

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 26 September 2014 at 1.30pm

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1. Receipt of Declarations of Interest (if any)	
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3. Minutes of the Meeting of the Committee held on 27 June 2014	1
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4. The Changing Role of the Local Authority in Improving Educational Outcomes	15
Report of the Associate Director - Education (copy attached).	
5. Treasury Management – Second Quarterly Review 2014/2015	19
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6. Audited Statement of Accounts 2013/2014	37
Report of the Head of Financial Resources (copy attached).	
<i>Please note that the Audit Completion Report (Item 6(ii)) and the Audited Statement of Accounts (Item 6(iii)) will be printed separately.</i>	

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7. **Corporate Assurance Map 2014/2015 – Update** 47  
Report of the Head of Assurance, Procurement and Projects (copy attached).
8. **Joint Committee for the North of England Open Air Museum – Audited Annual Return and Accounts 2013-2014** 81  
Report of the Head of Financial Resources (copy attached).
- Please note that the audited Annual Return (Appendix 1) and the audited Statement of Accounts (Appendix 2) will be printed separately.*

ELAINE WAUGH  
Head of Law and Governance

Civic Centre, Sunderland  
17 September 2014

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 27 June 2014**

**Present:**

Mr G N Cook

Councillors Farthing, Forbes, N Wright, T Wright and Mr M Knowles.

**In Attendance:**

Sonia Tognarelli (Head of Financial Resources), Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Sarah Reed (Assistant Chief Executive), Diane Downey (Acting Head of ICT), Tracy Davis (Audit, Risk and Assurance Manager), Mark Kirkham (Mazars), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillor Speding.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 28 March 2014 be confirmed and signed by the Chair as a correct record.

**Annual Governance Review/Annual Governance Statement 2013/2014**

The Head of Assurance, Procurement and Projects submitted a report providing details of the 2013/2014 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A draft Annual Governance Statement and an improvement plan for the year ahead were also included.

The Annual Governance Review was undertaken by gathering assurance from a number of sources via the Integrated Assurance Framework and led by the Corporate Assurance Group. The review considered information from Members,

Heads of Service, Executive and Corporate Directors, specialist functions, the Risk and Assurance team, Internal Audit, the External Auditor and other external agencies.

Members were directed to the Corporate Assurance Map which showed the position at the end of the year. The map showed a positive picture, subject to the Risk and Assurance opinion on ICT Strategy and Delivery, which the Committee had been made aware of at their last meeting.

With regard to the Internal Audit performance, the Head of Assurance, Procurement and Projects advised that all targets had been met apart from the implementation of medium risk recommendations which stood at 82% against a target of 90%.

The Committee were informed that the original audit plan had included 80 audits for the Council and that three had been cancelled for the following reasons: -

- Health and Wellbeing partnership – a Peer review was ongoing so the audit was deferred;
- Personal Budgets – an extended review of arrangements was due to end in March 2014 and an action plan for improvements developed, so the audit had therefore been deferred into 2014/2015; and
- ICT Strategy – the strategy had been under review during the year and a review of the ICT service was currently underway. Appropriate work would be planned once the outcome of this was known.

Counter fraud work had been undertaken in a number of areas during the year and although no fraud was identified, the work did identify a number of opportunities to improve the control environment.

A Corporate Governance Improvement Plan had been drawn up and was attached to the report as Appendix 1 and the draft Annual Governance Statement, taking into account the findings of the governance review was attached at Appendix 2.

Councillor Farthing referred to recent media focus on governance in schools and noted that a lot of work had been done, however in academies where the local authority had less control, she queried if this sort of work was left to Ofsted.

The Head of Assurance, Procurement and Projects stated that this was a wider issue to do with the role of the authority in relation to schools and academies. The Council's Associate Director of Education had been looking at the relationship of the Council with schools moving forward and which areas the authority should be challenging and which it should be supporting. The Assistant Chief Executive indicated that this had been the subject of the recent Education Conference and the Chair requested that an update report be provided for a future meeting.

From the perspective of Internal Audit, they carried out audit work for all grant maintained schools. Academies were required to have audit provision and could contract this service from the Council's team.

Mark Kirkham highlighted that Ofsted expected the Council to act in a corporate parenting role for all schools and this included early warnings and safeguarding.

Councillor N Wright commented that she had been told that some schools had not allowed access to the Police and Fire service and this was of great concern because of the local authority's ultimate responsibility for all children. She supported the Chair's request that this matter be followed up and brought back to the Committee.

Following on from the report given to Members at the last meeting, the Assistant Chief Executive provided an update on the work being done to address the key areas of concern highlighted by the Risk and Assurance team in relation to the ICT Strategy and Delivery.

The ICT resource management group continued to meet to co-ordinate ICT resources, reports were provided to the Chief Executive on a monthly basis and the Leader and Deputy Leader received regular updates. The Acting Head of ICT was closely managing the audit actions and the report outlined where improvements were being made.

The Assistant Chief Executive advised that progress had been made on getting the right staffing in place for the service and Human Resources were looking at capability and capacity going forward. ICT continued to be developed to improve the customer experience and the Council was looking at bring economic benefits to Sunderland through Software City. The Committee were informed that Sunderland had recently received a Digital City award, against some strong competition, which recognised that although there was a great deal to do, the impact was being seen on the ground.

Mr Knowles asked what the timescales would be for the improvements to the firewalls and the future ICT structure.

The Acting Head of ICT explained that the Council's ICT infrastructure went through a regular refresh cycle and this time was now approaching. Capital resources were in place to renew the firewall and the planning would be around how what was already a good system, could be replaced. Planning for the implementation of the improvements would take place over the next two to three months.

Having considered the report, the Committee: -

2. RESOLVED that: -

- (i) the report and updated Corporate Assurance Map be noted;
- (ii) the Improvement Plan at Appendix 1 be agreed; and
- (iii) the draft Annual Governance Statement at Appendix 2 be agreed.

## **Review of Internal Audit**

The Head of Assurance, Procurement and Projects submitted a report informing the Committee of the results of the review of Internal Audit undertaken by the External Auditor.

Gavin Barker advised that a detailed assessment had been carried out and that the External Auditors had found that the Council's arrangements were very good and that the Internal Audit Service was compliant with the requirements of the Public Sector Internal Audit Standards and the CIPFA Application Note.

A small number of minor improvement points were identified and these had been discussed with, and would be picked up by, the Head of Assurance, Procurement and Projects.

3. RESOLVED that the positive opinion provided be noted.

### **Corporate Assurance Map 2013/2014 – Update**

The Head of Assurance, Procurement and Projects presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control and the performance of Internal Audit.

Members were directed to the map itself and were informed that the overall view in relation to Strategic and Corporate risk areas had remained the same. The Head of Assurance, Procurement and Projects stated that ICT had already been discussed and there were no additional issues to draw to the attention of Members.

The Key Performance Indicators for the Internal Audit Service were outlined at Appendix 4 to the report and the Committee were informed that the performance was on target in all except three areas, which were:

- Percentage of draft reports issued within 15 days of the end of fieldwork which stood at 86% against a target of 90%
- Percentage of audits completed by target date which stood at 71% against a target of 80%
- The current percentage of medium risk recommendations implemented (excluding schools) which now stood at 80% against a target of 90%.

The Head of Assurance, Procurement and Projects highlighted that the slip in the implementation rates of medium risk recommendations was something which should be monitored. The Chair commented that the implementation rates were not impressive and asked that the Head of Service draw the attention of his colleagues to the recommendations of Internal Audit.

The Chair referred to risk EC 1 and stated that he felt that the access of young people to higher and further education in the city was vital. He wished to know, through the Deputy Chief Executive or the Economic Leadership Board, whether there were any targets for this as he felt that this was at the core of retaining quality in the city. The Head of Assurance, Procurement and Projects suggested that a report be brought to the next Committee and he would liaise with the relevant Head of Service in relation to this.

Councillor Farthing asked for more detail about the 'plan on a page' referred to under risk PE 3 and the Head of Assurance, Procurement and Projects explained that People Services were trying to introduce this for all Heads of Service and service managers as a quick way of presenting priorities and KPIs.

Councillor Farthing went on to ask about the reference to 'bucket' positions within the scope of the 2014/2015 audit of SAP Organisation Structures. The Committee were informed that the SAP system was set up to mirror the structure of the Council and the 'bucket' positions were used for casual staff and there was a risk related to the these positions being outside the main authority structure. Councillor N Wright commented that 'bucket' was an unfortunate term and appeared rather derogatory.

In relation to EC 2, Councillor T Wright stated that he was concerned about the lack of available land for inward investment. The Head of Assurance, Procurement and Projects said that this risk was more around the lack of developed sites rather than a lack of land. The local authority was conscious of the need to develop sites which were attractive for investment as developers would not now carry out works on a site and then invest. The Head of Financial Resources highlighted that, in addition to the Vaux site, the International Advanced Manufacturing Park was also being developed and a lot of work was being done to promote inward investment through this project.

Upon consideration of the report, it was: -

4. RESOLVED that the updated Corporate Assurance Map 2014/2015 be noted.

### **External Auditor – Audit Progress Report**

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to June 2014.

Gavin Barker, Senior Engagement Manager, informed the Committee that the early work in respect of the audit opinion and Value for Money conclusion was going well. Mazars' report highlighted some emerging issues including the proposed closure of the Audit Commission, Value for Money profiles, 2014/2015 work programme and scale of fees and rebates and future reductions.

The audit fee for Sunderland City Council had been confirmed as £179,562 for 2014/2015 and this was the same fee as both 2012/2013 and 2013/2014. The Audit Commission had also provided a 13.7% rebate to all authorities on the fees for the 2012/2013 audit.

Councillor Farthing commented that she had looked at the Value for Money profiles and found that these highlighted some of the issues which were currently being addressed by the Council and thought they might be of interest to all elected Members. The Head of Financial Resources stated that officers did review Value for Money profiles and took them to various bodies for consideration. It would be possible to hold a seminar for Members and highlight areas for review which would complement what had come out of the profiles.

The Head of Financial Resources added that this was included in the Members' induction programme and Councillor N Wright suggested that this might be tied in with scrutiny training which was currently being planned. It was also noted that the medium term financial planning context was provided to Members when the budget was being developed and Councillor Farthing proposed that the Value for Money profiles could be used as part of the lead up to that process.

Accordingly, the Committee: -

5. RESOLVED that the Audit Progress Report be noted.

### **Annual Report on the Work of the Committee 2013/2014**

The Head of Assurance, Procurement and Projects submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2013/2014 and the outcome of this work. The purpose of the report was to demonstrate how the Committee had fulfilled its role and would be presented to Council once it had been agreed by the Committee.

The report outlined the Committee's role and the matters which had been considered throughout the year including the Corporate Assurance Map, the annual review of the effectiveness of internal audit, progress reports from the external auditors and the review of the implementation of the Integrated Assurance Framework. The Committee's work in monitoring the Corporate Assurance Map and Treasury Management was also highlighted.

The Committee felt that the report provided a true reflection of their work throughout the year and it was: -

6. RESOLVED that the annual report of the Committee be approved and presented to the Council for their consideration.

### **Statement of Accounts 2013/2014 (Subject to Audit)**

The Head of Financial Resources submitted a report providing members with a certified copy of the Council's Statement of Accounts 2013/2014 (Subject to Audit) and the draft Letters of Assurance required by the external auditor as part of the final accounts process.

The Accounts, subject to audit, were required to be certified by the Relevant Finance Officer by 30 June of each year and once audited, needed to be approved by the Committee before 30 September each year in accordance with statutory requirements.

The Head of Financial Resources drew the attention of Members to her Foreword to the Accounts which was presented at pages 5 – 13 of the Statement of Accounts document. Group Accounts had been prepared for the first time and presented the financial statements for the Council and now also included the financial results of its

subsidiary arrangements; Care and Support Sunderland Limited, Sunderland Care and Support Limited and Sunderland Live Limited.

For the seventh consecutive year, Sunderland had set the lowest Council Tax level in the whole of the North East and had achieved an overall net saving of £8.6m for the year. This had been achieved as a result of reductions in debt charges and other savings in respect of the Council's improvement agenda, including controls on staffing and vacancy management, and good budget management across the Council. This had enabled the Council to earmark reserves of £3.6m for specific purposes in order to help mitigate future years' cost pressures on the revenue budget and to allocate the remaining £5.0m to support capital priorities in 2014/2015 and in future years, which had been agreed by Members.

The general reserve balance had been maintained at £7.570m and this was considered a prudent level. Schools balances had been reduced by £1.0m to £8.325m and these were fully committed and held in accordance with the appropriate regulatory powers.

The Head of Financial Resources drew Members' attention to the capital position outlined on page 11 of the Accounts and the major projects which the Council was undertaking. She also referred to the Local Asset Backed Vehicle and City Deal, which were additionally being progressed by the Council, and would make inroads into regenerating the city and its economy.

The overall financial health of the Authority was shown by the Balance Sheet on page 26 and in this context, the Head of Financial Resources confirmed that the Council remained financially resilient but continued to face a challenging financial position. Appendix D and E to the report had been circulated to Members at the meeting and these included high level notes which explained key issues within the financial statements and also aimed to make the Accounts, which were complex in nature, easier to understand.

Councillor T Wright asked if the Port Board accounts would be presented to the Committee. The Head of Financial Resources advised that the Port Board would receive the individual Port accounts for consideration and the position of the Port was incorporated within the Council financial statements with a brief summary of the port's financial position being outlined on page 95 of the notes to the Accounts.

Councillor T Wright went on to say that there seemed to be more and more partnership arrangements and he was concerned about the scrutiny of these bodies. The Committee were informed that related party transactions had to be shown within the Statement of Accounts and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 was adhered to in relation to the preparation of Group Accounts.

Mr Knowles noted the reference to 'the *aggressive* approach to reducing back office support costs' and queried the use of the word aggressive. He also asked if equal pay claims were appropriately provided for and queried if the interest rate assumptions were a little long.

The Head of Financial Resources acknowledged that 'aggressive' was possibly not the best term to use and would review this. She confirmed that adequate provision had been made for equal pay claims and that interest rates would be covered within the agenda item on Treasury Management.

Councillor N Wright highlighted that the Scrutiny Committee had been looking at the lines of accountability for the local authority companies and felt that this needed to be examined in more detail. The Head of Financial Resources advised that there were various performance management arrangements in place for the companies and finance officers received quarterly reports and the information was then passed through to the Cabinet. Councillor T Wright stressed the importance of these matters being made clear to Members within the Accounts so that questions could be asked where necessary.

Members having considered the Statement of Accounts, it was: -

7. RESOLVED that: -

- (i) the Statement of Accounts 2013/2014 (subject to audit) be noted;
- (ii) the contents of the Letter of Assurance from those charged with Governance be approved; and
- (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

### **Treasury Management Annual Review 2013/2014**

The Head of Financial Resources submitted a report outlining the Treasury Management borrowing and investment performance for 2013/2014.

The Committee received quarterly reports updating them on the performance of the Council's Treasury Management function and this report brought together all of the information which had been presented through the year.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate for Council borrowing at 3.47% was in the top quartile when benchmarked against other authorities. The rate of return achieved on investments was 1.03% for the year which was also in the top quartile against a benchmark rate of 0.35%. It had been a major challenge to continue to achieve these rates and this would only become more difficult in the year ahead.

Members were reminded of the basis of the Borrowing Strategy for 2013/2014 and that it had been reviewed by the Committee in June, September and December 2013. All external borrowing and investments undertaken in 2013/2014 had been subject to the monitoring requirements of the Prudential Code and the Council was currently within the limits set for all of its Treasury Management Prudential Indicators.

The Investment Strategy for 2013/2014 had been approved by the Council on 6 March 2013 and all investments placed in 2013/2014 had been in accordance with the prudent strategy agreed. The Council's Authorised Lending List and Criteria was regularly updated in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2013/2014 had been reported to Members as part of the quarterly Treasury Management reporting cycle.

8. RESOLVED that the positive Treasury Management performance for 2013/2014 be noted.

### **Treasury Management 2014/2015 – First Quarterly Review**

The Head of Financial Resources presented a report outlining the Treasury Management performance for the first quarter of 2014/2015. The report also detailed amendments which had been made to the Lending List Criteria and the Approved Lending List.

The Council's Treasury Management function continued to look at ways of maximising financial savings and increasing investment return to the revenue budget. One option for this was debt rescheduling but as rates had not been considered sufficiently favourable, no debt rescheduling had been possible so far in 2014/2015. The Council's interest rate on borrowing remained low at 3.55% and it remained in the top quartile for the cost of borrowing. The Assistant Head of Financial Resources advised that some borrowing had matured and a loan had been repaid but no further borrowing had been taken out which helped explain the small variation compared to the year end rate reported of 3.47%.

The rate of return on investments had dropped dramatically to 0.58% as a result of the more challenging market conditions which were being experienced and which had been highlighted in previous reports. The Assistant Head of Financial Resources stated that the authority still invested with special tranche rates and would try to achieve a higher return through negotiation where possible. Rates could move around unexpectedly and would increase, possibly sooner than expected, and the Council would invest over the short term to ensure that it was not caught out and could take advantage of future higher rates.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was within the limits set for all of these. Overall, Sunderland continued to be in a good position and outperformed its neighbours. It had a low risk and prudent Treasury Management policy which was predicated on the Government's guarantee for all UK based institutions and if this position changed then the Council's Treasury Management policy would have to be reviewed accordingly. It was possible that new Lending List Criteria would have to be drawn up if the Government's guarantee support scheme was withdrawn, which was rumoured could occur in the early part of next year, but any such changes would be brought back to the Committee for approval should this be required.

Upon consideration of the report, the Committee: -

9. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2014/2015 be noted; and
- (ii) the amendments to the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **Certification of Claims and Returns – Workplan 2013/2014**

The Head of Financial Resources submitted a report which presented the work which the Council's external auditors planned to carry out for all grant claims and returns made by the Council for the year 2013/2014.

Gavin Barker presented the work plan which set out the arrangements for certification of grants requiring an external audit opinion and he stated that the auditors had good working arrangements based on agreements between the Audit Commission and Government departments.

It was highlighted that there were a reducing amount of claims which were required to have external certification and the majority of these were now reviewed and certified internally. The Housing Benefit grant claim was the one remaining claim which was subject to external audit and due to the reduction in the work required, the scale fee had been reduced accordingly from £15,600 to £12,412.

There was now a requirement for further work to be carried out for the Council in respect of its Section 256 agreements. The Audit Commission had also made a late decision to remove the Teachers Pension Return from the list of those requiring external review but it was unclear whether the Teachers Pension Agency would require a separate certification. The cost of the additional work had not yet been agreed and would need to be negotiated with Mazars if required.

10. RESOLVED that the contents of the report be noted.

### **Tyne and Wear Economic Development Joint Committee – Audited Annual Return and Accounts 2013/2014**

The Head of Financial Resources submitted a report reporting on the communications received from the External Auditors concerning the financial statements of the Joint Committee for 2013/2014 and providing the Audited Statement of Accounts and Annual Return for 2013/2014.

The Tyne and Wear Economic Development Joint Committee had ceased to exist from 1 April 2014 and had held its final meeting on 31 March 2014. At this meeting, the draft Accounts for the year 2013/2014, subject to audit, had been approved and it was agreed that the Lead Authority (Sunderland City Council) would ensure that the

final audited set of accounts and the Annual Return for 2013/2014 would be scrutinised and approved in accordance with the applicable statutory requirements.

The Council had been allocated funds to settle the external auditor's fees, recognising that the Joint Committee would cease to exist from 1 April 2014.

The Head of Financial Resources referred Members to the Notes to the Accounting Statements and the distribution of funds to each of the constituent authorities. The income and expenditure and balance sheet for the Joint Committee were outlined on pages 160 and 161 and showed that there were no funds remaining. It was also pointed out that the Accounts had been audited and that there were no adjustments to the Accounts or any matters that the auditors wished to raise with Members.

11. RESOLVED that: -

- (i) it be noted that the External Auditor, BDO LLP (Chartered Accountants) had issued an unqualified audited Annual Return; and
- (ii) as Lead Authority, the unadjusted and audited Statement of Accounts for the financial year ended 31 March 2014 be approved.

#### **Joint Committee for the North of England Open Air Museum – Audited Annual Return and Accounts 2013/2014 (Subject to Audit)**

The Head of Financial Resources submitted a report providing the Statement of Accounts and Annual Return (Subject to Audit) for the Joint Committee for the North of England Open Air Museum for 2013/2014.

Members of the Joint Committee had agreed to disband the Committee in July 2013 and this decision was ratified and approved at its final meeting held on 28 March 2014. At this meeting it was also agreed that the Statement of Accounts and Annual Return for 2013/2014 would be scrutinised and approved in accordance with the applicable statutory requirements by the financial lead authority (Sunderland City Council) on behalf of the Joint Committee.

The Joint Committee's external auditors, BDO LLP (Chartered Accountants) were required to issue their audit report on the final accounts by 30 September of each year, but could only commence this work once the Committee had formally approved the Annual Return and the appropriate statutory notice of inspection of the Annual Return had been given to the residents of Tyne and Wear.

12. RESOLVED that, as Lead Authority, the Statement of Accounts and Annual Return for the financial year ended 31 March 2014 be approved.

## **Current Developments**

The Head of Assurance, Procurement and Projects delivered a presentation to the Committee providing an overview of the current developments within the Council and his view of the possible future direction of the Authority.

The Committee was reminded of the Council's drive to become a Community Leadership Council with elected Members at the centre, working with and through partners to ensure that needs in the city were being met, not just by the Council but through other vehicles. This presented the Council as an enabler rather than a provider.

The Council's priorities for the City under this were Economy, Education and Skills and Health and Wellbeing. It was clear that the economy of the city needed to grow, employment needed to grow and there needed to be more high quality jobs created. This theme had a primacy and was driven by the Economic Leadership Board but all of the priorities had major implications.

The Education Leadership Board was looking at aligning education and skills to the future needs of business and the Health and Wellbeing Board was focused on better health generally and having residents who were better placed to take up work. This also had a financial benefit as well as it being a moral obligation to promote the wellbeing of people in the city.

The Head of Assurance, Procurement and Projects highlighted significant changes which had already taken place or may happen in the future. These included the establishment of Sunderland Live Limited and Sunderland Care and Support Limited, the Local Asset Backed Vehicle, the Customer Service Network and Leisure Joint Venture. Possible future developments were an ICT review, move towards mutualisation, shared services and more workforce reductions.

From an audit perspective, changes in the Council would change the nature of risk in the organisation. There was less resilience in the organisation due to the Council being smaller than it was in the past and not able to respond in the same way and these risks needed to be managed.

The Chair thanked the Head of Assurance, Procurement and Projects for a very interesting and useful summary. Councillor Farthing suggested that changes to pensions could be added to the list of significant changes as there was an ongoing consultation relating to changes to the Local Government Pension Scheme.

The Head of Financial Resources commented that of the implications of pension changes would be taken into account within financial planning assumptions. The authority needed to plan on the basis of further significant resource reduction and the consequential changes in the way the Council needed to consider future service delivery.

Councillor T Wright highlighted the risk that Members had not received a report on schools which were becoming academies and the impact that this was having on the Council and its staff. He also noted that Gentoo were debating a change to their

governance structure and the potential impact on the Council and queried if the Authority was happy with the reserve which had been set aside for equal pay.

The Head of Financial Resources from a financial perspective, the impact of academies was taken into account in the budget planning process and reported accordingly through the Cabinet. In addition, prudent arrangements had been made for equal pay.

It was noted that Gentoo was a registered housing provider, not a charity, and proposals for change were to maximise Gentoo's tax position. This would not have a financial impact on the Council.

Having thanked the Head of Assurance, Procurement and Projects for his presentation, the Committee:-

13. RESOLVED that the information be noted.

(Signed) G N COOK  
Chair



**AUDIT AND GOVERNANCE COMMITTEE**

**26 September 2014**

**THE CHANGING ROLE OF THE LOCAL AUTHORITY IN IMPROVING  
EDUCATIONAL OUTCOMES**

**Report of Associate Director – Education**

**1. Purpose of the Report**

1.1 This report provides an update on:

- the changing role of the local authority, including its relationship with schools, within an increasingly autonomous education and training system;
- progress made by the Education Leadership Board in developing an Education and Skills strategy for the city.

**2. Background and Context**

2.1 Like all local authorities in England, the City Council has the strategic lead for the education of children and young people in Sunderland. This includes a legal duty to ensure that every child fulfils his or her educational potential.

2.2 In addition, a key element of the Council's community leadership role is to ensure that everyone who lives, learns or works in the city has access to the best possible provision and achieves the best possible outcomes. This is reflected in the current Corporate Plan, which states that the Council's purpose is to "ensure Sunderland is a place where people can fulfil their ambitions and potential".

2.3 The 1996 Education Act places a duty on all local authorities "to promote high standards and fulfilment of potential" for everyone up to the age of 20 (25 for those with special needs). This is the statutory basis for Ofsted inspections of local authority arrangements for supporting school improvement. However, in order to fully discharge this duty, the Council's role extends beyond schools to the wider education and training system.

2.4 Further statutory duties relate specifically to the provision of services for vulnerable children and children with special educational needs (SEN). The Council also continues to be responsible for ensuring that there are sufficient good quality school places available and that there is fair access to these places.

2.5 Over the past 25 years there has been a gradual shift of power and responsibility from local authorities to schools. The policy of the current

government is to further “increase freedom and autonomy for all schools, removing unnecessary duties and burdens, and allowing all schools to choose for themselves how best to develop”. The ambition is to enable every school that wishes to enjoy greater freedom to achieve Academy status, and the direction of travel is “towards schools as autonomous institutions collaborating with each other on terms set by teachers, not bureaucrats”.

2.6 Academies are publicly funded independent schools. They do not have to follow the national curriculum and can set their own term times, but they are still required to follow the same rules on admissions, special educational needs and exclusions as other state schools. Academies receive their funding direct from the government, and they are run by an academy trust which employs the staff. A Free School has exactly the same legal status as an academy but can be set up by a range of different types of organisation.

2.7 Of the 115 publicly funded schools in Sunderland, the current breakdown of the different types of school is as follows:

	Community	Voluntary Aided	Voluntary Controlled	Academy	Free School	Totals
Nursery	9					9
Primary	48	15	1	18	1	83
Secondary	4	1		12	1	18
Special	3			4		7
<b>Totals</b>	<b>64</b>	<b>16</b>	<b>1</b>	<b>34</b>	<b>2</b>	<b>117</b>

NOTE: As Grindon Hall Christian School and Academy 360 have both primary and secondary classes, they have been counted twice.

2.8 Despite the significant changes in the educational landscape, many of the relationships and expectations between the Council and schools are historically based and do not always reflect their increased autonomy. There is still a tendency amongst some officers and members to be overly paternalistic towards schools, and some schools are still heavily dependent on support from the local authority.

### 3. The role of the local authority

3.1 Over the past few months, work has been undertaken to redefine the role of the Council to reflect both its Community Leadership role and its remaining statutory duties. The following key elements have been identified:

- Principled leader**  
 Strong system leadership with a clear moral purpose. Bringing together key partners to determine a vision and strategy for the City, and then holding them to account for their contribution to the achievement of the City’s priorities. This encompasses all schools and learning providers, regardless of their status and governance arrangements.
- Champion and advocate**  
 Acting as the champion of and advocate for all children, young people and families – especially the most vulnerable and those with special

needs. Ensuring that everyone, regardless of where they live in the City and their personal circumstances, is benefitting from high quality provision that meets their needs and enables them to achieve their potential.

- **Partnership enabler**  
Facilitating and brokering effective partnerships for the benefit of children, young people, families and employers. Creating the conditions whereby partners can work together in a way that is mutually beneficial. This includes school-to-school support, cross-sector arrangements, education-business links and an integrated approach to supporting the most vulnerable.
- **Broker for high quality services**  
Ensuring schools have access to high quality, affordable services that enable them to meet their obligations and improve the quality of their provision. This might involve developing strategic relationships with service providers, supporting groups of schools to commission services and acting as the “expert broker” when schools require specialist support.
- **Intelligence hub**  
The capacity to collect, collate and analyse hard data and soft intelligence in order to maintain an overview of performance, detect emerging trends and pick up early warnings, and to inform the way in which the Council acts. This includes maintaining an overview of school governance so that the Council can intervene when concerns arise.
- **Planning authority**  
Ensuring there are sufficient good quality school places and that there is fair access to them. Ensuring provision is being planned to meet the skill needs of the local and regional economy.

3.2 In order to provide leadership in this way, the Council will have to take full advantage of its democratic mandate and not solely rely on statutory powers. The issues that need to be addressed include:

- Our relationship with schools, the College, the University and other learning providers in order to discharge the Council’s role;
- Our strategic relationships with DfE, Ofsted, the diocese, academy trusts and governing bodies to ensure we are all working together effectively (given that they have powers of intervention that we no longer have);
- The internal systems and structures that need to be in place discharge these functions in a way that is effective, affordable and sustainable;
- Mechanisms for enabling Members to help strengthen the local accountability of schools and to share local intelligence;
- The potential conflicts of interests and divided loyalties that can arise when Members are also school governors, which is particularly an issue in academies where the governors are also trustees and company directors;
- The appropriateness of continuing to act as co-sponsors of the three original sponsored academies (Academy 360, Castle View, Red House), although Red House has already transferred to Northern Education Trust.

3.3 This redefined role and the associated issues were discussed by the Joint Leadership Team on 4<sup>th</sup> September 2014 and will form the basis of a policy statement that will be submitted for Cabinet approval later in the year.

#### **4. The Education and Skills Strategy**

4.1 An Education Leadership Board was established in 2012, under the chairmanship of local businessman John Mowbray, to develop an Education and Skills Strategy for the city to sit alongside the Economic Masterplan and the Health and Wellbeing Strategy. The Board constitutes representatives from early years settings, schools, Sunderland College, the University of Sunderland, the Sunderland Learning Provider Network, local employers and other interested parties. It currently meets on a monthly basis, with the most recent sessions being run as workshops rather than as formal board meetings. The frequency and style of meeting is likely to change once the strategy has been completed.

4.2 Following much debate, a strong consensus has eventually emerged on the strategic priorities for Sunderland and a draft strategy is currently being finalised, based on the three key themes of:

- **Ready for school**

Providing all children with the experiences and environments that support their physical, social, emotional, language, literacy and cognitive development – and ensuring that they reach school age ready to benefit from the opportunities provided.

- **Ready for work**

Ensuring that all children, young people and adults benefit from high quality learning that enables them to acquire the skills, personal qualities and qualifications they need to progress into sustainable employment within a rapidly changing economy.

- **Ready for life**

Preparing children, young people and adults to fill a variety of roles – as workers, parents, citizens and consumers – and empowering them to take full advantage of all the opportunities life presents and to be adaptable and resilient in the face of life's challenges and crises.

4.3 A final draft of the strategy was presented to the Education Leadership Board on 15<sup>th</sup> September 2014 and work is now underway to develop a delivery plan. A launch date has not yet been agreed, but we expect the strategy to be published in November 2014. We will then be inviting all the key players in the city's education and training system, including schools and employers, to adopt the strategy and to identify the specific contributions that they will make to achieving improved outcomes.

#### **5. Recommendation**

The Committee is recommended to note the report.

**AUDIT AND GOVERNANCE COMMITTEE**

**26 September 2014**

**TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2014/2015**

**Report of the Head of Financial Resources**

**1. Purpose of Report**

- 1.1 To report on the Treasury Management (TM) performance for the second quarter of 2014/2015.

**2. Description of Decision**

- 2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 2 of 2014/2015.
- Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

**3. Introduction**

- 3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2014/2015, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

**4. Review of Treasury Management Performance for 2014/2015 – Quarter 2**

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. There was a large fall in PWLB borrowing rates in July and August as investors sought lower risk investment options following the escalation of the conflict in Ukraine and expectations of further banking interventions within the Eurozone. As PWLB rates were at a historically low level, it was decided to take advantage of these rates, to support the Council's Capital Programme requirements, and borrow £20m. This will help to keep the Council's interest rate on borrowing at its low level and will benefit the Council's revenue budget over the longer term.
- 4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2014/15 as rates have not been considered sufficiently favourable. It should be noted the Council's interest

rate on borrowing is very low, currently 3.42%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Performance continues to see the Council's rate of borrowing in the lowest quartile as compared to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £440.123m for 2014/2015. The Council's maximum borrowing position at 12<sup>th</sup> September 2014 was £217.488m and is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.
- 4.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 12<sup>th</sup> September 2014, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.70% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.35%. Performance is positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market at the moment.
- 4.6 The rate of return on investments as previously reported has remained at very low levels compared to previous years, mainly due to UK-based financial institutions having accessed funding from alternative sources (such as the Government's Funding for Lending Scheme) to increase their capital/cash reserves in line with regulatory requirements. Consequently demand for local authority funds and investment rates have reduced and there is little prospect of an upturn until the Bank of England begin to increase the base rate. Even special tranche investment rates (which offer better than market average returns) have followed this downward trend. The implication is that returns on investments will be below those achieved in recent years.
- The prospect of a base rate rise early next year however, means that rates are being carefully monitored and that mainly short-term investments are currently being made so that the council can take full advantage of the expected increase in rates when it does occur.
- 4.7 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List as shown in Appendix C.

4.9 In accordance with Treasury Management Best Practice, a risk analysis of the Treasury Management functions has been carried out and included at Appendix D for information. This sets out how the Council manages the risks associated with the Treasury Management function.

**5. Recommendation**

5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2014/2015.

5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.



## Detailed Treasury Management Performance – Quarter 2 2014/2015

### A1 Borrowing Strategy and Performance – 2014/15

A1.1 The Borrowing Strategy for 2014/2015 was reported to Cabinet on 12<sup>th</sup> February 2014 and approved by full Council on 5<sup>th</sup> March 2014.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2014, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until March 2016 before steadily rising to 1.25% by March 2017 and that PWLB borrowing rates would increase during 2014/2015 across all periods.

Comments from the Governor of the Bank of England suggest it is wavering in its view on the timing of any increase to the current 0.50% Bank Rate which has added to the volatility in the markets. Financial markets have now pushed back their expectation on an interest rate rise from late 2014 to the first quarter of 2015, a view shared by the Council's economic advisers, Capita Asset Services. Other economic forecasters believe rates will not increase before the May 2015 General Election, citing depressed wage inflation relative to overall inflation as a strong reason for the Bank to hold back. They argue a rate rise would increase prices and hit workers who have not seen any significant increase in earnings, which in turn could hamper continued economic growth.

Forecasts for PWLB interest rate levels have fallen slightly with benchmark rates of 2.7% for 5 years, 3.4% for 10 years and 4.0% for 25 and 50 years. There are significant geopolitical risks and risks from the Eurozone so all interest rate forecasts at the current time should be viewed with caution. However, the general expectation for an eventual trend of gently rising gilt yields and PWLB rates remains unchanged. Recent safe-haven flows into gilts have depressed gilt yields and PWLB rates, which the Council has taken advantage of. Geopolitical events make forecasting PWLB rates highly unpredictable in the shorter term and these fears could subside with rates returning to previous levels over the coming quarters.

The following table shows the average PWLB rates for Quarters 1 and 2 to date.

<b>2014/2015</b>	<b>Qtr 1* (Apr - Jun) %</b>	<b>Qtr 2* (Jul – 12 Sept) %</b>
7 days notice	0.35	0.35
1 year	1.29*	1.43*
5 year	2.66*	2.70*
10 year	3.56*	3.45*
25 year	4.22*	4.04*
50 year	4.18*	4.01*

\*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1<sup>st</sup> November 2012.

A1.2 The strategy for 2014/2015 is 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 5.00% for long-term borrowing was set for 2014/2015. Recent volatility in the financial markets has seen considerable movement of funds into gilts with a resulting fall in gilt yields and PWLB rates. PWLB rates for 50 year maturity loans reduced from a highpoint of 4.20% on 7th July to a lowpoint of 3.72% on 29th August and has seen some significant fluctuations especially in the last 2 months in particular. Investors have sought safer investment options following the conflict in Ukraine and more recently expectations of further financial support measures within the Eurozone. In line with discussions with the Council's economic advisors, the Council has sought to take advantage of the low borrowing rate troughs that occurred over this period, which will benefit the revenue budget over the longer term. As a result the Council has taken out £20 million of new borrowing during the quarter as these rates were considered opportune at different stages during the period. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	08/08/2014	12/08/2014	12/08/2064	3.84	10.0
50 years	29/08/2014	02/09/2014	02/09/2064	3.72	10.0

Since taking out this new borrowing, rates have gradually risen with the corresponding 50 year loan rate standing at 3.94% as at 12<sup>th</sup> September 2014.

- A1.3 The Borrowing Strategy for 2014/2015 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2014/2015 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1<sup>st</sup> November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31<sup>st</sup> October 2015.

- A1.4 The Council's treasury portfolio position at 12<sup>th</sup> September 2014 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
<b>Borrowing</b>				
Fixed Rate Funding	PWLB	147.9		
	Market	39.6		
	Other	2.4	189.9	3.86
Variable Rate Funding	Temporary / Other		27.6	0.41
<b>Total Borrowing</b>			<b>217.5</b>	<b>3.42</b>

## A2 Treasury Management Prudential Indicators – 2014/2015

A2.1 All external borrowing and investments undertaken in 2014/2015 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2014/2015 as follows:

	<b>£m</b>
Borrowing	410.945
Other Long-Term Liabilities	<u>29.178</u>
<b>Total</b>	<b><u>440.123</u></b>

The Operational Boundary for External Debt was set as shown below:-

	<b>£m</b>
Borrowing	302.575
Other Long Term Liabilities	<u>29.178</u>
<b>Total</b>	<b><u>331.753</u></b>

The maximum external debt in respect of borrowing in 2014/15 (to 12<sup>th</sup> September 2014) was £217.488 million (which includes borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority but excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments) and is well within the borrowing limits set by both of these indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		2014/2015 (to 12/09/14)	
		Limit £'000	Actual £'000
<b>P10</b>	<b>Upper limit for fixed interest rate exposure</b> Net principal re fixed rate borrowing / investments	250,000	90,181
<b>P11</b>	<b>Upper limit for variable rate exposure</b> Net principal re variable rate borrowing / investments	60,000	-26,785
<b>P12</b>	<b>Maturity Pattern</b> Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods	Upper Limit 50% 60% 80% 100%	19.57% 0.66% 4.60% 81.27%
<b>P13</b>	<b>Upper limit for total principal sums invested for over 364 days</b>	75,000	0

### A3 Investment Strategy – 2014/2015

A3.1 The Investment Strategy for 2014/2015 was approved by Council on 5<sup>th</sup> March 2014. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 12<sup>th</sup> September 2014, the funds managed by the Council's in-house team amounted to £214.752 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	<b>2014/2015 Actual to 12/09/14 %</b>	<b>2014/2015 Benchmark to 12/09/14 %</b>
Return on investments	0.70	0.35

A3.3 Investments placed in 2014/2015 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, that is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at historically low levels.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions for shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk because the government holds shares in these organisations (i.e. Lloyds and RBS) which have a AA+ rating applied to them, or in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List is shown in Appendix C and has been updated with notified changes to credit ratings.

**Counterparty Criteria**

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

<b>Fitch / S&amp;P's Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P's Short Term Rating</b>	<b>Moody's Long Term Rating</b>	<b>Moody's Short Term Rating</b>	<b>Maximum Deposit £m</b>	<b>Maximum Duration</b>
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					90	2 years
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
<b>Local Authority controlled companies</b> (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with \* in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

### Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	40

### Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

### Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Viability	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
<b>UK</b>	AA+	-	-	-	Aa1	-	-	AAA	-	350	2 years
<b>Lloyds Banking Group</b> (see Note 1)										<b>Group Limit 90</b>	
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2	90	2 years
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1	90	2 years
<b>Royal Bank of Scotland Group</b> (See Note 1)										<b>Group Limit 90</b>	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2	90	2 years
National Westminster Bank Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa3	P-3	E+	BBB+	A-2	90	2 years
<b>Santander Group *</b>										<b>Group Limit 40</b>	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

## Appendix C

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Viability	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
Nationwide BS *	A	F1	a	1	A2	P-1	C	A	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	40	364 days
Clydesdale Bank / Yorkshire Bank **/**	A	F1	bbb+	1	Baa2	P-2	D+	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-	0	
<b>Top Building Societies (by asset value)</b>											
Nationwide BS (see above)											
Yorkshire BS ***	BBB+	F2	bbb+	5	Baa1	P-2	C-	-	-	0	
Coventry BS	A	F1	a	5	A3	P-2	C	-	-	5	6 Months
Skipton BS ***	BBB-	F3	bbb-	5	Ba1	NP	D+	-	-	0	
Leeds BS	A-	F2	a-	5	A3	P-2	C	-	-	5	6 Months
West Bromwich BS ***	-	-	-	-	B2	NP	E+	-	-	0	
Principality BS ***	BBB+	F2	bbb+	5	Ba1	NP	D+	-	-	0	
Newcastle BS ***	BB+	B	bb+	5	-	-	-	-	-	0	
Nottingham BS ***	-	-	-	-	Baa2	P-2	C-	-	-	0	
<b>Foreign Banks have a combined total limit of £40m</b>											
<b>Australia</b>	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Viability	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
<b>Canada</b>	AAA	-	-	-	Aaa	-	-	AAA	-	40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	10	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA				Aaa			AAA		40	Liquid
Insight Liquidity Fund	AAA							AAA		40	Liquid
Ignis Sterling Liquidity	AAA							AAA		40	Liquid
Deutsche Managed Sterling Fund	-	-	-	-	Aaa	-	-	AAA	-	40	Liquid

## Notes

### Note 1

#### **Nationalised / Part Nationalised**

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

\* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme  
The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

\*\* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

\*\*\* These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.



## Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
<p><b>1. Strategic Risk</b></p> <p>The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.</p>	<p>This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Head of Financial Resources view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Capita Asset Services).</p> <p>The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.</p>
<p><b>2. Interest Rate Risk</b></p> <p>The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.</p>	<p>The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy.</p> <p>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Head of Financial Resources' own view of the financial markets, specialist expert advice, other information from the internet, the Financial Times, other domestic and international economic data, published guidance and Government fiscal policy .</p> <p>A pro-active approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.</p>

## Risk

## Controls

### 3. Exchange Rate Risk

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk.

This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.

### 4. Inflation Risk

There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.

Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance.

Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.

### 5. Counterparty Risk

The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.

The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited.

The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement.

The Head of Financial Resources has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

## **Risk**

## **Controls**

The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, the Financial Times, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.

### **6. Capital Financing and Refinancing Risk**

There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.

The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required.

PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted.

### **7. Statutory and Regulatory Risk**

There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.

The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council.

### **8. Treasury Management Arrangements Risk**

There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.

This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well established Treasury Management team that operates under the Head of Financial Resources and is staffed appropriately with a good mix of both well experienced and qualified staff.

Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.



**AUDIT AND GOVERNANCE COMMITTEE**

**26 September 2014**

**AUDITED STATEMENT OF ACCOUNTS 2013/2014**

**Report of the Head of Financial Resources**

**1.0 PURPOSE OF REPORT**

- 1.1 To present the Letter of Representation for 2013/2014, to receive the Audit Completion Report received from Mazars LLP concerning the financial statements for 2013/2014 and which also provides their opinion on both the Authority's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).
- 1.2 To provide an audited Statement of Accounts for 2013/2014. This has been revised to take into account the auditor's findings, for approval by members of the Committee. A complete list of the amendments will be provided to members at the meeting for information.

**2.0 DESCRIPTION OF DECISION**

- 2.1 Members are recommended to:
  - 2.1.1 Note the contents of the Letter of Representation - **Item 6 (i)**
  - 2.1.2 Note the contents of the Audit Completion Report - **Item 6 (ii)** provided by Mazars LLP.
  - 2.1.3 Approve the Amended Audited Statement of Accounts for the financial year ended 31<sup>st</sup> March 2014 - **Item 6 (iii)**.

**3.0 BACKGROUND**

- 3.1 Mazars LLP, who are the Authority's external auditors, are required to report on the final accounts, and report other certain matters to Members prior to an opinion being provided on the Authority's accounts.
- 3.2 A Letter of Representation has to be prepared by the Head of financial Resources which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by regulation (this is shown as **Item 6 i** on the agenda).

- 3.3 Mazars LLP has audited the financial statements of the Authority in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 3.4 Once the Audit and Governance Committee has noted the contents of this communication, Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31<sup>st</sup> March 2014.
- 3.5 In line with Auditing standards, Mazars LLP produces an Audit Completion Report, in which the auditor's opinion is that the financial statements present a true and fair view of the financial position of the Authority as at 31<sup>st</sup> March 2014 and its income and expenditure for the year then ended. The Audit Completion Report 2013/2014 is included as **Item 6 ii** on the Agenda.
- 3.6 The Statement of Accounts 2013/2014 has been amended to reflect a few minor adjustments following the audit. The revised Statement of Accounts 2013/2014 is set out at **Item 6 iii** on the agenda for approval. At the request of the Committee previously, a summary guide to the financial statements is to be tabled (Appendix A), which will set out the key messages from the financial statements in a more easy to understand format.
- 3.7 This communication is in addition to the Annual Audit Letter, which will continue to be presented to Cabinet, the Audit and Governance Committee and Council annually.

#### **4.0 KEY MESSAGES**

- 4.1 The full communication is included in the Audit Completion Report. The report is very positive and in summary shows that:
- the external auditors propose to issue an unqualified audit opinion;
  - most non-trifling misstatements have been adjusted by management and those not adjusted are set out with reasons accepted by the auditor in his Annual Audit Report;
  - the external auditors have not identified any material weaknesses in the accounting and internal control systems;
  - the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Council's financial reporting and reference is also made in the Letter of Representation but these are not considered to be significant;
  - the external auditors have not identified any matters required by international auditing standards that should be communicated to Members;
  - the external auditors have not identified any other relevant matters relating to the audit that need to be brought to Members attention;

- the external auditors have reported that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and propose to issue an unqualified value for money conclusion in respect of 2013/2014.
- 4.2 On the basis of the amendments agreed with the external auditors, Mazars LLP will formally provide an opinion on the amended Statement of Accounts, on or before the 30<sup>th</sup> September statutory deadline, by which time the Council is required to publish its Audited Statement of Accounts for 2013/2014.



Mr M Kirkham  
Engagement Lead (Director)  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Date: 26<sup>th</sup> September 2014  
Our ref: CFA/DDN  
Your ref:

Dear Mark,

**Sunderland City Council – Letter of Representation for the year ended  
31<sup>st</sup> March 2014**

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

**My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet, Council and Committee meetings, have been made available to you.

### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise there-from.

## **Fraud and error**

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

## **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

## **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

## **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

## **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter.

Yours faithfully

Sonia Tognarelli  
Head of Financial Resources

## Schedule of unadjusted misstatements

### Unadjusted misstatements 2013/14

	CIES		BS	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
1 Dr Financing and investment income and expenditure	362			
Cr NCOS (Education £170k and Highways and Transport £192k)		362		

Being an estimated error in the presentation of additional interest payable on PFI schemes (net nil impact on the Deficit on Provision of Services).

The above figure is estimated, and the maximum error possible is £700k.



**AUDIT AND GOVERNANCE COMMITTEE**

**26 September 2014**

**CORPORATE ASSURANCE MAP – UPDATE**

**Report of the Head of Assurance, Procurement and Projects**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control, and the performance of Internal Audit.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility; this is a matter for the bodies concerned.

**2. Description of Decision**

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

**3. Background**

- 3.1 In March 2014 the Committee approved the proposed Corporate Assurance Map for 2014/15 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

**4. Updated Corporate Assurance Map**

- 4.1 The updated Corporate Assurance Map, as at 31<sup>st</sup> August 2014, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.

## Corporate Assurance Map

Assurance Position (as at 31 <sup>st</sup> August 2014) (Cumulative)		2014/15										
		1 <sup>st</sup> Line	2 <sup>nd</sup> Line							3 <sup>rd</sup> Line		
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance	
	Current Risk	Residual Risk	Legal Services	Financial Resources	Programmes and Projects	Strategy, Policy and Performance	ICT	HR & OD	Business Continuity	Risk and Assurance		
<b>Strategic Risk Areas</b>												
	People									X		
	Place									X		
	Economy									X		
	Organisational			X						X		X
<b>Corporate Risk Areas</b>												
	Customer Focus / Service		X			X				X	X	
	Legality		X							X		
	Service / Business Planning		X			X				X	X	
	Programme and Project Management		X		X					X	X	
	Partnerships		X							X	X	
	Business Continuity Planning		X						X	X	X	
	Procurement		X							X	X	
	Relationship and Contract Management		X							X	X	
	Financial Management		X	X						X	X	X
	Human Resource Management		X					X		X	X	
	Information Governance		X	X						X	X	
	Performance Management		X			X				X	X	
	Asset Management		X							X		
	ICT Strategy and Delivery						X			X	X	
	Fraud and Corruption		X								X	
	Risk Management (Service Delivery)		X							X	X	
	Schools		X	X						X	X	

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

## Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile is attached at Appendix 1. Given the longer term nature of these risks the current risk rating is shown (i.e. what would be the level of risk if no actions were taken to manage the risks), and the residual risk level (i.e. the level of risk taking into account ongoing actions and planned actions). The current risk ratings have been updated with EMT. This has resulted in a change to the rating for risks PE1 and EC2. Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

## Assurance from Internal Audit

- 4.3 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. Appendix 2 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level.

## Assurance from Risk and Assurance Team

- 4.4 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:

- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Leisure Services review, Sunderland Care and Support Ltd and the Tyne and Wear Care Alliance.
- Providing assurance on the delivery of the Transformation Programme and Key Projects.
- Procurement Phase of the New Wear Crossing.
- Planning for the implementation of the City Deal.
- Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).
- Risks in relation to the delivery of ICT business objectives.
- Mobilisation phase of the Intelligence Hub
- Implementation of the new Care Act and Children and Families Act.
- Supporting the delivery of the Workforce Planning project to help Heads of Service achieve their efficiency targets.

4.5 In March 2014, it was reported that the level of assurance from the Risk and Assurance team relating to ICT strategy and delivery was limited. Assurance work has continued in this area to ensure the issues are being addressed. It is pleasing to report that the overall assurance level from the Risk and Assurance team has now been raised from limited to moderate due to the improvements made by the ICT Unit. In particular, significant improvements have been made in the following areas:

- Improvement in the environmental controls of the Data Centre at Moorside has moved the assurance level from Amber to Green.
- Electronic data security which has raised the assurance level from Amber to Green.
- Implementation of the actions agreed with Internal Audit regarding the management of ICT equipment has moved the assurance level to Green.

ICT are continuing to improve the arrangements in place.

#### Assurance from others within the Council

4.6 Assurance provided from others within the Council is shown in the Corporate Assurance Map.

4.7 Assurance from the ICT Unit in relation to the ICT arrangements across the Council will be sought in the future. Recent activity has concentrated on improving the areas previously highlighted to the Committee.

#### Assurance from Management

4.8 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

#### Assurance from External Sources

4.9 The Map includes the results of a recent independent review of the Children's Safeguarding Service, commissioned by the Council. The review acknowledged that this is a time of significant challenge for children's safeguarding services both locally and nationally. The review identified a number of areas of good practice; however it also highlighted a number of areas of concern which have impacted on the Corporate Assurance Map. Although the review has not affected the overall assurance levels of any of the key risk areas, the impact on the external assurance column can be seen.

The review focussed on leadership and culture, partnership working and effectiveness of practices, systems and processes. Recommendations were made to improve arrangements in relation to:

- Quality of assessments
- Identification and management of risk
- Local communication
- Consistent application of thresholds
- Consistent and effective case management
- Consistent and effective casework supervision
- Consistent and effective case audit
- Effective implementation of self-serve business support model
- Recruitment and retention.

As part of the review managers, staff and partners showed a commitment to change and improve this complex service area. In response the Council is finalising an Improvement Plan, which is being developed with the input of appropriate officers from across the Council, not just from within the Children’s Safeguarding Service. The Risk and Assurance team have been involved and will continue to provide support. The Chief Operating Officer from People Services will provide an update to Members at the committee meeting to provide more detail on the actions being taken. This will also be considered as part of the refresh of the Strategic Risk Profile.

Overall

4.10 The overall assurance levels remain the same.

**5. Internal Audit Performance**

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is on target for all KPI’s apart from the percentage of medium risk recommendations implemented (excluding schools) which now stands at 85%. This is an improvement on the position since the last committee meeting, which was 82%

A summary of the performance by directorate for medium risk recommendations is shown below:

Directorate / Body	Implementation Rate
People	82%
Office of the Chief Executive	81%
Commercial and Corporate Services	93%
<b>Implementation Rate (exc. Schools)</b>	<b>85%</b>
Schools	85%
<b>Total Implementation Rate</b>	<b>85%</b>

## **6. Conclusions**

- 6.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.
- 6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

## **7. Recommendations**

- 7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

## Strategic Risk Profile

### People

#### Desired Outcomes

A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing

A city with high levels of skills, educational attainment and participation

A city which is, and feels, even safer and more secure

A city that ensures people are able to look after themselves wherever possible

Risk Description	Risk Owner	Original Score LxI	Current Score Sept 2014 LxI	Mitigation and progress to reduce current score	Residual Score LxI
<p><b>PE 1</b> Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures</p>	Neil Revely, ED of People Services	3x4 = 12	2x4 = 8	<ul style="list-style-type: none"> <li>Implement the Health and Wellbeing Strategy to:               <ul style="list-style-type: none"> <li>Target prevention and early intervention</li> <li>Build capacity and reduce dependency to help individuals to be more independent and self-sustaining</li> </ul> </li> <li>Manage demand by empowering customers to take up viable alternatives to council services</li> <li>Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Newly created Health and Wellbeing Board have taken responsibility for delivering the Health and Wellbeing Strategy</li> <li>Delivery plan for the Health and Wellbeing Strategy in development</li> <li>Continuing to integrate approach. Consideration being given to an integrated commissioning approach with Health</li> <li>Joint Strategic Needs Assessment completed and signed off by the Health and Well Being Board</li> <li>People Services plan on a page in place</li> <li>Planned savings on target for 2014/15</li> <li>Creation of the Better Care Fund</li> </ul>	2x4 = 8

Risk Description	Risk Owner	Original Score LxI	Current Score Sept 2014 LxI	Mitigation and progress to reduce current score	Residual Score LxI
<b>PE 2</b> We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>As a Community Leadership Council we will strengthen self-help capacity in our communities</li> <li>Deliver the Voluntary Community Sector Relationship Transition project</li> <li>Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance</li> <li>Through the “PEOPLE” strand of communications deliver an integrated campaign, which encourages people to help themselves</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Continuing to develop the approach to being a Community Leadership Council</li> <li>VCSTR project complete, it developed an approach that aligns engagement with the VCS and day to day service delivery</li> <li>Community Resilience Plan adopted by Sunderland Innovation Group (part of Sunderland Partnership) in November 2013. Still needs to be implemented across all partners. Arrangements for monitoring of progress and effectiveness need to be developed.</li> </ul>	1x3 = 3
<b>PE 3</b> Despite improvement, a range of health indicators across the city continue to be below national averages including levels of child and adult obesity, rates of breastfeeding and levels of teenage pregnancy	Neil Revely, ED of People Services	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Deliver the Public Health improvement responsibilities</li> <li>Progress the delivery plan and performance management to address improvement in health indicators</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>“Plan on a page” being developed to improve individual Health indicators</li> <li>Progress on overarching indicators to be reported to Health &amp; Wellbeing Board</li> <li>Board to challenge other under performing indicators</li> <li>University to review methods of measuring progress as to how things are being done differently</li> </ul>	2x3 =6

Risk Description	Risk Owner	Original Score LxI	Current Score Sept 2014 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				<ul style="list-style-type: none"> <li>• People Services plan on a page includes Activity Policy</li> <li>• Education and Skills strategy to include what 'great schools' look like, including healthy eating and activity</li> </ul>	
<b>PE 4</b> Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended	Janet Johnson, Deputy Chief Executive	<b>3x3 = 9</b>	<b>3x3 = 9</b>	<ul style="list-style-type: none"> <li>• Extend employment opportunities for people out of work and to ensure job progression and mobility for those people in work through the implementation of the Sunderland Employment Strategy</li> <li>• Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET</li> <li>• Maximise learning opportunities afforded by the Youth Contract and by 3<sup>rd</sup> sector providers to young people requiring most support, to move them towards employment opportunities.</li> <li>• The Education Leadership Board to continue to improve the links between schools and employers</li> <li>• Extend the environmental apprenticeship scheme across other Streetscene services</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• ELB in process of carrying out a major restructure to replace the current Aim groups</li> <li>• NEET interventions continue via work of Locality/Connexions team members. This is being supplemented through People Board initiatives</li> <li>• A total of 87 apprentices now engaged by the Council</li> <li>• Education Leadership Board continue to work with business leaders to encourage links with schools</li> </ul>	<b>2x3 = 6</b>
<b>PE 5</b> The current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy	Neil Revely, ED of People Services	<b>3x3 = 9</b>	<b>3x3 = 9</b>	<ul style="list-style-type: none"> <li>• Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors</li> <li>• Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families</li> </ul>	<b>2x3 = 6</b>

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> <li>The Education Leadership Board to continue to Improve links between schools and employers</li> <li>Set up the Combined Authority whose remit will include regional skills issues</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Education Leadership Board is fully in place with key stakeholder involvement, i.e. employers, training providers, college/university, schools and nurseries, Council officer. In process of developing an Education and Skills Strategy. Key senior Council officer to support the development. Activities are developing e.g. Business School linking employers with schools, and 'Work Discovery Week</li> <li>Combined Authority in place from April 2014</li> <li>FACL continues to have increased participation and improved level of accredited course participation. Government funding has been constant</li> <li>North East Leadership Board (Combined Authority) to deliver the shared ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally</li> <li>The North East Local Enterprise Partnership (NELEP) has been chosen by government as one of only three LEPs across the country to pilot innovative new approaches to skills development funding to help boost local jobs and business growth. NELEP will work jointly with the Skills Funding Agency to develop the skills model</li> <li>Education and Skills Strategy being finalised</li> </ul>	
<b>PE 6</b> Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions	Sarah Reed, Assistant Chief Executive	<b>3x3 = 9</b>	<b>3x3 = 9</b>	<ul style="list-style-type: none"> <li>Continue to deliver the Welfare Reform "Social Fund"</li> <li>Prepare for the introduction of "Universal Credit"</li> <li>Implement the Community Resilience Delivery Plan</li> <li>Continue to implement the Child and Family Poverty Strategy</li> </ul>	<b>2x3 = 6</b>

Risk Description	Risk Owner	Original Score LxI	Current Score Sept 2014 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				<ul style="list-style-type: none"> <li>Deliver the Strengthening Families project</li> <li>Develop and implement a delivery plan for the Access to Housing Strategy</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Social Fund in place and continues to provide support to local communities. Take up is lower than anticipated. Government funding will cease in March 2015. A review is planned to be carried out during 2014/15 to assess the whole Council provision of services in respect of financial inclusion. Emphasis of prevention.</li> <li>Uncertainty remains over the introduction of "Universal Credit"</li> </ul>	
<b>PE 7</b> Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities	Neil Revely, ED of People Services	<b>2x3 = 6</b>	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements</li> <li>Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups</li> <li>Develop an asset based approach to delivery, making better use of assets that already exist in families and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Health and Wellbeing Board monitor the actions to reduce inequalities The Design Principles that underpin the approach to health and wellbeing includes Equity – providing access to excellent services dependent on need and preferences that are also based on evaluated models.</li> <li>People Services plan on a page</li> </ul>	<b>1x3 = 3</b>
<b>PE 8</b> Failure to align partner services to ensure we have a city that is safe and secure	Sarah Reed, Assistant Chief Executive	<b>2x2 = 4</b>	<b>2x2 = 4</b>	<ul style="list-style-type: none"> <li>Continue to deliver the Safer Sunderland Partnership's delivery plan: tackling alcohol, drugs, domestic violence, violent crime, anti-social behaviour, safety and feelings of safety and re-offending</li> <li>Apply the Strengthening Families approach to support</li> </ul>	<b>1x2 = 2</b>

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<p>people out of offending</p> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• By the end of 2012/13, when compared with the previous year, the Safer Sunderland Partnership was able to report a 19% reduction in recorded crime and an 11.9% reduction in recorded anti-social behaviour incidents</li> <li>• The multi agency Strengthening Families Programme is starting to record success in reducing offending</li> </ul>	

**PLACE**

**Desired Outcomes**

An attractive, modern city where people choose to invest, live, work and spend their leisure time.  
 A responsible, well looked-after city that is adaptable to change.  
 A well connected city.  
 A city where cultural identity and vibrancy act as a significant attraction

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>PL 1</b> The Local Development Framework is not adopted thereby restricting development opportunities for the City	Janet Johnson, Deputy Chief Executive	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Develop the LDF (Local Plan) to ensure it meets the required Government criteria</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Local Plan is being developed in line with government criteria. However adoption of Local Plan is expected to be late 2015/16. Draft plan for consultation due in late 2014. Development will not stop however until the Local Plan is adopted</li> </ul>	1x4 = 4
<b>PL 2</b> Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Janet Johnson, Deputy Chief Executive	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> <li>Adopt an ambitious, developer/investor friendly Core Strategy (Land Use Plan) that will guide high quality future physical development that is synonymous with a modern, vibrant, aspirational city</li> <li>Develop and implement the Sunderland Housing Strategy</li> <li>Set up the Combined Authority that will have responsibility for the creation of an area wide integrated transport authority and preparation of a local transport plan</li> <li>Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland councils have all come together to form the North East Leadership Board (Combined Authority). The move will lead to closer working to deliver the shared</li> </ul>	1x3 = 3

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally. Schemes being developed to access RGF funding.	
<p><b>PL 3</b> Delivery of capital investment priorities is too slow to realise opportunities available</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p><b>Score</b> <b>2x3 = 6</b></p>	<p><b>Score</b> <b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity</li> <li>• Continue to support the development of priority areas including <ul style="list-style-type: none"> <li>○ Vaux site</li> <li>○ Sunnyside</li> <li>○ Seaburn</li> </ul> </li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Strategic Partner procured for the LABV and now in mobilisation phase to establish the new company</li> <li>• As part of LABV mobilisation phase plans are being prepared for Vaux Site (phase development), Seaburn and Chapelgarth</li> <li>• Realignment of St Mary's Way and development of city centre square progressing which will support development of the Vaux Site and City Centre.</li> <li>• Washington Leisure Centre due to open in Spring 15.</li> <li>• Creation of the LABV should expedite the delivery of investment priorities.</li> </ul>	<p><b>1x3 = 3</b></p>
<p><b>PL 4</b> Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p><b>2x3 = 6</b></p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign</li> <li>• Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre</li> </ul>	<p><b>1x3 = 3</b></p>

Risk Description	Risk Owner	Original Score LxI	Current Score Sept 2014 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				<p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. A maximum of 20 Board directors are being elected from businesses and city stakeholders. The Board will be responsible for ensuring projects are delivered on time and within budget. A small operational team will be employed led by Ken Dunbar, the first Chief Executive of the new BID Company. The company has have developed a business plan to invest at least £3.4 m in the city centre over the next 5 years</li> <li>Make it Sunderland campaign continues to promote investment in the City</li> <li>Inward investment secured in respect of The Bridges, Sunnyside Leisure and a new hotel complex.</li> </ul>	
<p><b>PL 5</b> The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility</p>	<p>Neil Revely, ED of People Services</p>	<p><b>2x2 = 4</b></p>	<p><b>2x2 = 4</b></p>	<ul style="list-style-type: none"> <li>Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes</li> <li>Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers)</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>On going engagement with NEXUS in relation to community transport. Government funding in respect of community transport may be reduced</li> <li>Active Travel Plan</li> <li>Refreshing All Age Friendly City Policy</li> </ul>	<p><b>2x2 = 4</b></p>
<p><b>PL 6</b> Fail to agree and implement a Cultural Strategy and associated action plan</p>	<p>Neil Revely, ED of People Services</p>	<p><b>2x2 = 4</b></p>	<p><b>2x2 = 4</b></p>	<ul style="list-style-type: none"> <li>Develop Cultural Strategy and implementation plan</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Cultural Partnership formed to bring a wider base to the development of the strategy</li> </ul>	<p><b>1x2 = 2</b></p>

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> <li>• Cultural Strategy being launched</li> <li>• Heritage lottery schemes being progressed</li> </ul>	

**ECONOMY**

**Desired Outcomes**

A national hub of the low carbon economy

A prosperous and well connected waterfront city centre

An inclusive city economy for all ages

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p><b>EC 1</b> The increased costs of university fees and restricted access to appropriate learning opportunities will dissuade some young people from attending HE and skills levels will not increase as quickly as anticipated</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>3x3 = 9</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> <li>• Education Leadership Board to promote the benefits of higher education</li> <li>• North East Local Enterprise Partnership (NELEP) to support the promotion of higher education</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• NELEP and the Education Leadership Board continue to promote the benefits of higher education</li> <li>• Council, schools, colleges and the NE Chamber of Commerce are engaged to strengthen ties between education and business in the city</li> </ul>	<p>2x3 = 6</p>
<p><b>EC 2</b> The City doesn't attract inward investors because of a lack of sites / finance</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>3x3 = 9</p>	<p>2x3 = 6</p>	<ul style="list-style-type: none"> <li>• Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City</li> <li>• Allocation of appropriate employment sites through the LDF process</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Strategic Partner procured and now in mobilisation phase to establish the new company</li> <li>• Funds secured in respect of the Enterprise Zone</li> <li>• City Deal has been signed, providing funding to begin development of the 100-hectare International Advanced Manufacturing Park (IAMP)</li> <li>• Local Growth Fund and ERDF funding secured in respect of transport infrastructure and the Low Carbon Zone transport scheme</li> <li>• LABV expected to deliver investment for priority areas.</li> </ul>	<p>2x3 = 6</p>

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>EC 3</b> The more highly qualified/skilled people in the City will leave to find suitable work outside of the region, reducing the proportion of highly qualified/skilled people living in the City	Janet Johnson, Deputy Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Continue to deliver the Make It Sunderland campaign that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors</li> <li>Implement a Housing Investment Plan that ensures we have the right range and types of housing, in the right locations, to retain existing residents and attract new people into the City</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Housing Investment Plan to be updated and included in the Housing Strategy</li> <li>Make it Sunderland campaign continuing to attract jobs and investment into the City</li> </ul>	2x3 = 6
<b>EC 4</b> Inability to deliver on the New Wear Crossing in line with the planned timescales	Janet Johnson, Deputy Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Complete the procurement phase and deliver the construction phase of the New Wear Crossing</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Procurement phase progressing with competitive dialogue on-going</li> </ul>	2x3 = 6
<b>EC 5</b> Fail to ensure plans are in place to support carers, people with disabilities and mental health issues into or to maintain employment	Neil Revely, ED of People Services	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work</li> <li>Continue to support the Carers Strategy Group</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>On going engagement with Remploy and the Carers Strategy Group</li> <li>Sunderland Carers Centre successful in bid to run the Independent Supporters Programme in Sunderland</li> </ul>	1x4 = 4
<b>EC 6</b> Pace and scale of regeneration in the City Centre does not satisfy economic	Janet Johnson, Deputy Chief Executive	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Progress development opportunities, e.g. Vaux site, City Square, Sunniside</li> <li>Support the Business Improvement District proposal</li> </ul>	1x4 = 4

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
prosperity ambitions				<p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• The Sunderland Business &amp; Skills Hub proposal for the Business Investment (Grants) capital expenditure scheme for £614k of RGF funding has been agreed</li> <li>• LABV to be used to progress developments</li> <li>• City Centre undergone ambitious programme of place shaping to open up a range of investment sites. Development of new square and realignment of St Mary's Way to support the regeneration of the Vaux site and the wider city centre</li> <li>• Funding and planning approval of new Sunderland College campus</li> </ul>	
<p><b>EC 7</b> Partners do not have a coordinated approach to supporting, developing and attracting business to the City</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p><b>2x2 = 4</b></p>	<p><b>2x2 = 4</b></p>	<ul style="list-style-type: none"> <li>• Continue to support the Business and Innovation Centre which provides a joint approach for business support</li> <li>• Implement the Enterprise and Innovation Strategy</li> <li>• Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Enterprise and Innovation Strategy signed off by the Economic Leadership Board</li> <li>• Obtain funding through the City Deal to enhance the work of the Business and Innovation Centre</li> <li>• On-going support for providing incubation and business space as well as space for business support activity</li> <li>• Continuing to work with BIC SES and University</li> </ul>	<p><b>1x2 = 2</b></p>

## ORGANISATION

### Desired Outcomes

Achieving Community Leadership.

Delivering High Quality Services That Are Led By Our Customers' Needs

Ensuring Value for Money and Productive Use Of Resources

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>OR 1</b> The Council and the community may not have the required skills and capacity to deliver the City's priorities	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council</li> <li>Utilise workforce planning to develop and transfer skills across the council</li> <li>Deliver the Voluntary and Community Sector Relationship Transition project</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>VCS project completed having developed an approach that aligns engagement with the VCS and day to day service delivery</li> <li>Both workforce planning and transformation projects are progressing which have allowed the Council become more flexible in the use of the Council's human resources</li> </ul>	2x3 = 6
<b>OR 2</b> Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Sarah Reed, Assistant Chief Executive	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities</li> <li>Deliver the Business Transformation Programme</li> <li>Deliver Alternative Service Delivery Models</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Role of Community Leadership Council undergoing review</li> <li>Sunderland Care &amp; Support Ltd set up in December 2013 Leisure services review on going</li> <li>Further iteration of the Transformation programme</li> </ul>	1x4 = 4

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				is being developed	
<b>OR 3</b> Council does not secure the required savings	Sonia Tognarelli, Head of Financial Resources	<b>2x4 = 8</b>	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>• Agree MTFS (in context of Community Leadership Council)</li> <li>• Agree Service Area efficiency targets and monitor progress</li> <li>• Deliver the Business Transformation Programme</li> <li>• Deliver Alternative Service Delivery Models</li> <li>• Deliver the Workforce Planning project</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• MTFS in place</li> <li>• Workforce Planning efficiency targets for 2014/15 agreed</li> <li>• Care and Support ASDM went live December 13</li> <li>• Actions being progressed to develop detailed plans to address remaining funding gap 2015-2017</li> </ul>	<b>1x4 = 4</b>
<b>OR 4</b> Failure to collect, analyse and use intelligence to enable customer insight to inform decision making	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	<b>2x3 = 6</b>	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>• Development and delivery of the Intelligence Hub</li> <li>• Strategic planning and service redesign to reflect the needs and preferences of our customers and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Intelligence Hub is now in the mobilisation phase with a Multi-disciplinary project team in place to support the development and introduction of the intelligence hub</li> </ul>	<b>1x3 = 3</b>

Risk Description	Risk Owner	Original Score Lxl	Current Score Sept 2014 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p><b>OR 5</b> Employee engagement falls as a result of ongoing significant changes</p>	<p>Sue Stanhope, Director of HR &amp; OD</p>	<p><b>2x3 = 6</b></p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Position continues to be monitored via information obtained from employee surveys, consultations and feedback from unions. Recent results suggest employees continue to remain engaged</li> </ul>	<p><b>1x3 = 3</b></p>

Detailed Internal Audit Coverage

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
Customer Focus	Children's Services – Safeguarding	L	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network		Review success of migration of services	Moderate
	Personal Budgets	L	Out of Area Placements	L				
			Web Content Development	M				
			Crisis Loans / Social Fund	S				
Legality	Equality Impact Assessments	M						Substantial
	Licensing (Compliance with Provision of Services Regulations 2009)	N						
	Corporate Legality	F						
Service / Business Planning	Children's Services – Safeguarding	L	Corporate Service/ Business Planning	M	Corporate Service Planning Arrangements		Review of business continuity arrangements in relation to workforce reductions	Moderate
			Community and Family Wellbeing - Governance Arrangements	L	Community and Family Welfare - Governance Arrangements		Review of planning and performance management arrangements	
			Derwent Hill	M	Multi Agency Safeguarding Hub		Review of information sharing arrangements, and response to safeguarding incidents / serious case reviews	
			Out of Area Placements	L	Port Governance Arrangements			

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
			Operational Asset Management	L	LEP Accountable Body Arrangements		To cover accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	
Programme and Project Management	Landscape and Reclamation Service	M	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Review of compliance with new Project Management Standards	Moderate
	Programme and Project Management - support to major projects	M			Realisation of Benefits & Savings			
	Operating Model – realisation of benefits	S						
Partnerships					Multi Agency Safeguarding Hub		Review of information sharing arrangements, and response to safeguarding incidents / serious case reviews	Moderate
					Corporate Partnership Arrangements		Review of compliance with the Partnerships Code of Practice	
					Sunderland Partnership			
Business Continuity and Emergency Planning			HHAS Business Continuity Planning	L	Corporate Business Continuity Planning		Review of business continuity arrangements in relation to workforce reductions	Moderate
Procurement	Capital Procurement	S	Derwent Hill	M	Commissioning		Review of working arrangements for the new integrated commissioning team, including contract management arrangements	Substantial

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
	Unplanned Audit – Revenue Procurement	S	Out of Area Placements	L	Contract Management		Review of compliance with new Contract Management Framework	
			Revenue Procurement	S	Capital Procurement	S		
Relationship and Contract Management	Care and Support Sunderland Ltd – contract management	M	Street lighting PFI Contract Management	M	Commissioning		Review of working arrangements for the new integrated commissioning team, including contract management arrangements	Moderate
	Housing Related Support	L	Events Company Contract Management	M				
Financial Management	YPLA Schools Sixth Form Grant	S	EFA / SFA Funding	S	EFA / SFA Funding		Grant Certification work	Substantial
	Local Transport Capital Block Funding Grant	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants		Grant Certification work	
	YPLA Young Apprenticeships Cohort 6 Grant	S	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant		Grant Certification work	
	YPLA Young Apprenticeships Cohort 7 Grant	S	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Grant Certification work	
	Growing Places Funds 2, 3 and 7	F	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Grant Certification work	
	Department for Business Innovation & Skills – LEP Start Up Fund	S	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Grant Certification work	

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
	Department for Business Innovation & Skills – LEP Capacity Fund	S	Out of Area Placements	L	Commissioning		Review of working arrangements for the new integrated commissioning team, including contract management arrangements	
	Deprived Areas Fund Grant	F	Foster Care Allowances	M	Port Governance Arrangements			
	Single Investment Programme Grant	F	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements		To cover accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	
	Personal Budgets	L	Personal Budgets		Personal Budgets / Direct Payments		Review of process for agreeing care plans and setting personal budgets	
	Direct Payments	L	Direct Payments	L	Accounting / General Ledger			
	29 Schools	S	34 Schools	S				
	Home Improvement Agency – Loans and Mortgages	S	SAP Organisation Structures	S	SAP Organisation Structures		Review of use of variable occupant positions and multiple occupant positions	
	Housing Related Support	L	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	Value for money study	
	BACS Payments	S	BACS Processing	S	BACS Processing			
	Cash Receipting	S	Cash Receipting	S	Cash Receipting			
	Payroll	M	Payroll	M	Payroll		Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	
	Council Tax Transactions checks	S	Council Tax	S	Council Tax - Valuation			

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
	Business Rates transactions checks	S	Business Rates	S	Business Rates - Valuation			
	Accounts Payable transactions checks	S	Accounts Payable	S	Accounts Payable			
	Accounts Receivable transactions checks	S	Accounts Receivable	M	Accounts Receivable			
	1 Leisure Centre	S	Aquatic Centre	S	Periodic Income			
	Landscape and Reclamation Service	M	Operational Asset Management	L				
	Capital Procurement	S	Asset Register / Capital Accounting	S				
	Housing Benefit transaction checks	S	Benefits	S	Benefits Administration		Transaction Testing	
			Council Tax Support Scheme	S	Recovery of Benefit Overpayments			
			Building Maintenance	N	Elections Hardware Grant	S	Unplanned certification work	
			Capital Programme Funding and Monitoring	S	Cash in Transit / Parking Services Income	L	Unplanned audit following loss of cash bag and regular cash shortages in parking ticket machines	
			Treasury Management	S				
			External Funding	S				
			External Funding - Support to Partners / VCS	S				
			Insurance Claims Handling	S				

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
			Council Tax Support Scheme	S				
			Local Business Rates Scheme	S				
			Crisis Loans / Social Fund	S				
			Derwent Hill	M				
			Events Company Contract Management	M				
Human Resource Management	Corporate Attendance Management Arrangements	L	SAP Organisation Structures	S	SAP Organisation Structures		Review of use of bucket positions and multiple occupant positions	Moderate
	Management of SWITCH	S	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements		Review of training and induction arrangements to assess whether people are able to access the training that they need. Also to consider how information from management assessments has been used	
			Corporate HR Management	M				
Information Governance	Vulnerable Adults Protection Arrangements	S	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements		Review of content of emails sent outside the organisation	Moderate
	Information Governance compliance checks	L			Multi Agency Safeguarding Hub		Review of information sharing arrangements, and response to safeguarding incidents / serious case reviews	
Performance Management	Design of corporate performance management arrangements	S	Operational Asset Management	L	Corporate Performance Management Arrangements		Verification of performance management arrangements reported to EMT	Moderate

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
			Community and Family Wellbeing - Governance Arrangements	L	Community and Family Welfare - Governance Arrangements		Review of planning and performance management arrangements	
Asset Management	Asset management	M	Derwent Hill	M				Moderate
			Technology Forge	L				
			Operational Asset Management	L				
			ICT Asset Management	A				
			Asset Register / Capital Accounting	S				
ICT Strategy and Delivery			ICT Asset Management	A	Physical and Environmental Controls	S		Moderate
					Mobile Phone Contract	L	Value for money study	
Fraud and Corruption	Counter Fraud Testing		Counter Fraud Testing		Cash in Transit / Parking Services Income	L	Unplanned audit following loss of cash bag and regular cash shortages in parking ticket machines	Substantial
	National Fraud Initiative checks		National Fraud Initiative Case Investigations		National Fraud Initiative Case Investigations			
	Home Improvement Agency	S	Direct Payments	L	Schools Counter Fraud Checks		Transaction Testing	

Key Risk Area	2012/13 Audits / Opinions		2013/14 Audits / Opinions		2014/15 Audits / Opinions		Scope of 2014/15 Audit	Overall Opinion
	Direct Payments	L	Personal Budgets		Personal Budgets		Review of process for agreeing care plans and setting personal budgets	Substantial
	Cash Receipting Transaction checks	S	BACS Processing	S	BACS Processing			
	Payroll transaction checks	M	Cash Receipting	S	Cash Receipting			
	Council Tax transaction checks	S	Payroll	M	Payroll		Verification of input of new pay grades to SAP HCM after Workforce Transformation Project.	
	Business Rates transaction checks	S	Council Tax	S	Council Tax - Valuation			
	Housing Benefit transaction checks	S	Business Rates	S	Capital Procurement			
	Accounts Payable transaction checks	S	Benefits	S	Benefits Administration			
	Accounts transactions	S	Accounts Payable	S	Accounts Payable			
			Accounts Receivable	M	Accounts Receivable			
					Periodic Income			
				Organisation Structures				
Risk Management					Port Governance Arrangements			Substantial
Schools	29 schools audits completed – 7 full, 20 substantial, 1 moderate, 1 limited	S	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	14 schools completed to date - 12 substantial, 1 moderate, 1 limited	S	Review of governance and financial management arrangements at 32 schools.	Substantial

## Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. Mitigating actions have been agreed and progress is being monitored and reported in Appendix 1.
Transformation Programme	Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the related efficiency savings target. A progress report is presented to the Transformation Board on a monthly basis setting out the progress in relation to key project deliverables and the achievement of efficiency savings targets. Work is ongoing with Project Executives, Project Managers and Heads of Service to report the position and address any change control issues required.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the managing of risks through service planning, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	A new approach to supporting schools has been introduced. A number of workshops have been held for schools to attend to help them identify and manage their risks more effectively. A number of Academies have also booked specific sessions at their schools.
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> <li>• Local Asset Backed Vehicle</li> <li>• Workforce Transformation Project</li> <li>• Workforce Planning Project</li> <li>• Sunderland Care and Support</li> <li>• Customer Service Network</li> <li>• Intelligence Hub</li> <li>• Transport and Fleet Management</li> <li>• ICT – various activity</li> </ul>

Area of activity	Work ongoing
	<ul style="list-style-type: none"><li>• Leisure project</li><li>• Adult Social Care, Care Act and Children's and Families Act</li><li>• Development of the Intranet</li><li>• Safeguarding – Childrens</li><li>• Streetscene projects</li><li>• City Deal</li><li>• New Wear Crossing</li><li>• Tyne and Wear Care Alliance</li></ul>

## Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14

Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 80% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) Ahead of target -- 91% 3) Ahead of target - 81% 4) On target - £330 v £734 average
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance 2) To ensure actions agreed by the service are implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant 90% for medium risk	1) Achieved 2) Significant – N/A Behind target - Medium 85% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.1 to date 2) Non undertaken 3) 6 compliments 0 complaints



**AUDIT AND GOVERNANCE COMMITTEE**

**26 September 2014**

**JOINT COMMITTEE FOR THE NORTH OF ENGLAND OPEN AIR MUSEUM -  
AUDITED ANNUAL RETURN AND ACCOUNTS 2013/2014**

**Report of the Head of Financial Resources**

**1 PURPOSE OF REPORT**

- 1.1 To report the communications received from the External Auditors concerning the financial statements of the Joint Committee for 2013/2014.
- 1.2 To provide the Audited Statement of Accounts and Annual Return for 2013/2014 for approval by Members.

**2 DESCRIPTION OF THE DECISION**

- 2.1 Members are recommended to:
  - Note that at the time of writing this report the External Auditor BDO LLP (Chartered Accountants) has indicated that they intend to issue an unqualified audited Annual Return (Appendix 1) and;
  - Approve, as Lead Authority, the unadjusted and audited Statement of Accounts for the financial year ended 31<sup>st</sup> March 2014 (Appendix 2). It is anticipated from feedback received from the External Auditor to date that there will be no adjustments to the Statement of Accounts.

**3 INTRODUCTION**

- 3.1 Smaller relevant bodies in England must complete an annual return summarising their annual activities at the completion of each financial year in accordance with the Accounts and Audit Regulations 2011. Members are responsible for ensuring that financial management is adequate and effective and that the body has a sound system of internal control.
- 3.2 A smaller relevant body includes Joint Committees which have gross income or gross expenditure levels below £6.5 million for the financial year in question (i.e. 2013/2014) as well as either of the two immediately preceding years (i.e. 2011/2012 and 2012/2013). This regime applies to the Joint Committee.
- 3.3 The Audit Commission was replaced by BDO LLP (Chartered Accountants) from 1<sup>st</sup> April 2010, as the Joint Committee's external auditors, and they are required to report on the final accounts by 30<sup>th</sup> September of each year. It's anticipated that the Joint Committee will receive an unqualified audit report

and the signed audited Annual Return will either be sent separately or be tabled at the meeting as Appendix 1.

#### **4. KEY MESSAGES**

4.1 It is expected that the Auditor's communication (Smaller Bodies in England Annual Return for the year ended 31st March 2014 will show in summary:

- The External Auditor has issued an unqualified audit opinion (see section 3 of the Smaller Bodies Annual Return)
- There were no changes required to the Statement of Accounts and Annual Return presented for audit
- There were no misstatements identified in the Statement of Accounts and Annual Return
- The External Auditor has not identified any issues in relation to the qualitative aspects of the Joint Committee's accounting practices and financial reporting
- The External Auditor did not identify any other matters that should be brought to the attention of Members