

Sunderland City Council

Value for money risk assessment

March 2016



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Executive Summary

Auditor Guidance Note 03 issued by the National Audit Office (NAO), sets out the requirements for value for money (VFM) work in 2015/16. In respect of local government bodies, it states:

"Section 20(1) of the Act requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'."

Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:

- Overall criterion: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements but these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-criteria:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

We used the NAO's guidance to carry out an initial risk assessment using a red / amber / green (RAG) rating with the following definitions.

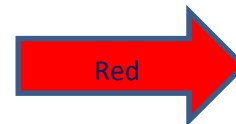
No risks to our VFM conclusion identified to date and no further work planned.



Not considered to be an audit risk at this stage, however, risk indicators to be followed up as further information becomes available.



Significant audit risk identified. This denotes risk to us as auditors. It is not an assessment or rating of the Council's arrangements.






The guidance also gives examples of issues or developments which an auditor may consider as significant engagement risks:

- organisational change or transformation;
- significant funding gaps in financial planning;
- legislative or policy changes;
- repeated financial difficulties, or persistently poor performance; and
- other sources.

Overall assessment

The overall financial environment in which the Council is operating represents a significant risk to our value for money conclusion.

Sustainable resource deployment is categorised as red and therefore we consider that there is a significant risk impacting our VFM Conclusion. This audit risk is directly linked to the ongoing austerity programme and the need to reduce costs and transform services to address the funding gap in the medium term financial plan. Informed decision making is rated green, as we have not identified any significant concerns in this area of the Council’s work to date. Working with partners and other third parties is amber, particularly as we want to assess the outcomes from the operation of the Better Care Fund in the first year of operation. More details on each sub criteria can be found in the tables in section 2 of this report.

Proper arrangements	
Informed decision making	 Green
Sustainable resource deployment	 Red
Working with partners and other third parties	 Amber

We have identified a number of areas where further work is required to provide sufficient assurance to inform our VFM conclusion, and address the significant risk that has been identified:

- review of the 2015/16 financial outturn to gain audit assurance about the robustness of the savings planning processes and assess the latest financial standing of the Council;
- analysis of benchmarking data in VFM Profiles to assess the Council’s comparative position on key measures; and
- review the plans that are being put in place to address the funding gap for future years.

One specific area we will consider as an additional significant risk relates to Ofsted's assessment of children's safeguarding services as inadequate in July 2015.

We will consider the progress made by the Council in relation to children's services at the point we give our 2015/16 VFM conclusion. This requires an expert judgement, and we will rely on the updated assessment of Ofsted or the Government-appointed Commissioner for Children's Services, in determining whether another 'except for' qualification is needed for the 2015/16 VFM conclusion or whether sufficient improvement has been made to avoid a further qualification.

To assess the amber risk area (medium risk) around working with partners and other third parties, we will review in particular the outcome of the first year of operation of the Better Care Fund.

We will also continue to monitor the Council's overall arrangements through:

- ongoing meetings with key officers; and
- ongoing review of relevant meeting agenda papers and minutes where decisions relevant to our responsibilities are taken.

Our audit risk assessment is dynamic and can change as the audit progresses and new information is considered.



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Proper arrangements

The NAO guidance defines proper arrangements based on existing sector requirements to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements. For Fire Authorities, this is the CIPFA/SOLACE framework for local government.


Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the areas detailed in the tables in this section of the report.



Informed decision making

Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	 Green	<ul style="list-style-type: none"> • Constitution in place setting out the standing orders, financial regulations, scheme of delegation and codes of conduct governing the operation of the Council. • Cabinet system adopted with executive decision making and scrutiny arrangements in place. • The Council has adopted a Local Code of Corporate Governance, and reports annually on the operation of its governance arrangements through the Annual Governance Statement included in its financial statements.
Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	 Green	<ul style="list-style-type: none"> • Council decisions based on professional reports setting out options and supported by relevant considerations and evidence, including detailed business cases where appropriate. • Medium term financial planning considers the challenges faced by the Council, particularly in the face of public sector austerity in recent years. • Difficult decisions impacting on services have been taken to balance budgets, and implementation of measures is monitored. • Robust budget setting and monitoring processes, including regular monitoring of financial performance. • Performance management in place and being further developed. • No data quality issues in respect of financial and performance information that we are aware of.


Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Reliable and timely financial reporting that supports the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Regular and timely reporting to Members. • Outturn reasonably close to projections in quarterly financial reports. • Track record of delivering planned savings and efficiencies in prior years.
Managing risks effectively and maintaining a sound system of internal control.	 Green	<ul style="list-style-type: none"> • Risk register and risk management arrangements in place, with regular reporting to the Audit and Governance Committee. • Assurance arrangements in place through three lines of defence model overseen by the Audit and Governance Committee. • Regular reporting by Internal Audit on the operation of the system of internal control. • Annual Governance Statement prepared, reviewed and approved by Members.



Sustainable resource deployment

Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	 Red	<ul style="list-style-type: none"> • The Council has delivered £207m of savings in the period 2010/11 to 2015/16. • The Council needs to deliver a further £46.6m of reductions in 2016/17 and potentially a further £74m in the following three years. • Despite this, financial and performance reports demonstrate a history of achieving difficult cost reductions / increasing income, whilst minimising the impact on services and operational performance. • Becoming more difficult to maintain this balance, with continuing year on year reductions in available resources. • The Council has created some alternative service delivery models, such as Sunderland Care and Support Ltd, established as a local authority trading company. Further measures are planned. • Significant demand-led budget pressures in children's safeguarding, where the Council aims to implement its improvement plans following an assessment of inadequate by Ofsted and in adult social care, where the Council has an ambitious pooled budget arrangement, known as the Better Care Fund, with Sunderland CCG, but where the increasing demands from an ageing population is recognised as a national challenge facing local government and its partners.

Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Managing and utilising assets effectively to support the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Asset register and asset management plans in place. • Capital programme includes planned developments including infrastructure measures to stimulate economic regeneration and growth. • Joint venture through Siglion LLP to accelerate economic development of key sites including the Vaux site and stimulate private sector investment in the City.
Planning, organising and developing the workforce effectively to deliver strategic priorities.	 Amber	<ul style="list-style-type: none"> • HR policies and procedures in place. • Workforce transformation has been at the heart of many of the measures taken to address funding constraints. • Downsizing of the workforce has been undertaken in a phased and planned way over a number of years, and has delivered significant budget savings. • Further significant downsizing planned, including further outsourcing into alternative models of service delivery.

Working with partners and other third parties

Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Working with third parties effectively to deliver strategic priorities.	 Amber	<ul style="list-style-type: none"> • Partnership working well established. • Examples of partnership working in place to reduce costs and improve service delivery. • Better Care Fund (BCF) in place with Health and Wellbeing Board oversight. Health and Social Care Integration Board established with all key partners to drive the whole programme forward. Pooled budget partnership in place since April 2015. Its role is to oversee the ambitious Section 75 pooled budget (£156m in total for 2015/16) and to receive performance and progress updates. Position on Better Care Fund to be confirmed after year end. • Increasingly, examples of delivery through arms-length organisations, such as the Council's own trading companies (for example, Sunderland Care and Support Ltd) or through joint ventures (such as Siglion LLP, or leisure joint venture).

Proper arrangements	RAG Rating	Arrangements at Sunderland City Council
Commissioning services effectively to support the delivery of strategic priorities.	 Amber	<ul style="list-style-type: none"> • Position on Better Care Fund to be confirmed after year end. • Increasingly, examples of delivery through arms-length organisations, such as the Council’s own trading companies (for example, Sunderland Care and Support Ltd) or through joint ventures (such as Siglion LLP, or leisure joint venture). • Presents challenges in monitoring the effectiveness of outcomes.
Procuring supplies and services effectively to support the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Procurement policies in place. • Use established national and regional procurement frameworks to maximise purchasing power. • Sought to drive increased value across all budget headings including supplies and services.

Ofsted inspection of children’s safeguarding services

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

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

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

The Council is addressing the issues raised in the Ofsted inspection, and is working with a Government-appointed Commissioner for Children’s Services to advise on improvements and to inform ministers about progress.

The Ofsted assessment remains a significant risk that is relevant to our value for money conclusion.

We will consider the progress made by the Council in relation to children’s services at the point we give our 2015/16 VFM conclusion. This requires an expert judgement, and we will rely on the updated assessment of Ofsted or the Government-appointed Commissioner for Children’s Services, in determining whether another ‘except for’ qualification is needed for the 2015/16 VFM conclusion or whether sufficient improvement has been made to avoid a further qualification.

