated to the Council by the Department for Education.

Note 6 – Events after the Balance Sheet date

Non-adjusting Events after the Balance Sheet date

There are a number of events that have taken place since the accounts were closed on 31st March 2017 which are judged to be non-adjusting post balance sheet events, which need to be included in the financial statements for information.

Schools transferred to Academy Status

The following schools that were part of the Council's asset base at 31st March 2017 have since transferred to Academy status and the value of the assets that will be written out of the accounts are as follows:

- Hill View Infants School - £2.555m
- Hill View Junior School - £2.879m
- George Washington Primary School - £4.435m
- John F Kennedy Primary School - £4.743m
- Hetton Lyons Primary School - £4.387m
- South Hylton Primary - £3.599m

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

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Notes to the Financial Statements

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

2015/2016				2016/2017		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
			Adjustments to Revenue Resources			
			Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
8,570	0	0	Pensions costs - transferred to (or from) the Pensions Reserve	**6,550**	**0**	**0**
125	0	0	Financial instruments - transferred to the Financial Instruments Adjustment Account	**(57)**	**0**	**0**
(1,797)	0	0	Council Tax and NDR - transfers to or from the Collection Fund Adjustment Account	**804**	**0**	**0**
(1,203)	0	0	Holiday pay - transferred to the Accumulated Absences Reserve	**450**	**0**	**0**
0	0	0	Equal Pay Settlements - transferred to the Unequal Pay/Back Pay Account	**0**	**0**	**0**
127,839	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)	**56,751**	**0**	**0**
(12,049)	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)	**(18,020)**	**0**	**0**
(458)	0	0	Deferred Capital Receipts Reserve - sale proceeds credited to the Comprehensive Income and Expenditure Statement as part of the gain/(loss) on disposal	**45**	**0**	**0**
121,027	0	0	Total adjustments to Revenue Resources	**46,523**	**0**	**0**

Notes to the Financial Statements

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

2015/2016				2016/2017		
Usable				Usable		
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
			Adjustments between Revenue and Capital Resources			
(3,763)	3,763	0	Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	**(4,633)**	**4,633**	**0**
120	(120)	0	Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	**84**	**(84)**	**0**
3	(3)	0	Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	**2**	**(2)**	**0**
0	0	0	Use of the Capital Receipts Reserve to finance revenue expenditure	**4,548**	**(4,548)**	**0**
(100,941)	0	100,941	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)	**(10,180)**	**0**	**10,180**
(104,581)	3,640	100,941	Total adjustments between Revenue and Capital Resources	**(10,179)**	**(1)**	**10,180**
			Adjustments to Capital Resources			
0	0	0	Use of the Capital Receipts Reserve to finance capital expenditure	**0**	**(7,018)**	**0**
0	0	(65,601)	Application of capital grants to finance capital expenditure	**0**	**0**	**(42,021)**
			Writing down of long term debtor to Capital Adjustment Account		**100**	
0	3	0	Cash payments in relation to deferred capital receipts	**0**	**2**	**0**
0	3	(65,601)	Total adjustments to Capital Resources	**0**	**(6,916)**	**(42,021)**
16,446	3,643	35,340	**Total Adjustments**	**36,344**	**(6,917)**	**(31,841)**

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 practices. 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 practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/2016				**2016/2017**		
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**
9,570	(1,122)	10,692	Leader	**8,053**	**(2,583)**	**10,636**
14,749	(3,769)	18,518	Deputy Leader	**10,081**	**(3,012)**	**13,093**
16,514	476	16,038	Cabinet Secretary	**17,305**	**2,070**	**15,235**
49,688	(18,253)	67,941	Children's Services	**54,172**	**(15,889)**	**70,061**
74,561	(2,306)	76,867	Health, Housing and Adult Services	**77,309**	**(2,480)**	**79,789**
3,961	(4,852)	8,813	Public Health, Wellness and Culture	**2,872**	**(2,791)**	**5,663**
28,870	(18,240)	47,110	City Services	**25,808**	**(17,211)**	**43,019**
5,400	(3,140)	8,540	Responsive Services and Customer Care	**5,109**	**(957)**	**6,066**
7,659	2,435	5,224	Exceptional item - severance costs	**11,787**	**1,335**	**10,452**
1,690	0	1,690	Exceptional item - equal pay settlement/provision	**2,707**	**0**	**2,707**
212,662	(48,771)	261,433	**Net Cost of Services**	**215,203**	**(41,518)**	**256,721**
(201,321)	32,325	(233,646)	Other Income and Expenditure	**(193,867)**	**5,174**	**(199,041)**
11,341	(16,446)	27,787	**(Surplus) or Deficit**	**21,336**	**(36,344)**	**57,680**
176,363			Opening General Fund Balance / Earmarked Reserves	165,022		
(11,341)			Less deficit in year	(21,336)		
165,022			Closing General Fund Balance / Earmarked Reserves	**143,686**		

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

2015/2016					2016/2017			
Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments		**Adjustments for Capital Purposes**	**Net Change for the Pensions Adjustment**	**Other Differences**	**Total Adjustments**
£'000	£'000	£'000	£'000		**£'000**	**£'000**	**£'000**	**£'000**
995	128	(1)	1,122	Leader	**2,507**	**76**	**0**	**2,583**
3,508	273	(12)	3,769	Deputy Leader	**2,756**	**289**	**(33)**	**3,012**
10,689	(11,151)	(14)	(476)	Cabinet Secretary	**6,121**	**(8,180)**	**(11)**	**(2,070)**
16,481	2,916	(1,144)	18,253	Children's Services	**13,056**	**2,250**	**583**	**15,889**
1,183	1,140	(17)	2,306	Health, Housing and Adult Services	**1,462**	**1,062**	**(44)**	**2,480**
4,460	396	(4)	4,852	Public Health, Wellness and Culture	**2,478**	**324**	**(11)**	**2,791**
16,670	1,580	(10)	18,240	City Services	**15,748**	**1,490**	**(27)**	**17,211**
3,013	128	(1)	3,140	Responsive Services and Customer Care	**824**	**140**	**(7)**	**957**
0	(2,435)	0	(2,435)	Exceptional item - severance costs	**4,548**	**(5,883)**	**0**	**(1,335)**
0	0	0	0	Exceptional item - equal pay settlement/provision	**0**	**0**	**0**	**0**
56,999	(7,025)	(1,203)	48,771	**Net Cost of Services**	**49,500**	**(8,432)**	**450**	**41,518**
(46,248)	15,595	(1,672)	(32,325)	Other income and expenditure	**(20,903)**	**14,982**	**747**	**(5,174)**
10,751	8,570	(2,875)	16,446	**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**

Notes to the Financial Statements

Note 8 - Expenditure and Funding Analysis

Adjustments for Capital Purposes

This column adds in depreciation and 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 practices.

- **Taxation and non-specific grant income and expenditure**
  capital grants are adjusted for income not chargeable under generally accepted accounting practices. 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 Pension 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 Differences

Other differences 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 differences 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 practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses of Deficits on the Collection Fund.

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 2016/2017.

	Balance at 31 March 2015 £'000	Transfers Out 2015/2016 £'000	Transfers In 2015/2016 £'000	Balance at 31 March 2016 £'000	Transfers Out 2016/2017 £'000	Transfers In 2016/2017 £'000	**Balance at 31 March 2017 £'000**
General Fund:							
General Fund Balance	7,570	0	0	7,570	0	2,430	**10,000**
Balances held by schools under a scheme of delegation	9,660	(1,810)	2,554	10,404	(3,377)	1,197	**8,224**
	17,230	(1,810)	2,554	17,974	(3,377)	3,627	**18,224**
Earmarked General Fund Reserves - Capital:							
Riverside Transfer	9,953	0	0	9,953	(31)	0	**9,922**
Capital Priorities Reserve	4,208	0	2,835	7,043	(1,473)	3,302	**8,872**
Strategic Investment Plan Reserve	6,235	(261)	0	5,974	(2,357)	0	**3,617**
Commercial and Economic Development Activity	1,500	0	0	1,500	(48)	0	**1,452**
Unutilised RCCO Reserve	1,789	(16)	91	1,864	(1,359)	0	**505**
HCA Stadium Transfer	1,152	(93)	0	1,059	(201)	0	**858**
Other Earmarked Capital Reserves	3,494	0	0	3,494	(3,302)	0	**192**
	28,331	(370)	2,926	30,887	(8,771)	3,302	**25,418**
Earmarked General Fund Reserves - Revenue:							
Strategic Investment Reserve	46,101	(7,232)	4,354	43,223	(26,208)	11,946	**28,961**
Medium Term Planning Smoothing Reserve	9,438	0	1,427	10,865	(3,350)	1,426	**8,941**
Insurance Reserve	4,658	(287)	800	5,171	(214)	267	**5,224**
Street Lighting and Highways Signs PFI Smoothing Reserve	5,656	(260)	0	5,396	(311)	0	**5,085**
Economic Strategy Reserve	0	0	0	0	0	4,100	**4,100**
SIB Reserve	3,155	0	109	3,264	(3,779)	4,254	**3,739**
HCA Stadium Transfer	3,077	0	0	3,077	0	1	**3,078**
Education Redundancies Reserves	3,136	(265)	19	2,890	(283)	0	**2,607**
Sandhill Centre PFI Smoothing Reserve	2,538	(19)	0	2,519	0	0	**2,519**

Notes to the Financial Statements

Note 9 – Transfers to/from Earmarked Reserves

	Balance at 31 March 2015 £'000	Transfers Out 2015/2016 £'000	Transfers In 2015/2016 £'000	Balance at 31 March 2016 £'000	Transfers Out 2016/2017 £'000	Transfers In 2016/2017 £'000	**Balance at 31 March 2017 £'000**
Housing Benefit Smoothing Reserve	1,594	0	127	1,721	0	283	**2,004**
Waste Collection Reserve	3,602	(890)	130	2,842	(1,049)	6	**1,799**
Play Areas Reserve	1,568	(487)	196	1,277	(303)	645	**1,619**
Riverside Transfer	1,784	(105)	25	1,704	(105)	3	**1,602**
Service Pressures Reserve	1,066	0	0	1,066	(1,066)	1,500	**1,500**
Troublesome Families Reserve	1,534	0	255	1,789	(1,000)	444	**1,233**
WNF-Software Centre	1,185	0	0	1,185	(66)	106	**1,225**
House Sale Income	1,179	(93)	148	1,234	(60)	0	**1,174**
School Community Reserve	1,316	(276)	223	1,263	(451)	189	**1,001**
DSG Surplus	2,638	(2,656)	1,671	1,653	(1,653)	559	**559**
Other Earmarked Revenue Reserves	28,177	(19,265)	12,510	21,422	(9,491)	10,143	**22,074**
Safeguarding Pressures Reserve	4,000	(4,000)	0	0	0	0	**0**
Safeguarding Action Plan	3,400	(3,400)	0	0	0	0	**0**
Adult Demand Pressures Reserve	0	0	1,400	1,400	(1,400)	0	**0**
Safeguarding Transitional Reserve	0	0	1,200	1,200	(1,200)	0	**0**
	130,802	(39,235)	24,594	116,161	(51,989)	35,872	**100,044**
Capital Receipts Reserve	8,028	(123)	3,766	11,671	(11,653)	4,736	**4,754**
Capital Grants Unapplied	5,272	(65,601)	100,941	40,612	(42,021)	10,180	**8,771**
Total Usable Reserves	189,663	(107,139)	134,781	217,305	(117,811)	57,717	**157,211**

Notes to the Financial Statements

Purpose of Earmarked Reserves

Revenue Reserves:	Purpose of the Reserve
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 grant reductions.
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
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.
Economic Strategy Reserve	Established to progress economic regeneration activity and address potential impacts of Brexit.
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.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.
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.
Waste Collection Reserve	Reserve held to fund waste collection, disposal and recycling initiatives, and to support the transition to fortnightly collection.
Play Areas Reserve	The reserve relates to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. On completion of the development the contributions are used to provide play equipment on housing developments.
Riverside Transfer	Reserve established to fund on-going maintenance of Homes and Communities Agency land transferred to the Council.
Service Pressures Reserve	To mitigate the potential budgetary impact of potential service specific pressures.
Troublesome Families Reserve	Reserve to be utilised to transform the lives of troubled families in Sunderland.
WNF - Software Centre	Reserve established to help fund the development and running of Software Centre.
House Sale Income	The reserve relates to the sale of clients homes that will be utilised to support future support needs of those clients.
School Community Reserve	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
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.

Capital Reserves:	Purpose of the Reserve
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.
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.
Un-utilised RCCO Reserve	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
HCA Stadium Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.
Other General Capital Reserve	Usable capital receipts set aside to fund future capital projects previously approved.

Notes to the Financial Statements

Note 10 – Other operating expenditure

2015/2016 £'000		**2016/2017 £'000**
55	Parish Council Precept	**59**
16,933	Levies	**16,396**
3	Payments to the Government Housing Capital Receipts Pool	**2**
71,218	(Gain) / losses on the disposal of non current assets	**19,796**
5,471	(Gain) / losses on the derecognition of non current assets	**7,404**
93,680	**Total**	**43,657**

Note 11 – Financing and investment income and expenditure

2015/2016 £'000		**2016/2017 £'000**
12,569	Interest payable and similar charges	**12,607**
15,380	Net interest on the net defined benefit liability	**14,770**
(4,870)	Interest receivable and similar income	**(4,097)**
(347)	Other Investment Income	**(4,482)**
(912)	Surplus on Trading Undertakings	**(1,342)**
(1,085)	Income and expenditure in relation to investment properties and changes in their fair value	**2,036**
1	Disposals and impairments of susbidiaries	**142**
20,736	**Total**	**19,634**

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

2015/2016 £'000		**2016/2017 £'000**
(80,700)	Council tax income	**(84,938)**
(44,130)	Business rates income and expenditure	**(44,744)**
(113,299)	Non-ringfenced government grants *	**(100,486)**
(109,933)	Capital grants and contributions *	**(32,164)**
(348,062)	**Total**	**(262,332)**

* Further analysis of grants is shown within Note 35

Notes to the Financial Statements

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

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

Notes to the Financial Statements

Movement on Balances 2015/2016

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation							
At 1 April 2015	697,288	83,951	320,883	54,189	4,015	**1,160,326**	128,252
Additions	11,605	1,743	7,773	49,137	500	**70,758**	0
Recognition of PFI assets and Embedded Leases	0	318	368	0	0	**686**	368
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(19,952)	0	0	0	1,432	**(18,520)**	(1,747)
Revaluation increases / (decreases) recognised in the Provision of Services	(12,605)	0	0	0	0	**(12,605)**	(406)
Impairment recognised in the Provision of Services	(2,307)	0	(413)	0	0	**(2,720)**	0
Derecognition recognised in the Provision of Services	(5,772)	(8,789)	(2,548)	0	0	**(17,109)**	0
Disposals	(83,377)	(2,862)	0	0	0	**(86,239)**	(15,978)
Assets reclassified (to) / from Assets Held for Sale	(77)	0	0	0	(110)	**(187)**	0
Other movements in Cost or Valuation	15,363	339	17,811	(34,067)	554	**0**	0
At 31 March 2016	**600,166**	**74,700**	**343,874**	**69,259**	**6,391**	**1,094,390**	**110,489**
Accumulated Depreciation							
At 1 April 2015	63,692	52,338	101,667	0	37	**217,734**	11,236
Depreciation Charge	24,051	6,529	8,658	0	23	**39,261**	5,042
Depreciation written out to the Revaluation Reserve	(18,896)	0	0	0	(37)	**(18,933)**	0
Depreciation written out to the Provision of Services	(2,446)	0	0	0	0	**(2,446)**	(116)
Derecognition written out to the Provision of Services	(1,299)	(8,789)	(1,550)	0	0	**(11,638)**	0
Disposals	(10,065)	(2,639)	0	0	0	**(12,704)**	(436)
At 31 March 2016	**55,037**	**47,439**	**108,775**	**0**	**23**	**211,274**	**15,726**
Net Book Value							
At 31 March 2015	633,596	31,613	219,216	54,189	3,978	**942,592**	117,016
At 31 March 2016	**545,129**	**27,261**	**235,099**	**69,259**	**6,368**	**883,116**	**94,763**

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 20 years
- Infrastructure - 5 to 40 years

Capital Commitments

As at 31st March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/2018 and future years budgeted to cost £34.450m (as at 31st March 2016 £37.127m). The major commitments are:

- Vaux Phase 1 Development - £17.330m
- New Wear Crossing (SSTC Phase 2) - £7.893m
- A19 Ultra Low Carbon Enterprise Zone - £6.337m
- SSTC Phase 3 road - £1.144m
- Various other schemes - £1.746m

Effects of Changes in Estimates

In 2016/2017 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.
- 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	78,466	366,988	99,944	0	545,398
Valued as at:						
31 March 2017	186,265	0	0	0	894	187,159
31 March 2016	101,998	0	0	0	6,245	108,243
31 March 2015	91,023	0	0	0	0	91,023
31 March 2014	121,762	0	0	0	0	121,762
31 March 2013	59,590	0	0	0	0	59,590
Total Cost or Valuation	**560,638**	**78,466**	**366,988**	**99,944**	**7,139**	**1,113,175**

Notes to the Financial Statements

Note 14 – Heritage Assets

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

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1st April 2015	9,975	556	1,661	12,192
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2016	**9,975**	**556**	**1,661**	**12,192**
Cost or Valuation				
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
31st March 2017	**9,975**	**556**	**1,661**	**12,192**

Further details of the Council's Heritage Asset holdings can be found in Note 47.

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

2015/2016 £'000		**2016/2017 £'000**
	Land held for capital appreciation valued at level 2 (other significant observable inputs) in fair value hierarchy	
61,409	Balance at the start of the year	**62,494**
(1,195)	Disposals	**(3,020)**
2,280	Net gain / (losses) from fair value adjustments	**984**
	Transfers:	
0	To / (From) Property, Plant and Equipment	**0**
62,494	Balance at the end of the year	**60,458**

Major gains in 2016/2017 from fair value adjustments reflect changes in market conditions (gains in 2015/2016 from fair value adjustments reflect improvements to infrastructure near to sites whilst other changes reflect variations in the area of the developable land available and changes to planning status and market conditions).

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

There were no transfers between levels during the year.

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

Valuation Techniques and Process - There has been no change in the valuation techniques used during the year for valuing Investment Assets. The fair value of the Council's surplus assets is measured annually at each reporting date. All valuations are carried out 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 31 March 2016 £'000	Current 31 March 2016 £'000		**Long Term 31 March 2017 £'000**	**Current 31 March 2017 £'000**
		Investments		
0	161,055	Loans and receivables	**0**	**130,955**
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	161,055	**Total Investments**	**21,915**	**130,955**
		Debtors		
56,624	0	Loans	**55,095**	**0**
0	62,055	Cash and Cash Equivalents	**0**	**43,817**
0	19,744	Receivables - short term debtors carried at cost	**0**	**25,837**
56,624	81,799	**Total included in Debtors**	**55,095**	**69,654**
0	17,465	Debtors that are not financial instruments	**0**	**19,155**
56,624	99,264	**Total Debtors**	**55,095**	**88,809**
		Borrowings		
(218,163)	(29,756)	Financial liabilities at amortised cost	**(235,655)**	**(9,430)**
0	(10,465)	Cash and Cash Equivalents	**0**	**(34,052)**
(218,163)	(40,221)	**Total included in Borrowings**	**(235,655)**	**(43,482)**
		Other Long Term Liabilities		
(88,373)	0	PFI and finance lease liabilities	**(84,164)**	**0**
(88,373)	0	**Total included in Other Long Term Liabilities**	**(84,164)**	**0**
(452,740)	0	Other Long Term Liabilities that are not financial instruments	**(526,590)**	**0**
(541,113)	0	**Total Other Long Term Liabilities**	**(610,754)**	**0**
		Creditors		
0	(3,950)	PFI and finance lease liabilities	**0**	**(4,246)**
0	(41,451)	Short Term Creditors carried at contract amount	**0**	**(43,043)**
0	(45,401)	**Total included in Creditors**	**0**	**(47,289)**
0	(12,719)	Creditors that are not financial instruments	**0**	**(15,498)**
0	(58,120)	**Total creditors**	**0**	**(62,787)**

Notes to the Financial Statements

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 the group for the period 1st April 2016 to 31st March 2017, show a net profit before taxation of £0.979m. Distribution of profits, relating to the period 1st January 2016 to 31st December 2016, are anticipated, with the Council expecting to receive £0.344m. The overall current net worth of the group is £13.866m.

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 the group for the period 1st April 2016 to 31st March 2017, show a net profit before taxation of £0.005m and indicates that no dividend is proposed. The overall current net worth of the group is £0.998m.

There are no material Soft Loans made by the Council.

Income, Expense, Gains and Losses

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

Notes to the Financial Statements

2015/2016						2016/2017				
Financial Liabilities	Financial Assets			Total		**Financial Liabilities**	**Financial Assets**			**Total**
Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Assets and Liabilities at Fair Value through profit and loss £'000	£'000		**Liabilities measured at amortised cost £'000**	**Loans and receivables £'000**	**Available for sale assets £'000**	**Assets and Liabilities at Fair Value through profit and loss £'000**	**£'000**
(12,569)	0	0	0	(12,569)	Interest Expense	(12,607)	0	0	0	**(12,607)**
(12,569)	0	0	0	(12,569)	**Total expenses in Surplus or Deficit on the Provision of Services**	**(12,607)**	**0**	**0**	**0**	**(12,607)**
0	4,870	0	0	4,870	Interest Income	0	4,097	0	0	**4,097**
0	4,870	0	0	4,870	**Total income in Surplus or Deficit on the Provision of Services**	**0**	**4,097**	**0**	**0**	**4,097**
(12,569)	4,870	0	0	(7,699)	**Net Gain / (loss) for the year**	**(12,607)**	**4,097**	**0**	**0**	**(8,510)**

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 2016	Financial assets measured at fair value			**31 March 2017**
£'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**
14	Other financial instruments classified as Available for Sale	Level 1	Unadjusted quoted prices in active markets for identical shares **	**14**
16,414	**Total**			**16,414**

***Equity shareholding in Newcastle International Airport Limited**
Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 18.87% interest in NALAHCL, valued at £16.400m (£16.400m in 2015/2016).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 2016/2017 the valuation has remained unchanged.

****Other Financial Instruments Classified as Available for Sale**
The Council holds a small number of various gilts and unit trusts with a value at cost of £0.014m (£0.014m in 2015/2016) which are classified as 'available for sale' meaning that all movements in price would, if considered material impact on the gains and losses recognised in the MiRS. The market value of these holdings as at 31st March 2017 was £158,977 in total (the value at 31st March 2016 was £138,978). This is not considered to be material and these investments are included at cost in the balance sheet.

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

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

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

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

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

- For loans from the PWLB payable, new borrowing (certainty) rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures as per interest rate notice number 127/17;
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

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

The fair values calculated are as follows:

31 March 2016		**Financial Liabilities**	**31 March 2017**	
Carrying Amount £'000	Fair Value £'000		**Carrying Amount £'000**	**Fair Value £'000**
177,783	210,589	PWLB Debt	**193,750**	**249,155**
40,380	54,085	Non PWLB Debt	**41,905**	**65,453**
29,756	29,762	Short Term Borrowing	**34,052**	**34,143**
10,465	10,465	Bank Overdraft	**9,430**	**9,430**
88,373	88,373	Long Term PFI and Finance Lease Liability	**84,164**	**84,164**
3,950	3,950	Short Term PFI and Finance Lease Liability	**4,246**	**4,246**
41,451	41,451	Short Term Creditors	**43,043**	**43,043**
392,158	438,675	**Financial Liabilities**	**410,590**	**489,634**

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

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £249.155m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £193.750m would be valued at £249.155m. 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 £305.333m.

31 March 2016		Financial Assets	31 March 2017	
Carrying Amount £'000	Fair Value £'000		**Carrying Amount £'000**	**Fair Value £'000**
222,666	222,981	Deposits with Money Market Funds, Banks & Building Societies	**174,359**	**174,568**
444	444	Cash in Hand	**413**	**413**
56,624	56,624	Long Term Debtors	**55,095**	**55,095**
19,744	19,744	Short Term Debtors	**25,837**	**25,837**
299,478	299,793	**Financial Assets**	**255,704**	**255,913**

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 2017).

At 31st March 2017 the Council holds £0.079m of funds of Financial Assets in relation to the North Eastern Local Enterprise Partnership's Investment Fund and Enterprise Zone (£5.498m at 31st March 2016) and £0.757m of funds in relation to the Associated of North East Councils (£0.836m at 31st March 2016). 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.

2015/2016 £'000	Long Term Debtors	2016/2017 £'000
14,575	Long Term Loan Note - Newcastle Airport	**14,575**
18,500	Long Term Loan Note - Siglion	**18,500**
5,757	Property Lease Debtors	**5,743**
13,223	Advances to Tyne and Wear Fire and Rescue Authority	**12,694**
1,900	Loan to Leisure Joint Venture	**1,800**
2,669	Other Long Term Debtors	**1,783**
56,624	**Total**	**55,095**

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

Notes to the Financial Statements

Note 17 – Short Term Debtors

2015/2016 £'000		**2016/2017 £'000**
4,803	Central government bodies	**7,463**
1,280	Other local authorities	**1,465**
2,742	NHS bodies	**3,542**
28,384	Other entities and individuals	**32,522**
37,209	**Total**	**44,992**

Note 18 – Cash and cash equivalents

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

2015/2016 £'000		**2016/2017 £'000**
(10,021)	Cash held by the Council	**(9,016)**
61,611	Bank current accounts and Money Market Funds	**43,403**
0	Short-term deposits with banks and building societies	**0**
51,590	**Total Cash and Cash Equivalents**	**34,387**

This is presented on the Balance Sheet as follows:

2015/2016 £'000		**2016/2017 £'000**
62,055	Cash and Cash Equivalents (in hand & bank)	**43,817**
(10,465)	Cash and Cash Equivalents (overdrawn)	**(9,430)**
51,590	**Total Cash and Cash Equivalents**	**34,387**

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.

2015/2016 £'000		**2016/2017 £'000**
3,027	Balance outstanding at start of year	**2,833**
(1,826)	Assets Sold	**(2,218)**
1,445	Revaluation (Losses) / Gains	**50**
187	Net transfer from non-current assets to current assets at year end	**431**
2,833	**Balance outstanding at year-end**	**1,096**

Notes to the Financial Statements

Note 20 – Short-Term Creditors

2015/2016 £'000		**2016/2017 £'000**
(12,130)	Central government bodies	**(13,638)**
(4,627)	Other local authorities	**(5,416)**
(2,558)	NHS bodies	**(3,244)**
(38,805)	Other entities and individuals	**(40,489)**
(58,120)	**Total**	**(62,787)**

Note 21 – Provisions

	Insurance Provision £'000	**Other Provision £'000**	**Total £'000**
Balance at 31 March 2016	**(4,872)**	**(17,150)**	**(22,022)**
Additional provisions made 2016/2017	(2,395)	(6,437)	(8,832)
Amounts used 2016/2017	2,732	4,684	7,416
Unused amounts reversed 2016/2017	1,053	57	1,110
Balance at 31 March 2017	**(3,482)**	**(18,846)**	**(22,328)**

Long Term provisions at 31st March 2017	(3,482)	(714)	(4,196)
Short Term Provisions at 31st March 2017	0	(18,132)	(18,132)

The nature of the individual provisions held at 31st March 2017 is detailed in the table below:

Nature of provision	2015/2016 £'000	**2016/2017 Short Term £'000**	**Long Term £'000**	**Total £'000**
Insurance provision	(4,872)	0	(3,482)	**(3,482)**
Back on the Map temporary funding - Council-led selective licensing project	(19)	0	0	**0**
Funding for known leavers	(2,873)	0	0	**0**
Unequal back pay provision	(7,809)	(10,530)	0	**(10,530)**
Guarantee bonds held relating to rents and highways works	(214)	(51)	(120)	**(171)**
City Centre Property costs - disputed ground rent	(57)	0	0	**0**
Investment Grants - grants committed to businesses	(392)	0	(394)	**(394)**
Provision for potential costs of successful NNDR appeals	(5,590)	(7,241)	0	**(7,241)**
Potential grant repayment	(54)	(20)	0	**(20)**
Future staffing liabilities	(116)	0	(200)	**(200)**
Potential compensation payment	(26)	(26)	0	**(26)**
Ombudsman Ruling for Social Care Client	0	(264)	0	**(264)**
	(22,022)	(18,132)	(4,196)	**(22,328)**

Note 22 – Usable Reserves

The total Usable Reserves held by the Council are £157.211m at 31st March 2017 (£217.305m at 31st March 2016) 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

2015/2016 £'000		Note	**2016/2017 £'000**
192,135	Revaluation Reserve	23a	**173,277**
421,383	Capital Adjustment Account	23b	**445,570**
(1,255)	Financial Instrument Adjustment Account	23c	**(1,198)**
(452,740)	Pensions Reserve	23d	**(526,590)**
24,480	Deferred Capital Receipts Reserve	23e	**24,433**
5,363	Collection Fund Adjustment Account	23f	**4,559**
(2,237)	Accumulated Absence Account	23g	**(2,687)**
16,033	Available for Sale Financial Instrument Reserve	23h	**16,033**
203,162	**Total Unusable Reserve**		**133,397**

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;
- disposed of and the gains are realised.

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

2015/2016 £'000		**2016/2017 £'000**
217,888	**Balance at 1 April**	**192,135**
12,042	Upward revaluation of assets	**14,323**
(10,184)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	**(19,202)**
219,746	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**187,256**
6,240	Difference between fair value depreciation and historical cost depreciation	**5,773**
21,371	Accumulated gains on assets sold or scrapped	**8,206**
27,611	Amount written off to the Capital Adjustment Account	**13,979**
192,135	**Balance at 31 March**	**173,277**

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 for the costs of acquisition, construction and subsequent costs.

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

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

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

2015/2016 £'000		**2016/2017 £'000**
443,960	**Balance at 1 April**	**421,383**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(41,980)	Charges for depreciation and impairment of non-current assets	**(38,311)**
(10,159)	Revaluation losses and reversal of prior year revaluation losses on Property, Plant and Equipment	**203**
(511)	Amortisation of intangible assets	**(476)**
(13,528)	Revenue expenditure funded from capital under statute	**(11,330)**
0	Donated Assets	**18,410**
0	Transformation costs	**(4,548)**
(5,471)	Gain / (Loss) on derecognition of non current assets to the Comprehensive Income and Expenditure Account	**(7,404)**
(75,361)	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	**(24,344)**
(147,010)		**(67,800)**
27,611	Adjusting amounts written out of the Revaluation Reserve	**13,979**
(119,399)	Net written out amount of the cost of non current assets consumed in the year	**(53,821)**
	Capital financing applied in the year:	
0	Use of Capital Receipts to finance new capital expenditure	**7,018**
0	Use of Capital Receipts to finance transformation expenditure	**4,548**
18,087	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**8,537**
65,601	Application of grants to capital financing from the Capital Grants Unapplied Account	**42,021**
8,943	Statutory provision for the financing of capital investment charged against the General Fund balance	**7,809**
3,106	Capital expenditure charged against the General Fund balance	**10,211**
95,737		**80,144**
0	Writing down of Long Term Debtor	**(100)**
1,085	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**(2,036)**
421,383	**Balance at 31 March**	**445,570**

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 to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2017 will be charged to the General Fund over the next 38 years.

2015/2016 £'000		**2016/2017 £'000**
(1,130)	**Balance at 1 April**	**(1,255)**
0	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	**0**
(125)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	**57**
(125)	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	**57**
(1,255)	**Balance at 31 March**	**(1,198)**

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.

2015/2016 £'000		**2016/2017 £'000**
(499,020)	**Balance at 1 April**	**(452,740)**
54,850	Remeasurement of the net defined benefit liability	**(67,300)**
(41,250)	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	**(43,150)**
32,680	Employer's pensions contributions and direct payments to pensioners payable in the year	**36,600**
(452,740)	**Balance at 31 March**	**(526,590)**

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.

2015/2016 £'000		**2016/2017 £'000**
24,026	**Balance at 1 April**	**24,480**
458	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	**(45)**
(4)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(2)**
24,480	**Balance at 31 March**	**24,433**

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.

2015/2016 £'000		**2016/2017 £'000**
3,566	**Balance at 1 April**	**5,363**
1,797	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	**(804)**
5,363	**Balance at 31 March**	**4,559**

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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015/2016 £'000		**2016/2017 £'000**	**2016/2017 £'000**
(3,440)	**Balance at 1 April**		**(2,237)**
3,440	Settlement or cancellation of accrual made at the end of the preceding year	**2,237**	
(2,237)	Amounts accrued at the end of the current year	**(2,687)**	
1,203	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		**(450)**
(2,237)	**Balance at 31 March**		**(2,687)**

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.

2015/2016 £'000		**2016/2017 £'000**
16,033	**Balance at 1 April**	**16,033**
0	Upward / (downward) revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	**0**
16,033	**Balance at 31 March**	**16,033**

Notes to the Financial Statements

Note 24 – Cash Flow Statement – Operating Activities

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

2015/2016 £'000		**2016/2017 £'000**
4,870	Interest received	**4,097**
(12,569)	Interest paid	**(12,607)**
347	Dividends received	**4,482**
(7,352)		**(4,028)**

Note 25 – Cash Flow Statement – Investing Activities

2015/2016 £'000		**2016/2017 £'000**
69,199	Purchase of property, plant and equipment, investment property and intangible assets	**65,644**
160,000	Purchase of short-term and long-term investments	**130,000**
2,023	Other payments for investing activities	**4,635**
(3,763)	Net Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(4,733)**
(180,000)	Proceeds from short-term and long-term investments	**(160,000)**
(108,407)	Other receipts from investing activities	**(18,936)**
(60,948)	**Net cash flows from investing activities**	**16,610**

Note 26 – Cash Flow Statement – Financing Activities

2015/2016 £'000		**2016/2017 £'000**
(58)	Cash receipts of short and long-term borrowing	**(21,840)**
(1,349)	Billing Authorities - Council Tax and NDR Adjustments	**(3,419)**
3,709	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**4,003**
1,356	Repayments of short and long term borrowing	**150**
0	Other payments for financing activities	**0**
3,658	**Net cash flows from financing activities**	**(21,106)**

Notes to the Financial Statements

Note 27 – Expenditure and Income Analysed by Nature

2016/2017	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Corporate Activity and Exceptional Items £'000	Total £'000
Fees, charges and other service income	(1,317)	(3,066)	(13,916)	(6,849)	(17,100)	(1,046)	(10,378)	(476)	(1,342)	(55,490)
Government grants	(393)	(123,625)	(70)	(134,578)	(5,542)	(24,734)	(4,005)	(1,382)	(132,650)	(426,979)
Other Grants, reimbursements and contributions	(493)	(2,525)	(2,252)	(11,658)	(42,256)	(1,180)	(3,543)	(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)	(153,085)	(64,898)	(26,960)	(17,926)	(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	84,285	126,934	26,007	28,034	3,549	0	413,247
Depreciation, amortisation and impairment	1,128	2,718	5,462	12,674	1,133	2,227	12,137	780	0	38,259
Disposals and impairments of susbidiaries	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 Receipts Pool	0	0	0	0	0	0	0	0	2	2
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	223,146	144,687	32,623	60,945	8,801	86,371	743,194
Net Expenditure	10,636	13,093	15,235	70,061	79,789	5,663	43,019	6,066	(185,882)	57,680

Notes to the Financial Statements

Note 27 – Expenditure and Income Analysed by Nature

2015/2016	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Corporate Activity and Exceptional Items £'000	Total £'000
Fees, charges and other service income	**(1,227)**	**(3,061)**	**(13,229)**	**(7,096)**	**(16,459)**	**(1,124)**	**(8,624)**	**(785)**	**(912)**	**(52,517)**
Government grants	**(1,936)**	**(125,869)**	**(129)**	**(138,929)**	**(6,978)**	**(22,314)**	**(4,784)**	**(1,483)**	**(223,232)**	**(525,654)**
Other Grants, reimbursements and contributions	**(541)**	**(2,303)**	**(5,299)**	**(9,430)**	**(39,050)**	**(1,215)**	**(3,760)**	**(1,035)**	**(206)**	**(62,839)**
Interest and investment income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(5,217)**	**(5,217)**
Income from non-domestic rates	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(44,130)**	**(44,130)**
Income from council tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(80,700)**	**(80,700)**
Change in fair value of investment properties	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(1,085)**	**(1,085)**
Total Income	**(3,704)**	**(131,233)**	**(18,657)**	**(155,455)**	**(62,487)**	**(24,653)**	**(17,168)**	**(3,303)**	**(355,482)**	**(772,142)**
Employee expenses	**5,016**	**16,490**	**12,609**	**125,210**	**14,935**	**5,680**	**23,560**	**4,433**	**7,120**	**215,053**
Other service expenditure	**8,403**	**130,276**	**11,825**	**82,012**	**124,075**	**23,354**	**26,756**	**4,359**	**0**	**411,060**
Depreciation, amortisation and impairment	**977**	**2,985**	**10,261**	**16,174**	**344**	**4,432**	**13,962**	**3,051**	**0**	**52,186**
Disposals and impairments of susbidiaries	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**1**
Interest payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**27,949**	**27,949**
Precepts and Levies	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**16,988**	**16,988**
Payments to Housing Capital Receipts Pool	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**3**
Gain/Loss on disposals/derecognition	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**76,689**	**76,689**
Total Expenditure	**14,396**	**149,751**	**34,695**	**223,396**	**139,354**	**33,466**	**64,278**	**11,843**	**128,750**	**799,929**
Net Expenditure	**10,692**	**18,518**	**16,038**	**67,941**	**76,867**	**8,813**	**47,110**	**8,540**	**(226,732)**	**27,787**

Notes to the Financial Statements

Note 28 – Trading Operations

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

2015/2016				**2016/2017**		
Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000		**Expenditure £'000**	**Turnover £'000**	**(Surplus) / Deficit £'000**
5,487	6,261	(774)	General Highways	**5,289**	**6,630**	**(1,341)**
6,393	6,531	(138)	Buildings Maintenance	**6,382**	**6,383**	**(1)**
11,880	12,792	(912)		**11,671**	**13,013**	**(1,342)**

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 – Agency Services

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 30 – Pooled Budgets

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

Better Care Fund

Sunderland City Council and Sunderland CCG are partners in the provision of services to support reduced hospital admissions and length of stay. 2016/2017 was the second year of this arrangement.

The principles of the Better Care Fund align with the Sunderland Joint Health and Wellbeing Strategy which aims to have a city where:

- everyone is as healthy as they can be;
- people live longer;
- people enjoy a good standard of wellbeing;
- we can see a reduction in health inequalities.

The Better Care Fund is seen as a significant enabler to achieve the overall vision for health and social care in the city. The Better Care Fund agreement will help to ensure that the following happens:

- Joint Working – shaping and managing cost effective interventions through integrated services;

- Working together – making the best use of strengths and assets to provide flexible and tailored services that respond to local conditions and focus on what matters to residents to achieve more for the city's communities.

The Better Care Fund will meet these objectives by ensuring:
- Services are commissioned to be co-ordinated around individuals and targeted to meet specific needs;
- Outcomes are improved for individuals;
- Improvements in the care experienced by individuals, their families and carers;
- Independence is optimised, by providing the right support in a timely manner, focusing on a reablement approach;
- People have high quality, tailored support which focuses on people staying out of hospital;
- 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.

2015/2016 £'000		**2016/2017 £'000**
	Funding Provided to the Pooled Budget	
64,343	Sunderland City Council	**68,991**
103,743	Sunderland Clinical Commissioning Group	**95,758**
168,086	**Total Funding**	**164,749**
	Expenditure met from the Pooled Budget	
68,817	Sunderland City Council	**72,375**
99,199	Sunderland Clinical Commissioning Group	**92,186**
168,016	**Total Expenditure**	**164,561**
70	**Net Surplus arising on the pooled budget**	**188**
27	**Sunderland City Council Share of Surplus**	**33**

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.

2015/2016 £'000		**2016/2017 £'000**
	Funding Provided to the Pooled Budget	
27	Sunderland City Council	**27**
36	Sunderland Clinical Commissioning Group	**36**
63	**Total Funding**	**63**
	Expenditure met from the Pooled Budget	
63	Sunderland City Council	**63**
0	Sunderland Clinical Commissioning Group	**0**
63	**Total Expenditure**	**63**
0	**Net Surplus arising on the pooled budget**	**0**
0	**Sunderland City Council Share of Surplus**	0

Notes to the Financial Statements

Note 31 – Members' Allowances

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

2015/2016 £'000		**2016/2017 £'000**
1,139	Allowances	**1,139**
13	Expenses	**13**
1,152	**Total**	**1,152**

Note 32 – Officers' Remuneration

The tables below disclose the specific remuneration information in relation to senior officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2016/2017 and 2015/2016 in the following categories:

- salaries, fees and allowances;
- bonuses;
- expenses allowance;
- compensation for loss of employment;
- benefits in kind;
- employees' pension contributions;
- Invoices paid relating to interim staffing arrangements.

Notes to the Financial Statements

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Invoices paid relating to Interim Staffing Arrangements *** £	Total Remuneration including Pension Contributions £
2016/2017									
Senior Officer Emoluments exceeding £150,000 per year									
Chief Executive - Irene Lucas	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**177,816**	**177,816**
Senior Officer Emoluments exceeding £50,000 but less than									
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**
Head of Law and Governance	**89,426**	**0**	**0**	**0**	**0**	**89,426**	**14,088**	**0**	**103,514**
Director of Public Health	**88,491**	**0**	**0**	**0**	**0**	**88,491**	**12,654**	**0**	**101,145**
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

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2015/2016								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith *	**108,686**	**0**	**0**	**185,470**	**0**	**294,156**	**331,414**	**625,570**
Director of Finance/Interim Head of Paid Service - Sonia Tognarelli	**155,393**	**0**	**0**	**131,413**	**0**	**286,806**	**319,152**	**605,958**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive *	**22,394**	**0**	**0**	**0**	**0**	**22,394**	**80,943**	**103,337**
Executive Director of People's Services	**123,190**	**0**	**0**	**104,892**	**0**	**228,082**	**216,413**	**444,495**
Executive Director of Commercial Development	**112,845**	**0**	**0**	**0**	**0**	**112,845**	**17,918**	**130,763**
Executive Director of Enterprise Development	**112,695**	**0**	**0**	**0**	**0**	**112,695**	**0**	**112,695**
Head of Legal Services	**87,146**	**0**	**0**	**0**	**0**	**87,146**	**13,780**	**100,926**
Director of Public Health	**88,895**	**0**	**0**	**0**	**0**	**88,895**	**12,708**	**101,603**

* Officers not in post for a full year

Notes to the Financial Statements

The number of other employees, whose remuneration, including compensation for loss of office if applicable (but excluding employer's pension contributions), was £50,000 or more in bands of £5,000 is shown below:

2015/2016		Remuneration	**2016/2017**	
Non-Teaching Staff	Teaching Staff		**Non-Teaching Staff**	**Teaching Staff**
37	40	£50,000 - £54,999	39	45
14	13	£55,000 - £59,999	20	19
6	17	£60,000 - £64,999	11	20
9	12	£65,000 - £69,999	12	20
3	13	£70,000 - £74,999	6	9
11	6	£75,000 - £79,999	5	6
4	1	£80,000 - £84,999	2	3
3	2	£85,000 - £89,999	7	1
1	0	£90,000 - £94,999	1	1
1	0	£95,000 - £99,999	1	1
1	0	£100,000 - £104,999	1	0
1	0	£110,000 - £114,999	1	0
1	0	£115,000 - £119,999	0	0
0	0	£120,000 - £124,999	1	0
0	0	£130,000 - £134,999	1	0
2	0	£135,000 - £139,999	1	0
0	1	£140,000 - £144,999	0	1

Note 33 – External Audit Costs

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

2015/2016 £'000		**2016/2017 £'000**
136	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	**136**
0	Fees payable to external auditors in respect of statutory inspections	**0**
9	Fees payable to external auditors for the certification of grant claims and returns for the year	**8**
3	Fees payable in respect of other services provided by external auditors during the year	**6**
148	Total Costs	**150**

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

Notes to the Financial Statements

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 2016/2017 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2016/2017 before Academy recoupment			199,741
Academy figure recouped for 2016/2017			87,924
Total DSG after Academy recoupment for 2016/2017			111,817
Plus			
Brought forward from 2015/2016			1,653
Less			
Carry forward to 2017/2018 agreed in advance			0
Agreed initial budgeted distribution in 2016/2017	6,516	106,954	113,470
In Year Adjustments	0	(307)	(307)
Final budgeted distribution in 2016/2017	6,516	106,647	113,163
Less			
Actual central expenditure	6,487		6,487
Less			
Actual ISB deployed to schools		106,117	106,117
Plus			
Local authority contribution for 2016/2017	0	0	0
Carry forward to 2017/2018	**29**	**530**	**559**

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:

2015/2016 £'000		**2016/2017 £'000**
	Capital Grant Receipts in Advance	
670	Department for Education	**1,229**
53	Communities and Local Government	**288**
318	Department for Transport	**39**
0	Environment Agency	**130**
799	Homes and Communities Agency	**574**
308	Other Capital Grants and Contributions	**288**
2,148	**Total**	**2,548**

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

2015/2016 £'000		**2016/2017 £'000**
	Credited to Taxation and Non Specific Grant Income and Expenditure	
	Revenue Grants:	
69,895	Revenue Support Grant	**57,231**
35,948	Top Up Grant	**36,247**
3,423	New Homes Bonus	**4,547**
989	Council Tax Freeze Grant	**0**
39	Local Services Support Grant	**14**
3,005	Section 31 Grant	**2,447**
113,299		**100,486**
	Capital Grants, Contributions and Donations:	
96,920	Communities and Local Government (including European)	**6,166**
5,864	Department for Transport	**5,243**
3,517	Nexus	**61**
2,107	Department for Education	**1,555**
0	Department for Education - Donated Assets	**18,410**
399	Heritage Lottery Fund	**0**
257	Arts Council	**0**
181	Homes and Communities Agency	**226**
115	Environment Agency	**228**
573	Other Capital Grants and Contributions	**275**
109,933		**32,164**
223,232	**Total**	**132,650**

Notes to the Financial Statements

2015/2016 £'000			2016/2017 £'000
	Credited to Services		
	Revenue Grants:		
5,538	Communities and Local Government:	PFI	**5,538**
1,404		Care Act Grant	**0**
866		Strengthening Families Grant	**1,001**
708		Independent Living Fund	**897**
636		European Grants	**425**
588		New Burdens	**584**
500		Transformation Challenge Grant	**0**
117		Recycling Reward Scheme	**0**
117		Sunderland, a City by the Sea	**183**
61		Extended Rights to Free Travel	**50**
59		other grants	**48**
124,941	Department for Work and Pensions:	Housing Benefit	**122,890**
102		Welfare Reform Additional Burdens	**91**
53		Universal Credits	**41**
90		other grants	**18**
22,314	Department of Health:	Public Health	**24,610**
211		Local Reform and Community	**214**
167		Deprivation of Liberties	**0**
40		Helping People Home Grant	**0**
115,621	Department for Education:	Dedicated Schools Grant	**111,232**
9,410		Pupil Premium	**8,751**
2,620		Universal Free School Meals	**2,589**
2,535		Education Services	**2,251**
594		PE and Sport	**585**
175		Adoption Reform	**760**
59		New Burdens	**184**
2,026		16-19 Bursary	**2,271**
0		Together for Children Implementation	**2,452**
287		other grants	**360**
2,474	Skills Funding Agency		**2,622**
690	Youth Justice Board		**636**
397	Arts Council		**355**
166	Northern Arts		**0**
128	Home Office		**74**
228	Other Grants		**333**
295,922			**292,045**
	Grants applied to revenue expenditure funded from capital under statute:		
954	Department for Education		**1,155**
2,845	Department of Health		**3,197**
5,080	Communities and Local Government		**0**
215	Other Capital Grants		**610**
9,094			**4,962**
305,016	**Total**		**297,007**

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 2016/2017 is shown in Note 31. In respect of the 2016/2017 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 £2.738m made by the Council in 2016/2017 (£0.218m in 2015/2016), of which £2.269m (£0.024m in 2015/2016) relates to payments to companies and £0.469m (£0.217m for 2015/2016) to voluntary organisations.

The figures stated above do not include transactions with Sunderland Care and Support Ltd or Sunderland Live Ltd as transactions between these companies and the Council have been separately identified as part of the production of Group Accounts for 2016/2017.

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

Officers

In respect of the 2016/2017 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 £0.002m made by the Council in 2016/2017 (£0.023m in 2015/2016), 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 30.

Entities Controlled or Significantly Influenced by the Council

Sunderland Care & Support (Holding Company) Ltd

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

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 £32.342m (£39.287m in 2015/2016). The pre audit operating loss for the period, before tax, amounted to £1.206m (£0.359m in 2015/2016) 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:

- Strain on the fund payments incurred by Sunderland Care & Support Ltd of £1.651m were funded by the Council in 2016/2017 (£3.199m of severance and strain on the fund payments in 2015/2016);
- Sunderland Care & Support Ltd buys back support services from the Council; £4.965m in 2016/2017 (£7.713m in 2015/2016);
- 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 £3.969m in 2016/2017 (£3.497m in 2015/2016).

Sunderland Live Ltd

Sunderland Live Ltd was formed in April 2013 as a local authority trading company to deliver the Council's core events programme as well as additional events as requested by both the Council and other clients in both the public and private sector. The company's aim 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 in 2017/2018 and the subsequent winding up of Sunderland Live Limited (and its subsidiary UK Events Live Limited) as at 31st March 2017 was approved.

The value of the contract for the period was £0.930m (£1.044m in 2015/2016). The audited operating profit for the period, before tax, amounted to £0.098m (operating loss of £0.042m in 2015/2016), reflecting the decision to write off all outstanding liabilities with the Council.

Siglion LLP

On 7th November 2014 the Council and Carillion (Maple Oak) Limited formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50% of the LLP. Siglion has a wholly owned subsidiary (Siglion Nominee Limited) and Siglion and Siglion Nominee Limited have formed two further LLPs. These are Siglion Investments LLP and Siglion Developments LLP. Igloo Regeneration Ltd has been appointed to deliver a range of services including development management in relation to a number of regeneration sites and following the acquisition from the Council of a number of investment properties including ground leases, retail properties, industrial properties and managed workspaces, strategic asset management. In consideration of this transaction, the Council received loan notes totalling £23.5m. These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up, whilst Loan Note B is similarly not anticipated to be repaid until Siglion is wound up but may be repaid and hence the value reduce over time as investment properties are disposed of. Siglion's primary purpose is to assist in the delivery of economic and regeneration benefits to Sunderland through its objectives of:

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

The draft accounts for the group for the period 1st April 2016 to 31st March 2017, show a net profit before taxation of £0.979m (£2.383m in 2015/2016). Distribution of profits, relating to the period 1st January 2016 to 31st December 2016, are anticipated, with the Council expecting to receive £0.344m (£0.345 in 2015/2016). The overall current net worth of the group is £13.866m.

Sunderland Lifestyle Partnership Ltd

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

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

The purpose of the JV is to:

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

The key objectives in forming this partnership are:

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

The value of the contract for the period was £2.710m (£3.121m in 2015/2016).

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 having been received during 2016/2017. The final principal repayment is payable during 2035/2036. £1.900m is outstanding at the end of 2016/2017.

The draft accounts for the group for the period 1st April 2016 to 31st March 2017, shows a net profit before taxation of £0.005m (£0.052m in 2015/2016) and indicates that no dividend is proposed (nil in 2015/2016). The overall current net worth of the group is £0.998m.

Newcastle Airport

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

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

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation but no such events have occurred during 2016/2017 with the result that the valuation has remained unchanged.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £4.138m was received for the year ended 31st December 2016 (no dividend was received for the year ended 31st December 2015).

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 loss before tax of £2.266m and a loss after tax of £0.499m for the year ended 31st December 2016. In the previous year, the Group made a profit before tax of £2.300m and a profit after tax of £4.556m.

Port of Sunderland

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

The Port turnover has improved from 2015/2016 by £0.698m to £5.928m for the 2016/2017 financial year. Investment in recent years in the Port's asset base and the securing of new cargo activity through the Port has generated this increase in turnover and also an increase in profit. The overall net surplus for the 2016/2017 financial year totalled £0.764m (2015/2016 surplus £0.377m).

Notes to the Financial Statements

Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee, 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 facilities management contract which was introduced in 2004 for a 25 year period. Under a recent re-negotiation of the contract with ATG, the Empire Theatre Trust is currently undergoing modernisation, and is in the process of appointing new Trustees to the board, comprising of 2 representatives of the Council, 2 representatives of ATG and an additional 7 independent Trustees. The role of the new trustees will be to create a resilient and robust governance structure, ensure that the Theatre is operating to its full potential, identify and develop new income sources and growth opportunities, as well as supporting the city's wider cultural agenda. Through the facilities management agreement ATG are paid an annual fixed amount, which in 2016/2017 totalled £0.430m (£0.427m in 2015/2016). In 2016/2017 the turnover of the Trust was £0.024m and under company law audited accounts are not required. The Trust made a small surplus of £14 in 2016/2017 (surplus of £26 for 2015/2016) which will increase its reserve to meet future costs. The Trust reserves at 31 March 2017 now stand at £7,196 (£7,182 as at 31 March 2016). In 2016/2017 the Council made a contribution of £9,350 (£12,445 for 2015/2016) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building for which the Trust has no liability.

A copy of the Trust accounts can be obtained from the Executive Director of Corporate Services, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

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, Sunderland Live Ltd, Academies, Voluntary Aided Schools, Sunderland Lifestyle Partnership Ltd 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.

2015/2016 £'000		**2016/2017 £'000**
359,748	Opening Capital Financing Requirement	**351,491**
318	Recognition of Embedded Lease Assets	**88**
368	Recognition of PFI Assets	**211**
	Capital Investment	
70,758	Property, Plant and Equipment	**65,896**
0	Investment Properties	**0**
2,000	Long Term Debtors	**0**
508	Intangible Assets	**660**
13,528	Revenue Expenditure Funded from Capital under Statute	**15,878**
	Sources of Finance	
0	Capital Receipts	**(11,566)**
(83,688)	Government grants and other contributions	**(50,558)**
	Sums set aside from:	
(3,106)	Direct revenue contributions	**(10,211)**
(8,943)	MRP	**(7,809)**
351,491	Closing Capital Financing Requirement	**354,080**
	Explanation of movements in year	
(1,319)	(Decrease) in underlying need to borrow (supported by government financial assistance)	**(207)**
(2,710)	Increase / (decrease) in underlying need to borrow (unsupported by government financial assistance)	**6,855**
(102)	Increase / (decrease) in underlying need to borrow (finance leases)	**(192)**
(4,126)	Increase / (decrease) in underlying need to borrow (PFI contracts)	**(3,867)**
(8,257)	Increase / (decrease) in Capital Financing Requirement	**2,589**

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:

2015/2016 £'000		**2016/2017 £'000**
9,215	Other Land & Buildings	**11,000**
696	Vehicles, Plant, Furniture and Equipment	**503**
9,911		**11,503**

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:

2015/2016 £'000		**2016/2017 £'000**
	Finance Lease Liabilities (net present value of minimum lease payments):	
241	Current	**263**
6,211	Non-current	**5,983**
0	Finance costs payable in future years	**0**
6,452	Minimum lease payments	**6,246**

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

2015/2016 Minimum Lease Payments £'000	2015/2016 Finance Lease Liabilities £'000		**2016/2017 Minimum Lease Payments £'000**	**2016/2017 Finance Lease Liabilities £'000**
241	241	Not later than one year	**263**	**263**
526	526	Later than one year and not later than five years	**312**	**312**
5,685	5,685	Later than five years	**5,671**	**5,671**
6,452	6,452		**6,246**	**6,246**

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 2016/2017 was £0.403m (2015/2016 £0.403m). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

2015/2016 £'000		**2016/2017 £'000**
25	Not later than one year	**36**
12	Later than one year but not later than five years	**113**
366	Later than five years	**254**
403		**403**

b) Council as Lessor

Operating Leases

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

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

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

2015/2016 £'000		**2016/2017 £'000**
5,656	Not later than one year	**5,211**
13,435	Later than one year but not later than five years	**12,046**
179,425	Later than five years	**173,207**
198,516		**190,464**

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

The Council currently operates three PFI schemes:

- Sandhill View Academy and Community Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library. The Council receives annual grant of £1.549m towards the cost of this 25 year scheme. Sandhill View transferred to Academy status on 1st July 2015 and part of the asset operated by the Academy on a long-term lease transferred from the Council's Balance Sheet. The Council still retains the long-term liability to the facility provider with the cost relating to the part of the asset transferred being subsequently recovered from the Academy.

- The Council also entered into a PFI contract, on 12 August 2003, to provide replacement highway signs and street lighting, this includes on-going maintenance, over a period of 25 years. The contract began on 1 September 2003 and will last until 31 August 2028. The Council receives annual grant of £2.185m towards the cost of this scheme.

- The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. In April 2014, a 25 year Energy from Waste facility became operational under a PFI contract, led by Gateshead Council. Sunderland Council receives annual grant of £1.805m towards the cost of this scheme.

Property, Plant and Equipment

The assets used to provide services under these PFI schemes are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment in Note 13 and a summary is shown below:

	Cost / Valuation £'000	Accumulated Depreciation £'000	Total £'000
Sandhill View Academy and Community Learning Centre	2,094	46	2,048
Highway Signs and Street Lighting	34,842	13,614	21,228
South Tyne and Wear Waste Management Partnership	64,896	0	64,896
Total	101,832	13,660	88,172

Payments

The Council makes agreed payments which are increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the three PFI contracts at 31 March 2017 (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 2017/2018	8,679	4,003	1,155	3,763	17,600
Payable within 2 to 5 years	34,056	17,013	5,969	13,230	70,268
Payable within 6 to 10 years	43,136	24,310	10,274	10,783	88,503
Payable within 11 to 15 years	27,164	15,725	9,220	3,488	55,597
Payable within 16 to 20 years	22,534	12,851	9,604	1,752	46,741
Payable within 21 to 25 years	9,035	8,262	3,076	299	20,672
Total	144,604	82,164	39,298	33,315	299,381

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services which they provide, 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:

2015/2016 £'000		**2016/2017 £'000**
89,936	Balance outstanding at the start of the year	**85,871**
0	Additions	**0**
(4,065)	Payments during the year	**(3,707)**
85,871	Balance outstanding at the year end	**82,164**

Note 40 – Impairment Losses

During 2016/2017, the Council recognised impairment losses totalling £3.323m (£2.720m in 2015/2016). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are demolition and improvement works at regeneration sites within the city (£0.981m), minor capital modernisation works to buildings (£0.953m), and works to various schools (£0.574m).

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 2016/2017, incurring liabilities of £11.683m (£7.090m in 2015/2016). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

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
Compulsory											
£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
Voluntary											
£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
Total	406	5,556	5,271	10,827	71	634	222	856	6,190	5,493	11,683

2015/2016 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
Compulsory											
£0 - £20	5	36	0	36	21	103	0	103	139	0	139
£20 - £40	0	0	0	0	7	119	67	186	119	67	186
£40 - £60	0	0	0	0	1	10	30	40	10	30	40
	5	36	0	36	29	232	97	329	268	97	365
Voluntary											
£0 - £20	119	1,257	42	1,299	43	271	34	305	1,528	76	1,604
£20 - £40	42	933	197	1,130	7	175	23	198	1,108	220	1,328
£40 - £60	11	301	257	558	0	0	0	0	301	257	558
£60 - £80	11	188	563	751	0	0	0	0	188	563	751
£80 - £100	3	91	177	268	0	0	0	0	91	177	268
£100 - £150	7	202	625	827	0	0	0	0	202	625	827
£150 - £200	1	15	142	157	0	0	0	0	15	142	157
£300 - £350	1	105	202	307	0	0	0	0	105	202	307
£400 - £450	1	131	295	426	0	0	0	0	131	295	426
£450 - £500	1	185	314	499	0	0	0	0	185	314	499
	197	3,408	2,814	6,222	50	446	57	503	3,854	2,871	6,725
Total	202	3,444	2,814	6,258	79	678	154	832	4,122	2,968	7,090

Note 42 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teacher's Pension Scheme, the Council's own contributions equated to approximately 63.7% for 2016/2017.

In 2016/2017, the Council paid £7.103m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2015/2016 were £7.000m and 14.1%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £6.336m.

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 55.8% for 2016/2017.

In 2016/2017, the Council paid £0.076m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2015/2016 were £0.082m 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 £0.091m.

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.

Notes to the Financial Statements

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/2016 £m	**2016/2017 £m**	2015/2016 £m	**2016/2017 £m**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	23.21	**22.33**	0.00	**0.00**
Past service costs	2.66	**6.05**	0.00	**0.00**
(Gain)/loss from settlements	0.00	**0.00**	0.00	**0.00**
Financing and Investment Income and Expenditure				
Net interest expense	14.06	**13.46**	1.32	**1.31**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	39.93	**41.84**	1.32	**1.31**
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)	14.74	**(144.70)**	0.00	**0.00**
Actuarial gains and losses arising on changes in demographic assumptions	0.00	**3.76**	0.00	**1.77**
Actuarial gains and losses arising on changes in financial assumptions	(53.62)	**296.36**	(1.07)	**3.22**
Actuarial gains and losses arising from liability experience	(13.36)	**(92.14)**	(0.75)	**(0.97)**
Net increase in assets / liabilities arising from disposals	(0.79)	**0.00**	0.00	**0.00**
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(13.10)	**105.12**	(0.50)	**5.33**
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	10.46	**9.15**	(1.89)	**(2.60)**
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers contributions payable to the scheme	29.47	**32.69**	3.21	**3.91**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	39.93	**41.84**	1.32	**1.31**

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	
	2015/2016 £m	**2016/2017 £m**	2015/2016 £m	**2016/2017 £m**
Present value of the defined benefit obligation	1,401.53	**1,638.11**	40.61	**42.03**
Fair value of plan assets	989.40	**1,153.55**	0.00	**0.00**
Sub-total	(412.13)	**(484.56)**	(40.61)	**(42.03)**
Other movements in the liability (asset)	0.00	**0.00**	0.00	**0.00**
Net liability arising from defined benefit obligation	(412.13)	**(484.56)**	(40.61)	**(42.03)**

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2015/2016 £m	**2016/2017 £m**	2015/2016 £m	**2016/2017 £m**
Opening balance at 1 April	1,440.27	**1,401.53**	44.32	**40.61**
Current service cost	23.21	**22.33**	0.00	**0.00**
Interest cost	45.30	**46.87**	1.32	**1.31**
Contributions by scheme participants	6.15	**5.91**	0.00	**0.00**
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	0.00	**3.76**	0.00	**1.77**
Actuarial gains/losses arising from changes in financial assumptions	(53.62)	**296.36**	(1.07)	**3.22**
Actuarial gains/losses arising from liability experience	(13.36)	**(92.14)**	(0.75)	**(0.97)**
Net increase in liabilities arising from disposals	(10.17)	**0.00**	0.00	**0.00**
Past service costs (including curtailments)	2.66	**6.05**	0.00	**0.00**
Liabilities assumed on entity combinations	0.00	**0.00**	0.00	**0.00**
Benefits paid	(38.91)	**(52.56)**	(3.21)	**(3.91)**
Liabilities extinguished on settlements	0.00	**0.00**	0.00	**0.00**
Closing balance at 31 March	1,401.53	**1,638.11**	40.61	**42.03**

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/2016 £m	**2016/2017 £m**	2015/2016 £m	**2016/2017 £m**
Opening fair value of scheme assets	985.57	**989.40**	0.00	**0.00**
Interest income	31.24	**33.41**	0.00	**0.00**
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	(14.74)	**144.70**	0.00	**0.00**
Net increase in liabilities arising from disposals	(9.38)	**0.00**	0.00	**0.00**
The effect of changes in foreign exchange rates	0.00	**0.00**	0.00	**0.00**
Contributions from employer	29.47	**32.69**	3.21	**3.91**
Contributions from employees into the scheme	6.15	**5.91**	0.00	**0.00**
Benefits paid	(38.91)	**(52.56)**	(3.21)	**(3.91)**
Settlements	0.00	**0.00**	0.00	**0.00**
Closing balance at 31 March	989.40	**1,153.55**	0.00	**0.00**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	2015/2016			**2016/2017**		
	Quoted %	Unquoted %	Total %	**Quoted %**	**Unquoted %**	**Total %**
Equities	57.5	8.6	66.1	**59.5**	**7.4**	**66.9**
Property	0	10.4	10.4	**0**	**9.2**	**9.2**
Government Bonds	3.7	0.0	3.7	**3.9**	**0.0**	**3.9**
Corporate Bonds	11.6	0.0	11.6	**11.5**	**0.0**	**11.5**
Cash	2.6	0.0	2.6	**2.6**	**0.0**	**2.6**
Other	3.1	2.5	5.6	**3.5**	**2.4**	**5.9**
Total assets	78.5	21.5	100.0	**81.0**	**19.0**	**100.0**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefit liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/2016	**2016/2017**	2015/2016	**2016/2017**
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.2 years	**22.8 years**	23.2 years	**22.8 years**
Women	24.8 years	**26.3 years**	24.8 years	**26.3 years**
Longevity at 65 for future pensioners				
Men	25.3 years	**25.0 years**	n/a	**n/a**
Women	27.1 years	**28.6 years**	n/a	**n/a**
RPI	2.9%	**3.1%**	2.9%	**3.1%**
CPI	1.8%	**2.0%**	1.8%	**2.0%**
Rate of increase in salaries	3.3%	**3.5%**	n/a	**n/a**
Pension account revaluation rate	1.8%	**2.0%**	n/a	**n/a**
Rate of increase in pensions	1.8%	**2.0%**	1.8%	**2.0%**
Rate for discounting scheme liabilities	3.4%	**2.6%**	3.4%	**2.6%**
Long-term expected rate of return on assets in the scheme	3.4%	**2.6%**	3.4%	**2.6%**

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)	**47.71**	**47.48**
Rate of increase in salaries (increase or decrease by 0.1%)	**7.17**	**7.09**
Rate of increase in pensions (increase or decrease by 0.1%)	**23.68**	**23.30**
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	**30.33**	**30.91**

Impact on the Council’s Cash Flows

The Council anticipates making £22.69m expected contributions to the scheme in 2017/2018.

The weighted average duration of the defined benefit obligation for scheme members is 18.7 years in 2016/2017 (18.6 years in 2015/2016).

Notes to the Financial Statements

Note 44 – Contingent Liabilities

The City Council, together with the other Tyne and Wear district councils, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils. The Tyne and Wear authorities also act collectively as guarantors for the pension liabilities of the North East Regional Employers Organisation (NEREO) and Disability North. The Councils involved have agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over an agreed repayment period. In the unlikely event of any of these bodies failing, the Council's share of the potential pension deficit would need to be considered as part of the overall financial position of that body.

The Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees that were employed originally by the Council but transferred to Gentoo, on the basis that basic pension only would be funded (no added years). As staff turnover occurs and transferred staff retire, this potential liability diminishes.

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

The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council in relation to previously operated bonus schemes. Claims have been stayed by the Employment Tribunal to enable, without prejudice, settlement discussions. There are a number of grievances concerning identical issues. Following settlement discussions, a significant number of claims and grievances have been settled. Efforts are on-going to reach settlements in residual cases.

The Environment Agency has confirmed that the Council is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works 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 been undertaken 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.

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (overtime which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). The Council settled a very small number of claims received under this ruling during 2015/2016 which in total cost £1,275 including court costs. Although steps have been taken to seek to minimise the risk of further claims in the future, this continues to have an on-going potential implication for the Council. The scale and value of any potential claims is considered to be likely to be minimal, especially as any claims are restricted to a maximum two year period following government legislation. As there continues to be some risk, it is considered appropriate that this issue is still recognised as a contingent liability.

Note 45 – Contingent Assets

VAT

The Council has an outstanding VAT claim lodged with HM Revenue and Customs (HMRC) in relation to overpaid output tax and the payment of compound interest, which has been refuted by HMRC. The probability of a successful conclusion for recovery of this claim is based upon complex on-going litigation with HMRC, and therefore the value of the claim is not quantifiable. The Council has reflected its claim as a contingent asset pending a final decision by the courts.

Section 106 Agreements

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 £6.583m 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.

Sunderland Aquatic Centre

The Sunderland Aquatic centre opened in 2009, having been constructed by an external contractor on behalf of the Council. Substantial repairs and remedial works to the roof are required, which are planned to be undertaken in 2018 resulting in the closure of the Centre for a period of 6-9 months. The Council has issued legal proceedings against the contractor.

Note 46 - 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:

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					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 £174.4m 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 2017 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 2017 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2016 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2017 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2016 £'000
Bonds and other securities	0	0	0	0	0
Customers	10,014	14.15	0	1,417	794
Financial Assets	**10,014**		**0**	**1,417**	**794**

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

The Council does not generally allow credit for customers, such that £10.014m is beyond its due date for payment. The past due amount can be analysed by age as follows:

31 March 2016 £'000		**31 March 2017 £'000**
9,878	Less than 3 months	**9,431**
175	Three to 6 months	**164**
559	Six months to one year	**325**
316	More than one year	**94**
10,928		**10,014**

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 2016 £'000	Loans Oustanding	**31 March 2017 £'000**
29,756	Less than 1 year	**34,052**
4,050	Maturing in 1-2 years	**5,406**
14,148	Maturing in 2-5 years	**15,219**
10,228	Maturing in 5-10 years	**5,337**
15,040	Maturing in 10-20 years	**15,014**
15,010	Maturing in 20-30 years	**15,000**
47,000	Maturing in 30-40 years	**64,500**
77,500	Maturing in 40-50 years	**115,179**
35,187	Maturing in more than 50 years	**0**
247,919	**Total**	**269,707**

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

Market Risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2017, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2016 £'000		31 March 2017 £'000
(376)	Increase in interest payable on variable rate borrowings	**(471)**
2,731	Increase in interest received on variable rate borrowings	**2,210**
2,355	**Impact on Surplus or Deficit on the Provision of Services**	**1,739**
(559)	Decrease in fair value of fixed rate investment assets	**(365)**
(559)	**Impact on Other Comprehensive Income and Expenditure**	**(365)**
44,862	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)	**57,930**

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 (2015/2016 £16.400m) in Newcastle Airport which is not listed on the stock exchange, a £5.000m (2015/2016 £5.000m) equity share in its Local Asset Backed Vehicle, Siglion, and a £0.500m (2015/2016 £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 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 2016/2017.

The Council also holds a small number of various gilts and unit trusts with a value at cost of £0.014m (2015/2016 £0.014m) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in Other Comprehensive Income and Expenditure.

Foreign Exchange Risk

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

Note 47 – Heritage Assets: Summary of Transactions

There have been no transactions during 2015/2016 or 2016/2017.

Notes to the Financial Statements

Note 48 – 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 49 – Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. At 31st March 2017 the Council was responsible for 41 trust funds:

	Balance at 01/04/2016 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	**Balance at 31/03/2017 £'000**
Health, Housing and Adult Services	185	0	0	(137)	**48**
Childrens Services	72	0	0	0	**72**
Total	257	0	0	(137)	**120**

Note 50 – Prior Period Adjustments

In accordance with changes to the Code, the 2015/2016 Cost of Services analysis on the Comprehensive Income and Expenditure Statement is now presented in line with the Council's internal management reporting arrangements (previously presented in a prescribed national format). This change has impacted on individual service lines but the totals at the Cost of Services level remained unchanged.

Subsequent to this a material error in 2015/2016 has been amended. Both income and expenditure were excluded from the Cost of Services analysis in error. This change has resulted in an increase to both income and expenditure of £35.731m on the Health, Housing and Adult Services Portfolio. The net position remains unchanged.

	Previous position			Corrected position		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Health, Housing and Adult Services	103,623	26,756	76,867	139,354	62,487	76,867

This change has also impacted on the Expenditure and Income Analysed by Nature (Note 27). The following changes have been made to the 2015/2016 position:

	Gross Expenditure £'000	Gross Income £'000
Employee Expenses increased by	1,530	
Other Service Expenditure increased by	34,201	
Other Grants, Reimbursements and Contributions increased by		35,731
Total	35,731	35,731

Collection Fund Account

Collection Fund Account for Year Ended 31 March 2017

2015/2016					2016/2017		
Council Tax £'000	Business Rates £'000	Total £'000		Note	**Council Tax £'000**	**Business Rates £'000**	**Total £'000**
			Income				
91,813	0	91,813	Council Tax Payers	1	96,449	0	96,449
0	90,063	90,063	Income from Business Ratepayers	2	0	95,101	95,101
91,813	90,063	181,876			96,449	95,101	191,550
			Expenditure				
			Apportionment of Previous Years' Surplus				
500	0	500	Sunderland City Council		2,500	0	2,500
31	0	31	Tyne and Wear Fire and Rescue Authority		157	0	157
36	0	36	Police and Crime Commissioner for Northumbria		186	0	186
567	0	567			2,843	0	2,843
			Precepts, Demands and Shares:				
78,317	43,187	121,504	Sunderland City Council		83,363	43,539	126,902
4,925	881	5,806	Tyne and Wear Fire and Rescue Authority		5,142	889	6,031
5,830	0	5,830	Police and Crime Commissioner for Northumbria		6,305	0	6,305
0	199	199	Central Government - Transitional Protection Payable		0	491	491
0	44,033	44,033	Central Government - Share		0	44,393	44,393
89,072	88,300	177,372			94,810	89,312	184,122
			Charges to Collection Fund				
0	743	743	Disregarded Amounts - Enterprize Zones		0	742	742
0	337	337	Cost of Collection - Business Rates		0	343	343
490	1,062	1,552	Write Offs	3	277	1,114	1,391
(466)	(267)	(733)	Provision for Bad Debts	3	(429)	(25)	(454)
0	63	63	Provision for Business Rate Appeals	4	0	3,371	3,371
24	1,938	1,962			(152)	5,545	5,393
2,150	(175)	1,975	**(Deficit) / Surplus for the Year**		**(1,052)**	**244**	**(808)**
3,840	372	4,212	Balance brought forward as at 1 April		5,990	197	6,187
5,990	197	6,187	**Fund Balance Carried Forward as at 31 March**		**4,938**	**441**	**5,379**
			Fund allocated to				
5,267	96	5,363	Sunderland City Council		4,342	216	4,558
331	2	333	Tyne and Wear Fire and Rescue Authority		268	4	272
392	0	392	Police and Crime Commissioner for Northumbria		328	0	328
0	99	99	Central Government		0	221	221
5,990	197	6,187			**4,938**	**441**	**5,379**

Collection Fund Account

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

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to council tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Sunderland, the council tax precepting bodies are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

In 2013/2014, the local government finance regime was revised with the introduction of the retained business rates scheme. Whilst the main aim of the scheme is to give Councils a greater incentive to grow businesses, it also increases the financial risk due to non-collection and the volatility of the business rates tax base.

The scheme allows the Council to retain a proportion of the business rates received. The Sunderland share is 49% with the remainder paid to precepting bodies. For Sunderland the business rates precepting bodies are Central Government (50% share) and Tyne and Wear Fire and Rescue Authority (1% share).

Business rates surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

Notes to the Collection Fund Account

Note 1 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base.

The basic amount of Council Tax for a Band D property, £1,402.72 for 2016/2017 (£1,348.91 for 2015/2016), is multiplied by the proportion specified for the particular band to give an individual amount due.

The Council Tax Base for 2016/2017 was 67,556 (66,000 in 2015/2016). The increase between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions.

The Tax Base for 2016/2017 was approved by Cabinet on 13th January 2016 and was calculated as follows:

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	179	5/9	99
A	77,305	6/9	51,537
B	17,406	7/9	13,538
C	16,053	8/9	14,269
D	8,249	1	8,249
E	3,006	11/9	3,674
F	1,022	13/9	1,476
G	619	15/9	1,032
H	17	18/9	34
Net effect of Premiums and Discounts			(24,973)
Total			68,935
Anticipated Collection Rate			98%
Tax Base for the Calculation of Council Tax			67,556

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 2016/2017 was estimated before the start of the financial year as £44.393m to Central Government, £0.883m to Tyne and Wear Fire and Rescue Authority and £43.539m to Sunderland Council. These sums have been paid in 2016/2017 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 2016/2017 to the value of £36.247m (£35.948m in 2015/2016).

The total income from business rates payers collected in 2016/2017 was £95.101m (£90.063m in 2015/2016). This sum includes £0.491m of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to Central Government to £44.884m.

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 2016/2017.

For 2016/2017, the total business rates rateable value at the year-end is £226.154m (£224.355m in 2015/2016). The national multipliers for 2016/2017 were 48.4p (48.0p for 2015/2016) for qualifying small businesses, and the standard multiplier being 49.7p (49.3p for 2015/2016) 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:

2015/2016				**2016/2017**		
Council Tax £'000	Business Rates £'000	Total £'000		**Council Tax £'000**	**Business Rates £'000**	**Total £'000**
5,479	5,664	11,143	Balance as at 1 April	5,013	5,397	10,410
(490)	(1,062)	(1,552)	Write Offs	(277)	(1,114)	(1,391)
24	795	819	Contribution to provision	(152)	1,089	937
5,013	5,397	10,410	Balance as at 31 March	4,584	5,372	9,956
			Balance allocated to:			
4,408	2,645	7,053	Sunderland City Council	4,031	2,632	6,663
0	2,698	2,698	Central Government	0	2,686	2,686
277	54	331	Tyne and Wear Fire and Rescue Authority	248	54	302
328	0	328	Police and Crime Commissioner for	305	0	305
5,013	5,397	10,410		4,584	5,372	9,956

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 2017.

The level of appeals provision and the relevant preceptors share is as follows:

Notes to the Collection Fund Account

2015/2016 £'000		**2016/2017 £'000**
11,344	Balance as at 1 April	11,407
(2,949)	Use of provision	(3,156)
3,012	Contribution to provision	6,527
11,407	Balance as at 31 March	14,778
	Balance allocated to:	
5,589	Sunderland City Council	7,241
5,704	Central Government	7,389
114	Tyne and Wear Fire and Rescue Authority	148
11,407		14,778

Group Accounts Narrative Statement

The Council's standard financial statements consider the Council only as a single entity thus a full picture of the Council's economic activity and financial position is not presented in the Council's single entity financial statements.

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

- Sunderland Care & Support (Holding Company) Ltd
- Sunderland Live Ltd
- Siglion LLP
- Sunderland Lifestyle Partnership Ltd

Further details 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 2016/2017' (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 2015/2016 and 2016/2017 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**
Balance at 31 March 2015	**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**(8,490)**	**383,056**
Movement in reserves during 2015/2016:								
Total Comprehensive Income and Expenditure	(27,787)	0	0	0	**(27,787)**	56,708	**2,332**	**31,253**
Adjustments between accounting basis & funding basis under regulations	16,446	0	3,643	35,340	**55,429**	(55,429)	**0**	**0**
Transfers to / (from) Earmarked Reserves	12,085	(12,085)	0	0	**0**	0	**0**	**0**
Restatement of Unusable Reserves							**26,145**	**26,145**
(Increase) / Decrease in 2015/2016	744	(12,085)	3,643	35,340	**27,642**	1,279	**28,477**	**57,398**
Balance at 31 March 2016	**17,974**	**147,048**	**11,671**	**40,612**	**217,305**	**203,162**	**19,987**	**440,454**
Movement in reserves during 2016/2017:								
Total Comprehensive Income and Expenditure	(57,680)	0	0	0	**(57,680)**	(72,179)	**(6,681)**	**(136,540)**
Adjustments between accounting basis & funding basis under regulations	36,344	0	(6,917)	(31,841)	**(2,414)**	2,414	**0**	**0**
Transfers to / (from) Earmarked Reserves	21,586	(21,586)	0	0	**0**	0	**0**	**0**
Restatement of Unusable Reserves							**(1,211)**	**(1,211)**
(Increase) / Decrease in 2016/2017	250	(21,586)	(6,917)	(31,841)	**(60,094)**	(69,765)	**(7,892)**	**(137,751)**
Balance at 31 March 2017	**18,224**	**125,462**	**4,754**	**8,771**	**157,211**	**133,397**	**12,095**	**302,703**

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 £35.295m (£27.293m in 2015/2016). This figure represents the purchase and sale of services between all group members.

2015/2016					2016/2017		
Gross Expenditure restated £'000	Gross Income restated £'000	Net Expenditure restated £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
14,261	3,655	10,606	Leader		**12,818**	**2,170**	**10,648**
149,724	130,285	19,439	Deputy Leader		**142,309**	**128,367**	**13,942**
36,010	19,904	16,106	Cabinet Secretary		**33,663**	**17,608**	**16,055**
223,374	155,455	67,919	Children's Services		**223,067**	**153,085**	**69,982**
143,181	69,211	73,970	Health, Housing and Adult Services		**144,615**	**66,797**	**77,818**
35,462	26,712	8,750	Public Health, Wellness and Culture		**34,152**	**28,779**	**5,373**
64,278	16,563	47,715	City Services		**60,939**	**17,533**	**43,406**
11,828	2,545	9,283	Responsive Services and Customer Care		**8,788**	**2,011**	**6,777**
5,224	0	5,224	Exceptional item - severance costs		**10,452**	**0**	**10,452**
1,896	206	1,690	Exceptional item - equal pay settlement/provision		**2,707**	**0**	**2,707**
685,238	424,536	260,702	**Cost of Services**		**673,510**	**416,350**	**257,160**
93,680	0	93,680	Other operating expenditure		**43,657**	**0**	**43,657**
28,673	7,033	21,640	Financing and investment income and expenditure	11	**30,248**	**9,702**	**20,546**
277	348,062	(347,785)	Taxation and non-specific grant income and expenditure		**0**	**262,332**	**(262,332)**
807,868	779,631	28,237	**(Surplus) or Deficit on Provision of Services**		**747,415**	**688,384**	**59,031**
0	6	(6)	Tax expenses of subsidiaries		**(927)**	**0**	**(927)**
807,868	779,637	28,231	**Group (Surplus) / Deficit**		**746,488**	**688,384**	**58,104**
			<u>Items that will not be reclassified to (surplus)/deficit on Provision of Services</u>				
		(2,504)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				**4,144**
		(56,980)	Re-measurements of the defined benefit liability				**74,292**
		(59,484)	**Other Comprehensive Income and Expenditure**				**78,436**
		(31,253)	**Total Comprehensive Income and Expenditure**				**136,540**

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.

2015/2016 £'000		**2016/2017 £'000**
(28,921)	Total comprehensive income on the Council's Comprehensive Income and Expenditure Statement	**129,859**
	Add (surplus) / deficit attributable to subsidiaries:	
(1,192)	Sunderland Care and Support Ltd	**7,075**
(23)	Sunderland Live Ltd	**98**
	Add (surplus) / deficit attributable to joint venture:	
(1,121)	Siglion LLP	**(489)**
4	Sunderland Lifestyle Partnership Ltd	**(3)**
(31,253)	**Total**	**136,540**

Group Balance Sheet

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

Group Balance Sheet

31st March 2016 £'000		Notes	**31st March 2017 £'000**
909,261	Property, Plant and Equipment		**919,657**
12,192	Heritage Assets		**12,192**
62,494	Investment Property		**60,458**
2,007	Intangible Assets		**2,192**
16,415	Long Term Investments		**16,415**
6,940	Investments in Associates		**7,432**
56,624	Long Term Debtors		**55,095**
1,065,933	**Long Term Assets**		**1,073,441**
161,055	Short Term Investments		**130,955**
754	Inventories		**727**
38,984	Short Term Debtors	6	**44,817**
2,833	Assets Held for Sale		**1,096**
63,686	Cash and Cash Equivalents (In-hand & bank)	2	**46,922**
267,312	**Current Assets**		**224,517**
(10,465)	Cash and Cash Equivalents (overdrawn)	2	**(9,430)**
(29,756)	Short Term Borrowing		**(34,052)**
(59,444)	Short Term Creditors	7	**(62,968)**
(16,479)	Provisions		**(18,016)**
(2,148)	Grant Receipts in Advance - Capital		**(2,548)**
0	Corporation Tax Liability		**0**
(118,292)	**Current Liabilities**		**(127,014)**
(218,163)	Long Term Borrowing		**(235,655)**
(462,420)	Defined Benefit Pension Scheme Liability	9	**(544,226)**
(88,373)	Other Long Term Liabilities		**(84,164)**
(5,543)	Provisions		**(4,196)**
(774,499)	**Long Term Liabilities**		**(868,241)**
440,454	**Net Assets**		**302,703**
17,974	General Fund		**18,224**
147,048	Earmarked General Fund Reserves		**125,462**
11,671	Capital Receipts Reserve		**4,754**
40,612	Capital Grants Unapplied		**8,771**
1,440	Profit and Loss - Investments in Associates		**1,932**
(7,214)	Profit and Loss - Sunderland Care and Support Ltd		**(14,289)**
(384)	Profit and Loss - Sunderland Live Ltd		**(482)**
211,147	**Usable Reserves**		**144,372**
192,135	Revaluation Reserve		**173,277**
26,145	Revaluation Reserve - Associates		**24,934**
421,383	Capital Adjustment Account		**445,570**
(1,255)	Financial Instrument Adjustment Account		**(1,198)**
(452,740)	Pensions Reserve		**(526,590)**
24,480	Deferred Capital Receipts Reserve		**24,433**
5,363	Collection Fund Adjustment Account		**4,559**
(2,237)	Accumulated Absence Account		**(2,687)**
16,033	Available for Sale Financial Instruments Reserve		**16,033**
229,307	**Unusable Reserves**		**158,331**
440,454	**Total Reserves**		**302,703**

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.

2015/2016 £'000		Notes	**2016/2017 £'000**
28,166	Net (surplus) or deficit on the provision of services		**59,031**
(141,379)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(60,941)**
124,020	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**22,135**
10,807	Net cash flows from operating activities		**20,225**
(60,948)	Investing activities	4	**16,610**
3,658	Financing activities	5	**(21,106)**
(46,483)	**Net (increase) or decrease in cash and cash equivalents**		**15,729**
6,738	Cash and cash equivalents at the beginning of the reporting period		**53,221**
53,221	**Cash and cash equivalents at the end of the reporting period**	2	**37,492**

Notes to the Group Financial Statements

Note 1 – Accounting Policies

The group accounting policies are largely the same as those specified within the Council only statement, however there are some slight divergences from these policies within the group as well as issues applicable to the subsidiary companies only. These are detailed below:

- **Deferred Tax**
  Deferred tax is recognised in respect of an obligation to pay more tax in the future or a right to pay less tax in the future as at the Balance Sheet date. This represents differences between the company's taxable profits and its results as stated in the financial statement.

  Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to be resolved, based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

- **Pensions**
  The group accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

  It should be noted that the Financial Statements for Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position for these companies would not be significantly different under IAS19.

- **Group Transactions**
  The Council both commissions services from and provides support services to the subsidiary companies. All transactions between members of the group have been treated as arm's length.

- **Consolidation of Subsidiaries**
  Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

- **Consolidation of Joint Ventures**
  Joint Ventures have been consolidated using the equity method. An investment is brought into the group balance sheet and adjusted by the Council's share in the joint venture's net asset movement. The Council's share of the joint venture's operating results for the year is included within the group income and expenditure account.

- **Capital Expenditure**
  The de-minimus level for capital expenditure for the subsidiary companies is £5,000 which is lower than that of the Council.

- **Accounting Standards**
  The accounts for the subsidiary companies have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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:

2015/2016 £'000		**2016/2017 £'000**
63,686	Cash and Cash Equivalents (in hand & bank)	**46,922**
(10,465)	Cash and Cash Equivalents (overdrawn)	**(9,430)**
53,221	**Total Cash and Cash Equivalents**	**37,492**

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:

2015/16 £'000		**2016/2017 £'000**
4,871	Interest received	**4,099**
(12,569)	Interest paid	**(12,607)**
347	Dividends received	**4,482**
(7,351)		**(4,026)**

Note 4 – Group Cash Flow Statement – Investing Activities

2015/2016 £'000		**2016/2017 £'000**
69,199	Purchase of property, plant and equipment, investment property and intangible assets	**65,644**
160,000	Purchase of short-term and long-term investments	**130,000**
2,023	Other payments for investing activities	**4,635**
(3,763)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(4,733)**
(180,000)	Proceeds from short-term and long-term investments	**(160,000)**
(108,407)	Other receipts from investing activities	**(18,936)**
(60,948)	**Net cash flows from investing activities**	**16,610**

Note 5 – Group Cash Flow Statement – Financing Activities

2015/2016 £'000		**2016/2017 £'000**
(58)	Cash receipts of short and long-term borrowing	**(21,840)**
(1,349)	Other receipts from financing activities	**(3,419)**
3,709	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**4,003**
1,356	Repayments of short and long term borrowing	**150**
0	Other payments for financing activities	**0**
3,658	**Net cash flows from financing activities**	**(21,106)**

Notes to the Group Financial Statements

Note 6 – Group Short Term Debtors

2015/2016 £'000		**2016/2017 £'000**
6,842	Central government bodies	**10,494**
1,280	Other local authorities	**1,470**
3,804	NHS bodies	**4,113**
27,052	Other entities and individuals	**28,740**
38,978	**Total**	**44,817**

Note 7 – Group Short Term Creditors

2015/2016 £'000		**2016/2017 £'000**
(12,923)	Central government bodies	**(14,280)**
(4,627)	Other local authorities	**(5,416)**
(3,011)	NHS bodies	**(3,247)**
(38,883)	Other entities and individuals	**(40,025)**
(59,444)	**Total**	**(62,968)**

Note 8 – Property, Plant and Equipment

On 1st June 2015 the Council transferred a number of leisure assets to its leisure joint venture partnership, Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd.

As these assets were transferred under a long term lease, the Council has written these assets out of its accounts, reducing assets by £52.289m 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 £24.934m (£26.145m in 2015/2016).

Note 9 – Group Reserves

Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19, Retirement Benefits, for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pension Reserve represents the net liability for future pension costs.

It should be noted that the Financial Statements for Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', however, the financial position for these companies would not be significantly different under IAS19.

The Pensions Reserves within the subsidiary companies are subsets of the Profit and Loss Reserves for those companies and therefore are shown on the Balance Sheet within Usable Reserves. The Pension Reserve held by the Council is shown on the Balance Sheet under Unusable Reserves. The table below presents the Pension Reserve activity for each member of the group.

Notes to the Group Financial Statements

2015/2016					2016/2017			
Council £'000	SCAS £'000	S Live £'000	Total Group £'000		**Council £'000**	**SCAS £'000**	**S Live £'000**	**Total Group £'000**
(499,020)	(10,640)	(312)	(509,972)	**Balance at 1 April**	**(452,740)**	**(9,410)**	**(270)**	**(462,420)**
54,850	2,060	70	56,980	Remeasurement of the net defined benefit liability/(asset)	**(67,300)**	**(6,910)**	**(82)**	**(74,292)**
(41,250)	(4,310)	(67)	(45,627)	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	**(43,150)**	**(4,890)**	**(42)**	**(48,082)**
32,680	3,480	49	36,209	Employer's pensions contributions and direct payments to pensioners payable in the year	**36,600**	**4,010**	**26**	**40,636**
0	0	(10)	(10)	Less deferred tax offset against liability	**0**	**0**	**(68)**	**(68)**
0	0	0	0	Less adjustment for disposals / acquisitions	**0**	**0**	**0**	**0**
(452,740)	(9,410)	(270)	(462,420)	**Balance at 31 March**	**(526,590)**	**(17,200)**	**(436)**	**(544,226)**

Share Capital Reserve

One ordinary share of £1 has been allotted and fully paid for in Sunderland Live Ltd and two ordinary shares of £1 in Sunderland Care and Support Ltd. All companies in the group are ultimately owned 100% by the Council.

Note 10 – Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the group are not materially different from those within the Council only statements.

Note 11 – Group Financing and Investment Income and Expenditure

2015/2016 £'000		**2016/2017 £'000**
12,980	Interest payable and similar charges	**13,029**
15,692	Net interest on the net defined benefit liability (asset)	**15,041**
(4,871)	Interest receivable and similar income	**(4,099)**
(347)	Other Investment Income	**(4,482)**
(725)	Surplus on Trading Undertakings	**(1,121)**
(1,085)	Income and expenditure in relation to investment properties and changes in their fair value	**2,036**
1	Disposals and impairments of subsidiaries	**142**
21,645	**Total**	**20,546**

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.

Employees of Sunderland Care and Support Ltd and Sunderland Live Ltd are members of the Local Government Pension Scheme.

The Tyne and Wear pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of South Tyneside Council. Policy is determined in accordance with the Pension Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Discretionary Post-Retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement and is presented within the Council's unusable reserves.

The subsidiary companies within the group do not raise Council Tax receipts and therefore the costs of post-employment / retirement benefits are not transferred to unusable reserves. These future liabilities are reflected within each company's Profit or Loss position on the Balance Sheet.

Note 13 – Prior Period Adjustments

In accordance with changes to the Code, the 2015/2016 Cost of Services analysis on the Group Comprehensive Income and Expenditure Statement is now presented in line with the Council's internal management reporting arrangements (previously presented in a prescribed national format). This change has impacted on individual service lines but the totals at the Cost of Services level remained unchanged.

Notes to the Group Financial Statements

Subsequent to this a material error in 2015/2016 has been amended. Both income and expenditure were excluded from the Cost of Services analysis in error. This change has resulted in an increase to both income and expenditure of £35.731m on the Health, Housing and Adult Services Portfolio. The net position remains unchanged.

	Previous position			Corrected position		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Health Housing and Adult Services	107,450	33,480	73,970	143,181	69,211	73,970

Glossary of Terms

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

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:
- recognising;
- selecting measurement bases for; and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

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

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

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

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

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

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

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

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

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

Glossary of Terms

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

Capital Receipts
Money received from the sale of land or other capital assets. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Non-Current Assets
The classes of non-current assets required to be included in the accounting statements are:

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

Investment Property
Heritage Assets

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

Code of Practice on Local Authority Accounting in the UK
'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Council.

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Business Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, central government and its own demands.

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

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

Constructive Obligation
An obligation that derives from an authority's actions where:
- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.
Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

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

Glossary of Terms

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

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

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

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

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

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

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

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

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

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

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.

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

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

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

General Fund
This accounts for the services of the City Council except for the Collection Fund. The net cost is met by the Council Tax, Government Grants and Business Rates.

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

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

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

Infrastructure Assets
These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.
Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

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

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

International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS)
Standards issues by the International Accounting Standards Board (IASB) which present the Council's accounts in a consistent and comparable format with other organisations internationally.

Glossary of Terms

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

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

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

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

Joint Ventures
A Joint Venture exists where the Council and another party exercise joint control over and entity with decisions relating to the organisation requiring unanimous consent by the parties sharing control.

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

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Operating Leases – are all leases other than a finance lease

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

Long Term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

Minimum Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

Glossary of Terms

Business Rates (also known as Non-Domestic Rates)
All non-domestic properties are valued by the Valuation Office Agency and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate with the proceeds shared between central government, the Council and Tyne and Wear Fire Authority on a defined basis.

Net Book Value
The amount at which non-current assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Non-Operational Assets
Non-current assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets
Non-current assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear Councils on their behalf.

Prior Period Adjustments
Those material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

Private Finance Initiatives (PFI)
PFIs are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the

use of the asset. Government grant is available to assist authorities who enter into these arrangement.

Prudential Framework
One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

Public Sector Audit Appointments Ltd
As independent company incorporated by the Local Government Association. The company is responsible for appointing auditors to local government, police and local NHS bodies. Before April 2015, its responsibilities were discharged by the Audit Commission.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Parties
Two or more parties are related parties when at any time during the financial period:
- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:
- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:
- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:
- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their c lose family or the same household, has a controlling interest.

Glossary of Terms

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:
- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure
Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

Revenue Expenditure Funded by Capital under Statute
Items of capital expenditure, which do not result in, or remain matched by, tangible non-current assets. Revenue Expenditure Funded by Capital under Statute is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant (RSG)
A grant paid by Central Government to Local Authorities to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and Business Rates income and the City Council's spend.

Glossary of Terms

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits: and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services.

Stock / Inventories
Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

Subsidiaries
A subsidiary exists where the Council exercises control and gains benefits / exposure to risk arising from this control.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Trust Funds
Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

Unsupported Borrowing
Under the Prudential Framework, the facility to undertake what is known as ‘unsupported borrowing’ is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the authority will derive benefits from the use of a non-current asset.

Glossary of Terms

Vested Rights
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits:
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.