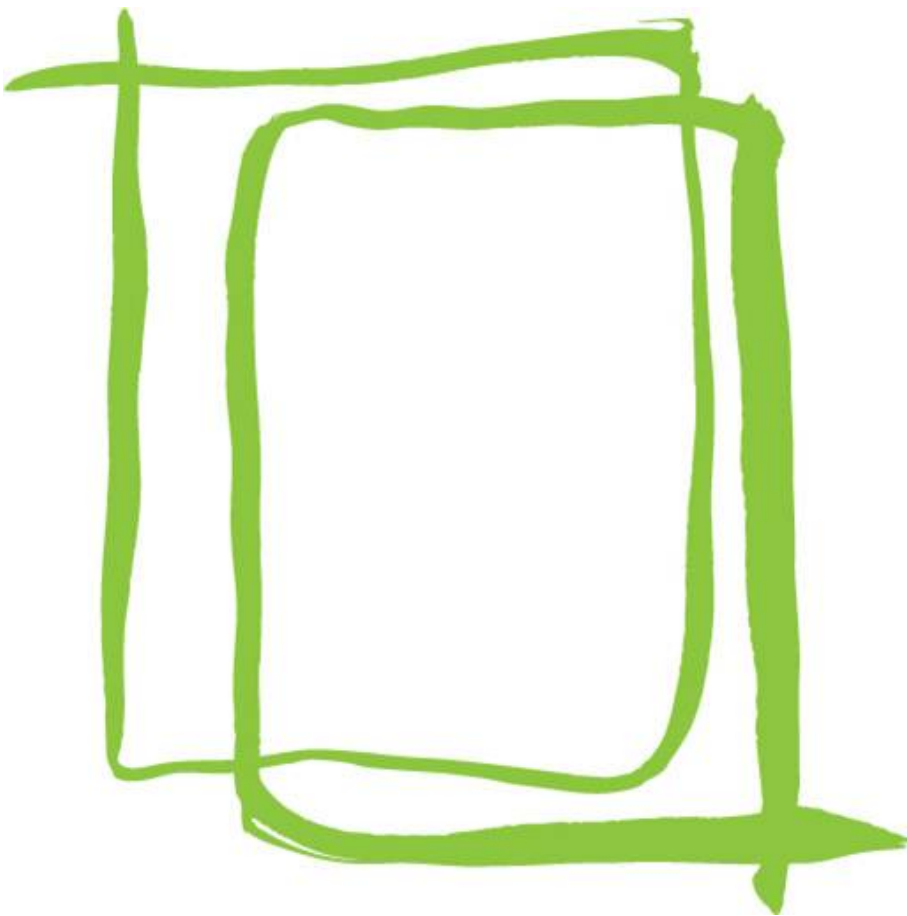


Use of Resources

Sunderland City Council

Audit 2007/08

December 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the Council and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The assessment for Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support the Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
 - reflect developments in professional guidance, legislative requirements and best practice; and
 - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.

- 5 The five theme scores for Sunderland City Council are outlined in Table 2, and support the Council's overall score of 4 for use of resources as advised by the Audit Commission on 8 December 2008.
- 6 The summary report which follows sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
Financial reporting	4	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	4	3
1.2 The Council promotes external accountability.	4	4
Financial management	4	4
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	4
2.2 The Council manages performance against budgets.	4	4
2.3 The Council manages its asset base.	3	3
Financial standing	4	4
3.1 The Council manages its spending within the available resources.	4	4
Internal control	4	4
4.1 The Council manages its significant business risks.	4	4
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	4
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	4	4
Value for money	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	4	4

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables.

Financial reporting

Theme score = 4 (performing strongly)
Key findings and conclusions
<p>1.1 Council produces annual accounts in accordance with relevant standards and timetables</p> <p>The quality of working papers to support the Council's financial statements has improved steadily over recent years and all of the key supporting documents are now available electronically, hyperlinked to relevant assertions in the draft accounts. Processes for internal review prior to audit, and for dealing with audit queries and requests for information, have also improved this year and include a detailed analysis of outturn compared to budget and previous years. A log is maintained of audit queries, this was monitored on a daily basis to ensure that prompt and appropriate responses had been received.</p> <p>Only 3 very minor errors were identified during the 2007/08 audit, which represents a notable achievement given both:</p> <ul style="list-style-type: none"> • the size and complexity of the Council's accounts, and • the significant changes to financial reporting requirements this year. <p>1.2 Council promotes external accountability</p> <p>The Council promotes external accountability by seeking to make key information available to the public through its publications and the increasingly important medium of their website. The website makes available a number of key documents, including agendas and minutes, the published financial statements and annual report, audit and inspection outcomes and other key publications, as well as a range of information on Council services, the local area, environmental and sustainability issues and equalities. Documents can be provided in a variety of languages, braille and voicetape if required, and the home page of the website makes this clear.</p> <p>The annual report is notable in that it presents financial data in a user friendly way and links financial data, performance information and local people's views. This year's annual report also included information on the Council's carbon footprint, environmental and sustainability issues.</p>

Theme summaries

Key improvement areas	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	None.
KLOE 1.2 The Council promotes external accountability.	None.

Financial management

Theme score = 4 (performing strongly)
Key findings and conclusions
2.1 Council's MTFS, budgets and capital programme are soundly based <p>The Council's MTFS is updated annually and is underpinned by detailed financial modelling. It contains reasonable assumptions as to cost changes, government funding levels and other available sources of financing. The quality of the MTFS has been recognised as representing notable practice in terms of its scope, level of detail, integration with corporate improvement planning and the inclusion of partnership information.</p> <p>Members are fully engaged in financial planning and have set challenging targets for officers with respect to collection rates, treasury management, precept increases and levels/use of balances. Members also play a key role in the extensive consultation with local people and stakeholders which is carried out to inform the MTFS and budget setting each year.</p>
2.2 Council manages performance against budget <p>Despite having over 60 budget holders, the Council has an enviable track record in maintaining spend within budget. No significant overspends have been experienced in recent years and the quality and detail of quarterly financial management reports demonstrate notable practice. Integrated financial and performance management reports presented to members are forward looking and incorporate an appropriate level of cash flow management and balance sheet reporting. Risk management principles of probability and impact assessment are applied to focus on and address key issues. There is also an annual review of the financial performance and value for money delivered in key partnerships.</p>

Financial management (continued)

2.3 Council manages its asset base

Asset records are well maintained and there is a rolling programme for valuations and inspections. Capital strategies and asset management plans are comprehensive and benefit from appropriate member involvement. Arrangements in place and embedded ensure that:

- capital investment decisions are soundly based;
- asset use is maximised; AND
- surplus assets are identified and disposed of.

However the Council recognises that scope exists for further improvement in this important area, and a service review of asset management is currently underway.

Key improvement areas

KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	None identified.
KLOE 2.2 The Council manages performance against budgets.	None identified.
KLOE 2.3 The Council manages its asset base.	<ul style="list-style-type: none"> • Asset management strategies are in place but can be further developed to help deliver corporate priorities. • Internal and external audit have identified that there are issues to address in respect of operational property management.

Financial standing

Theme score = 4 (performing strongly)	
Key findings and conclusions	
<p>3.1 Council manages its spending within available resources</p> <p>The Council is well placed financially and the MTFS sets out in some detail how these resources will be used to fund corporate priorities and to improve services. The Council has a good track record of securing additional sources of finance from grant funding and the private sector, including PFI schemes and other public/private partnerships. There are numerous examples of how targeted financial investment has tackled underperforming services and this takes place in a structured way through the strategic investment reserve and business improvement programme.</p> <p>A comprehensive set of financial performance targets are in place and reported quarterly alongside:</p> <ul style="list-style-type: none"> • revenue and capital outturn; • variances from budget, proposed virement and use of contingency funding; • key balance sheet ratios; and • expected levels and planned use of balances. <p>In this way both officers and members receive a complete picture of the Council's financial position and risk management techniques (impact/probability assessment) are used to focus attention on possible future problems.</p> <p>Target levels for balances and reserves are set out in the MTFS and where these are exceeded, cost/benefit analysis is carried out and reflected in treasury management strategies going forward.</p>	
Key improvement areas	
KLOE 3.1 The Council manages its spending within the available resources.	None identified.

Internal control

Theme score = 4 (performing strongly)

Key findings and conclusions

4.1 Council manages its significant business risks

Risk management is fully embedded into all corporate processes and benefits from appropriate involvement from both members and external consultants. The Council continues to be regarded as a leader in this area, receiving numerous awards and being invited to speak at regional and national conferences and workshops.

Existing arrangements have been improved this year by:

- including sustainability impact appraisals into major project risk assessments;
- canvassing external stakeholder views when updating the corporate risk profile; and
- identifying opportunities as well as risk.

4.2 Council has arrangements in place to maintain a sound system of internal control

All of the expected internal controls are in place and embedded. The Council's audit and governance committee, and Internal Audit function, are proactive in their role and financial systems are well controlled. Good governance arrangements are in place for partnerships which include template partnership agreements and guidance on performance management, risk management and procurement.

However, the Council has not met new KLOE criteria concerning:

- effectiveness of scrutiny; and
- business continuity and disaster recovery arrangements.

4.3 Arrangements to promote and ensure probity and propriety in the conduct of its business

The Council has strong arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. All of the level 4 criteria are in place and are well embedded. Fraud and governance are key components of risk management arrangements and Internal Audit coverage is comprehensive.

Member training, staff induction and other corporate processes stress the importance of high ethical standards and the need to comply with codes of conduct etc. This message is reinforced through the Council intranet, staff newsletter and payslip information, which has been identified as notable practice.

No significant frauds have been discovered in recent years and ombudsman and standards board referrals are low.

Theme summaries

Internal control (continued)

Key improvement areas	
KLOE 4.1 The Council manages its significant business risks.	None
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<ul style="list-style-type: none">• Improve the consistency of scrutiny functions, and develop a culture of consistent but appropriate challenge to members on key decisions.• Further develop business continuity, through ICT disaster recovery arrangements.
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	None.

Value for money
Theme score = 3 (performing well)
Key findings and conclusions
5.1 Council currently achieves good VfM

The Council is not a high cost authority overall and this is reflected in council tax levels. Cost profiles are related to priorities and are broadly similar to last year. There is a continued good understanding of costs and related performance. Gershon efficiency savings have been delivered well in excess of both Government and locally set targets. These savings, together with unspent budget contingencies, have been reinvested to improve services for the public. The shift to a preventative agenda in relation to social care activity is delivering services more focussed on need and improved outcomes, and areas of longstanding underperformance are now being tackled, such as planning and recycling. All CPA service blocks have been assessed as either 3 or 4 in 2007.

Barriers to a level 4 assessment were identified as:

- below average user satisfaction survey results;
- mixed BVPI performance in some service areas; and
- high sickness levels which continue to reduce capacity and value for money.

5.2 Council manages and improves VfM

The Council's value for money framework has been recognised as representing notable practice and continues to drive improvement. It has been updated in 2008 to reflect CAA, the new Sunderland strategy and national indicator sets. The framework is successful because it is a continuous process which:

- effectively links performance, risk and financial management; and
- is adequately resourced and underpinned by a strategic investment plan, dedicated improvement team and business improvement programme.

Procurement processes are also helping to improve value for money by placing a clearer focus on the 'whole life' balance of quality and cost. The Council was also able to demonstrate improved skills and resources in respect of project and programme management.

Initiatives to identify and review areas of high spend or poorer performance are having a positive impact and have been further refined during the year, with reviews of leisure services and asset management now under way. Significant investment is also planned in:

- secondary schools, through BSF grant funding;
- a waste disposal partnership with Gateshead and South Tyneside MBC's.

This should lead to improved services in the future.

Theme summaries

Value for money

Key improvement areas	
KLOE 5.1 The Council currently achieves good value for money.	<ul style="list-style-type: none">• Improve user perception, particularly on value for money• Improve BVPI performance particularly on waste and recycling• Reduce sickness absence levels• Demonstrate that BSF and PFI investment is delivering expected service outcomes.
KLOE 5.2 The Council manages and improves value for money.	None identified.

Conclusion

- 8 The Council's performance demonstrates a clear commitment to delivering value for money and to using resources effectively. 4 out of 5 themes are now scored at level 4 overall and only 3 out of 11 sub-themes are scored below this at level 3.
- 9 Numerous examples of notable practice have been identified and these include:
 - the Council's approach to producing year end financial statements;
 - format of the annual report;
 - quality of medium term financial planning;
 - budgetary control processes;
 - financial reporting;
 - risk management;
 - arrangements in place to promote probity and prevent fraud and corruption; and
 - the corporate value for money framework.
- 10 Key improvement areas have been identified as follows:
 - The Council's scrutiny function meets Local Government Act requirements and has made some useful contributions to policy development in recent years. However the quality of outcomes is variable and officers were unable to demonstrate a culture of consistent and effective challenge to key decisions.
 - There is scope to further develop business continuity planning, through improving ICT disaster recovery arrangements
 - User satisfaction rates are lower than some neighbouring authorities.
 - BVPI performance in some service areas continues to be mixed, particularly on highways, waste and recycling.
 - Asset management strategies are in place but can be further developed to help deliver corporate priorities.
- 11 Internal and external audit have identified that there are issues to address in respect of operational property management.

Use of resources 2008/09

- 12 From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).

Conclusion

- 13 Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 14 The assessment is structured into three themes:
 - managing finances: sound and strategic financial management;
 - governing the business: strategic commissioning and good governance; and
 - managing resources: effective management of natural resources, assets and people.
- 15 The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For Sunderland City Council, this means that we will assess natural resources and strategic asset management, but not work force planning, in the first year of the assessment.
- 16 The Commission will then specify, in its annual work programme and fees document for local government, which key lines of enquiry will be assessed in each year.

The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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