Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 25 September 2015 at 1.30pm

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1.	**Receipt of Declarations of Interest (if any)**	
2.	**Apologies**	
3.	**Minutes of the Meeting of the Committee held on 26 June 2015** (Copy attached.)	1
4.	**Inspection of the Children's Safeguarding Service and Progress of Improvement Activity** Report of the Head of Assurance, Procurement and Projects (copy attached).	13
5.	**Corporate Assurance Map 2015/2016 – Update** Report of the Head of Assurance, Procurement and Projects (copy attached).	67
6.	**Review of the Remit and Effectiveness of the Audit and Governance Committee** Joint report of the Chair of the Committee and the Director of Finance (copy attached).	105
7.	**Treasury Management – Second Quarterly Review 2015/2016** Report of the Director of Finance (copy attached).	127

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ELAINE WAUGH
Head of Law and Governance

Civic Centre, Sunderland
16 September 2015

Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 26 June 2015

Present:

Councillors Farthing, Forbes, O'Neil and Speding.

In Attendance:

Sonia Tognarelli (Director of Finance), Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Procedure for the Meeting

At the beginning of the proceedings, Committee Members were advised that due to unforeseen circumstances, both of the independent members of the Audit and Governance Committee were unable to attend the meeting. As the terms of reference for the Committee stated that it must be chaired by one of the co-opted committee members, there was no person present who could chair the meeting.

The Head of Law and Governance had advised that the Committee was able to control its own proceedings without a Chair and in such circumstances, the clerk to the Committee would be asked to call over the items of business.

It was therefore: -

1. RESOLVED that the meeting proceed without a Chair.

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Mr Cook, Mr Knowles and Councillor N Wright.

Minutes

2. RESOLVED that the minutes of the meeting of the Committee held on 27 March 2015 be confirmed as a correct record.

Councillor O'Neil was welcomed to her first meeting of the Committee.

The Director of Finance highlighted that at the last meeting it had been agreed to have an update on changes taking place in the Council as part of this meeting. She advised that this would now be deferred until the September meeting but that there would be updates within the briefing on the Statement of Accounts.

Annual Report on the Work of the Committee

The Director of Finance submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2014/2015 and the outcome of this work.

The report was intended to demonstrate how the Audit and Governance Committee had fulfilled its role over the last year and would be presented to Council once agreed by the Committee. The report outlined the role of the Committee, the matters considered and the monitoring of activity with regard to the Corporate Assurance Map and Treasury Management.

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

3. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

Annual Governance Review/Annual Governance Statement 2014/2015

The Director of Finance submitted a report providing details of the 2014/2015 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 throughout the year from a number of sources via the Integrated Assurance Framework and led by the Corporate Assurance Group. The review had considered assurance provided by 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 for the end of the year which showed that all Corporate Risk Areas were judged to be either green or amber in terms of assurance. The corporate governance improvement plan for 2014/2015 had included five actions and the Corporate Assurance Group had reviewed progress on these and found that all actions were either complete or being progressed.

During the year, all of the targets set for Internal Audit had been achieved apart from the implementation of medium risk recommendations which stood at 82% against a target of 90%; and audits complete by target date which stood at 79% against a target of 80%.

The Committee were advised that from the original 71 audits which had been included within the plan for the year, it was not considered appropriate to carry out four of these for the following reasons: -

- Sunderland Partnership – a review was being carried out on the operation of the partnership from within the service;
- Multi Agency Safeguarding Hub (MASH) – People Services, Health and the Police were working on redesigning the work of the MASH and the audit would be deferred into 2015/2016;
- Community Family and Wellbeing – monthly meetings were being held to monitor improvements being made and a new ICT solution was being put in place. It was considered appropriate to defer this into 2015/2016 to allow the work to be finalised.
- Corporate Service Planning arrangements – the development of the new Corporate Plan was underway and audit work would be undertaken in the next financial year in relation to future planning arrangements.

Three audits were also ongoing at the end of March meaning that 95% of the audit plan had been achieved. There were an additional three audits carried out during the year and sufficient audit work had been undertaken to provide an internal audit opinion on the Council's overall system of control.

The Head of Assurance, Procurement and Projects highlighted the Improvement Plan for 2015/2016 arising from the Annual Review of Corporate Governance Arrangements and it was noted that there were nine actions, some of which were already being addressed and were ongoing.

It was confirmed that Internal Audit continued to comply with the Public Sector Internal Audit Standards and that the local code of corporate governance had been reviewed and was considered to still be relevant.

The report concluded that the Council had robust and effective corporate governance arrangements in place and Members were advised that the Improvement Plan and the Annual Governance Statement would be presented to Cabinet.

Councillor Farthing referred to the recent Ofsted inspection of Safeguarding and asked if the Committee would receive a report on this. The Head of Assurance, Procurement and Projects stated that the final report was expected at the end of July and a report would come to the next meeting in September.

Councillor Forbes queried where Internal Audit now stood in relation to the review of the Sunderland Partnership and the Audit, Risk and Assurance Manager advised that this had not been rolled forward because the Risk and Assurance team had been due to do some work as part of the service review. It was possible that Internal Audit may look at this later but at the moment, it was not part of the Audit Plan. It was noted however, that issues arising from the review would be reported to the Audit and Governance Committee.

4. RESOLVED that: -

(i) the report and updated Corporate Assurance Map be noted;

(ii) the Improvement Plan at Appendix 1 to the report be agreed; and

(iii) the draft Annual Governance Statement at Appendix 2 be agreed.

Corporate Assurance Map 2014/2015 – 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 both the Strategic and Corporate Risk Areas had remained unchanged from the last quarter. The Head of Assurance, Procurement and Projects referred to the Strategic Risk Profile at Appendix 1 and confirmed that the headings related to risk score should read March 2015 and June 2015 rather than December 2014 and March 2015.

It was highlighted that a new element had been added to the map to take into account the Council's wholly owned companies, Sunderland Care and Support Limited and Sunderland Live Limited. Siglion and the Leisure Joint Venture would be considered within the overall Corporate Risk Areas as these were contract management arrangements and not wholly owned by the Council. There was not currently anything in the Management Assurance column but this would be completed for future maps. Finance had provided positive opinions on the companies and it was also intended to bring in performance information and Internal Audit views.

Councillor Farthing asked if the Leisure Joint Venture would come under partnerships or within the relevant service area. The Head of Assurance, Procurement and Projects advised that the outcome of assurance activity could be reflected in different risk areas depending on what was found. If assurance activity manifested any areas of concern, these may not been highlighted within the map but would form part of the narrative of the report.

The Head of Assurance, Procurement and Projects drew Members' attention to the centre of the map to highlight that there was now assurance from the ICT service in relation to ICT Strategy and Delivery. The Internal Assurance column was now marked as red in relation to ‘Partnerships’ and this was in relation to work being done with the Corporate Partnership team which had found that the role of the team was not as clear as it could have been, reporting arrangements required clarification and the partnership register was not up to date. An Improvement Plan was in place to address these issues.

Work continued in relation to information governance but this was not yet sufficient to change the cumulative assurance position. However, when the positive impacts of improvement work were seen, then the position would be changed. The opinion in relation to Children’s Safeguarding would remain red until the results of the Ofsted inspection were received.

The report detailed where the Risk and Assurance team were involved in major changes and projects in the Council, this included a significant amount of work in relation to Children’s Safeguarding and senior officers would attend the next committee meeting to provide an update for Members.

In relation to the performance of Internal Audit, all Key Performance Indicators were being met with the exception of the percentage of audits being complete by the due date, which related to the one audit completed to date being a few days late, and the percentage of medium risk recommendations implemented which was 82%, a decrease from 83% reported at the last meeting.

Members had expressed concerns at the last meeting due to the implementation of significant recommendations being behind target and it was confirmed that immediate action had been taken to address the issue in response to the Committee’s concerns.

Upon consideration of the report, it was: -

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

Statement of Accounts 2014/2015 (Subject to Audit)

The Director of Finance submitted a report providing Members with a certified copy of the Council’s Statement of Accounts 2014/2015 (Subject to Audit) and the draft Letters of Assurance required by the external auditor as part of the final accounts process. A further appendix to the report was circulated at the meeting to highlight minor amendments which had been made since the publication of the Statement of Accounts.

The Director of Finance advised that she would certify the Accounts by 30 June and once audited, these would be brought to the Committee to approve in September in accordance with the accounts and audit regulations. Members were asked to note the Accounts at this stage, to approve the Letter of Assurance from those charged with governance and to note the Letter of Assurance from those charged with discharging management processes.

The Committee were referred to the Foreword to the Accounts and advised that this gave a summary of the overall position and showed that the statements were compliant with the Code of Practice on Local Authority Accounting and the requirements of the Local Government Act and the Accounts and Audit Regulations.

Group Accounts had been prepared for the second financial year and these included and showed the scale of activities within the Council's Subsidiary Companies and Joint Venture arrangements it had in place in 2014/2015.

The overall budget requirement had been set out at the beginning of the financial year within the context of a prudent and robust approach and Council Tax was frozen for the fifth consecutive year. It was highlighted that £36m of savings had been achieved in setting the 2014/2015 budget through a range of service improvements which had impacted across all Council areas resulting from the Council's transformation programme and Community Leadership approach. Further in year savings had also been achieved of over £4.647m as a result of the implementation of Treasury Management policies (£1.517m) and in relation to lower draw down of Contingencies (£3.130m) where performance had been better than expected in areas such as the Port, utilities and winter maintenance. This had enabled the Council to earmark £3.998m of specific reserves to support increased pressures for some service areas and for identified one-off spending pressures, with the balance of £0.649m being transferred to the Strategic Investment Reserve to support the implementation of savings programmes in future years. The general reserve balance stood at £7.570m and the schools balance at £9.660m, but it was expected that the latter would be used in future to support planned spending commitments in schools.

The Foreword also outlined the major schemes which were being undertaken as part of the capital programme, reflecting the significant amount of resource being used to support developments in Sunderland. The overall financial health of the authority was reflected in the strong Balance Sheet with showed a net worth of £390m with cash backed reserves of £190m and long term assets of over £1billion.

The Council remained financially resilient but there were challenging requirements for the future. The outlook for Government funding continued to be challenging and there were £36m savings to be made in 2015/2016. The authority was on track to meet that savings target but further efficiencies would have to be made until at least 2020.

Councillor Speding referred to the recent publication of information by the Tax Alliance regarding the value of the Council's assets and the Director of Finance stated that the response to any questions in relation to assets could be based on what was included in the Accounts.

Councillor Forbes requested clarification in relation to PFI contracts as she noted that Council's share of the Joint Waste Disposal PFI was included within the Council's Balance Sheet on the assumption that the assets belonged to the Council at the end of the period, when she understood that the assets remained with SITA.

The Assistant Head of Financial Resources advised that Gateshead Council were the lead authority for the PFI accounting arrangements and had been treating this arrangement as a lease. However, following discussions with the external auditor, there had been a change in how this was reflected from an accounting point of view and Mazars had advised that the scheme should be placed on the Council's Balance Sheet for the duration of the contract. It was due to this accounting change that the authority's Operational Boundary for External Debt had been exceeded for 2014/2015.

Councillor Forbes went on to ask if this was a one off case and if there was any danger of being challenged in relation to the accounting arrangements. Gavin Barker stated that some of the tests applied were not always logical and related to the detailed terms of contractual arrangements but he assured the Committee that Mazars would look closely at this as part of the audit and would provide feedback through the Director of Finance.

The Assistant Head of Financial Resources added that within the Accounting Code of Practice, certain tests could be interpreted in a number of ways and qualitative judgements could turn a decision. Over the period, the PFI arrangement would be recognised as a diminishing value on the Balance Sheet and it would not be an asset belonging to the Council at the end of the 25 year period. This was a complicated area of local government finance and the external auditors had provided independent advice on the position which the Accounts for 2014/2015 reflected.

With regard to the Letters of Assurance, Councillor O'Neil asked if the banking fraud highlighted in the documents, had been dealt with. The Head of Assurance, Procurement and Projects provided a brief description of the incident and advised that the Committee had been made fully aware of this at the time when it came to light.

Having given due consideration to the report, the Committee: -

6. RESOLVED that: -

(i) the Statement of Accounts 2014/2015 (Subject to Audit) be noted;

(ii) 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 – Review of Performance 2014/2015

The Director of Finance submitted a report presenting the Treasury Management borrowing and investment performance for 2014/2015.

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 throughout the 2014/2015 financial 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 3.11% was in the top quartile when benchmarked against other authorities. The rate of return achieved on investments was 0.76% for the year which was also in the top quartile against a benchmark rate of 0.36% and the Bank of England Base Rate of 0.5%.

Members were reminded of the basis of the Borrowing Strategy for 2014/2015 and that it had been reviewed by the Committee in June, September and December 2014. The strategy had agreed a benchmark financing rate of 5.00% for long term borrowing and during the year, borrowing rates had dropped below 4% and the Council had as a result taken out £50m of new borrowing as rates were considered low and opportune at the time. As a result of taking out this borrowing, the overall borrowing rate had reduced from 3.47% to 3.11% and this would have a beneficial impact on the finances of the authority.

All external borrowing and investments undertaken in 2014/2015 had been subject to the monitoring requirements of the Prudential Code and the Council had complied with the limits set for all of its Treasury Management Prudential Indicators apart from the Operational Boundary for External Debt as this had been exceeded when the value of the PFI contract for waste disposal had been brought unexpectedly onto the Council's Balance Sheet. There was no requirement to amend the Operational Boundary for 2014/2015 as the change had been made on 31 March 2015 when the financial statements were prepared, but the previously agreed 2015/2016 limits would need to be increased to reflect this accounting development. The Council remained well within its statutory Authorised Borrowing Limit for External Debt.

The Investment Strategy for 2014/2015 had been approved by the Council on 5 March 2014 and all investments placed in 2014/2015 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 and also reflected the changes to the Government's guarantee scheme and the new 'Bail-in' arrangements. Changes made during 2014/2015 had been updated and reported to Members in detail as part of the quarterly Treasury Management reporting cycle.

Councillor Farthing commended the Assistant Head of Financial Resources and his team for their work in maintaining the Council's borrowing and investment performance in the top quartile and accordingly the Committee: -

7. RESOLVED that the positive Treasury Management performance for 2014/2015 be noted.

Treasury Management – First Quarterly Review 2015/2016

The Director of Finance presented a report outlining the Treasury Management performance for the first quarter of 2015/2016. The report also set out the revised Prudential Indicators for the Authorised Borrowing Limit and the Operational Boundary for External Debt and detailed the Lending List Criteria and the updated 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. The Assistant Head of Financial Resources reported that PWLB borrowing rates had fluctuated in the early part of 2015/2016 but the trend appeared to be upwards and consequently, no new borrowing had been taken out to date. The position continued to be monitored closely.

The interest rate on long term borrowing was 3.50% and Sunderland remained in the top quartile for the lowest rates of borrowing. This was an increase on the rate reported in the review of performance for 2014/2015 but this was due to the way interest which had been accrued compared to the level of borrowing taken out so the rate had increased but the debt had not. There had been no debt rescheduling in 2015/2016 as rates had not been considered sufficiently favourable.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was within the limits set for all of these. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Authorised Borrowing Limit for External Debt was originally set at £454.227m for 2015/2016 and the maximum external debt limit as at 31 May 2015 was £336.211m. The value of 'Other Long Term Liabilities' within the debt limit calculations had been £27.508m but due to the change in accounting treatment for the Waste Management PFI, this had been increased to £89.659m leading to a revised Authorised Borrowing Limit of £516.408m and a revised Operational Boundary Limit of £422.196m.

Sunderland continued to outperform the benchmark of 0.36% for the rate of return on investments and was achieving 0.91%. The Assistant Head of Financial Resources reported that performance was more positive and that interest rates were being carefully monitored and managed so that the Council could take full advantage of the expected increase in rates when it occurred.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as an appendix to the report for information.

Councillor Farthing asked if the increase in 'Other Long Term Liabilities' was just the difference in relation to the value of the PFI contract and if the International Advanced Manufacturing Park (IAMP) would be treated in a similar way. It was confirmed that the increase was purely down to the PFI scheme and that the IAMP was being funded through grants and borrowing and was part of Sunderland's capital programme.

Upon consideration of the report, the Committee: -

8. RESOLVED that: -

(i) the Treasury Management performance for the first quarter of 2015/2016 be noted;

(ii) the revised Authorised Borrowing Limit for External Debt of £516.408m and the Operational; Boundary for External Debt Limit of £422.196m be approved; and

(iii) the Lending List Criteria at Appendix B and the updated Approved Lending List at Appendix C be noted.

External Auditor – Audit Progress Report

The Director of Finance submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to June 2015.

Gavin Barker, Senior Engagement Manager, Mazars advised that work on the audit continued to progress well and there was nothing significant to report from the interim work on financial systems. He commended Council officers for their work in producing the Accounts and stated that the auditors had maintained a good ongoing dialogue with officers throughout the process. However, Mazars were increasingly mindful of the need to bring forward the accounts and audit timetable from 2017/2018 and had tried to do more early work than they had previously in preparation for this.

Members were informed that IT specialists were carrying out a review of IT general controls in financial systems and would present a full report to the Committee in due course.

Gavin outlined proposals to establish a North East Governance Forum for Chairs and Vice-Chairs of audit committees to discuss issues and key topics and to share best practice and promote good governance. It was hoped that local authorities would find peer group discussion beneficial and there were two free places available to Sunderland City Council.

In relation to emerging issues, Gavin highlighted a recent CIPFA briefing paper on health and social care integration, noting the importance of this agenda and the opportunity it presented for efficiencies.

CIPFA had confirmed that the local authorities would be required to account for transport infrastructure assets for the first time in 2016/2017 in line with the Code of Practice on Transport Infrastructure Assets. This would make large changes to authority’s balance sheets, significantly increasing the value of assets. Mazars were already working with officers on the implementation of the new requirements.

The Director of Finance commented on the challenges being experienced around health integration and explained that it was the norm across the country to have a Better Care Fund of £21m. In Sunderland this had been approached in a different way with a pooled budget of £152m and work being done to identify ways of integration with health. The Director of Finance was pleased to report that Council and Clinical Commissioning Group had been awarded Public Sector Finance Team of the Year at the North East Accountancy Awards in recognition of this work.

Having considered the report, it was: -

9. RESOLVED that the Audit Progress Report be noted.

(Confirmed as a correct
record on behalf of the
Committee)

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **25 September 2015**

INSPECTION OF THE CHILDREN'S SAFEGUARDING SERVICE AND PROGRESS OF IMPROVEMENT ACTIVITY

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

1.1. To provide an update in relation to the Children's Safeguarding Service and action taken by the Council to address weaknesses identified in two independent reports and the recent Ofsted inspection report.

2. Background

2.1. In early 2014, the People Services Directorate commissioned an independent review of the Children's Safeguarding Service by Coreassets Consultancy and Resourcing. Shortly after, a LGA Peer review also took place of the Service. Both of these reviews identified a number of issues which resulted in the development of an Improvement Plan.

2.2. The findings of these two reviews provided limited assurance on the arrangements in place within the Children's Safeguarding Service which were reflected through 'red' ratings in the Corporate Assurance Map from September 2014.The Chief Operating Officer for the People Directorate has attended Committee meetings to provide updates on the progression of the Improvement Plan.

2.3. In May/June 2015 Ofsted undertook an inspection of:

- Services for children in need of help and protection
- Children looked after and care leavers
- The effectiveness of the local safeguarding children board

2.4. The Inspection Report was published 20th July and judged the services to be inadequate (copy attached at Appendix A).

3. Ofsted Inspection

3.1. The inspectors graded each of the areas listed in paragraph 2.3 above as inadequate and concluded that:

“*There are widespread and serious failures that leave children unsafe and mean that the welfare of children looked after is not adequately safeguarded or promoted. It is Ofsted’s expectation that all children and young people receive the level of help, care and protection that will ensure their safety and help prepare them for adult life”*.

3.2. The inspection report provides a list of 27 recommendations that inspectors consider to be priorities for the Local Authority and a further 7 recommendations for the Local Safeguarding Children Board (LSCB).

3.3. During the inspection, the Council developed a 100 Day Plan in response to immediate issues raised for the Local Authority by inspectors. Over the last 3 months the Directorate has progressed actions and reported against the 100 day plan.

3.4. The main themes of the 100 Day Plan were:

- Recruitment, Retention & Workforce Development
- Leadership & Decision Making
- Quality Assurance & Performance Management
- Children in Need of Help and Protection
- Education
- Inter-agency Communication & Co-ordination

3.5. Following the Inspection, the Education Secretary appointed Nick Whitfield, Chief Executive of Achieving for Children and Director of Children's Services at Kingston and Richmond-upon-Thames to work with the Council as Commissioner for Children's Services in Sunderland. The Commissioner will shortly publish a new improvement plan to address the recommendations made by Ofsted. An interim Director of Children’s Services has also been appointed.

4. Financial Implications

4.1. The financial impact of the improvement plan and looked after placement pressures have been regularly reported to Cabinet. One off funds were earmarked during the budget setting process for 2015/2016 and at outturn 2014/2015 to address the identified pressures at that time. This took into account implementation of the improvement plans which would help to reduce pressures in looked after placements. However, the cost pressures have continued to increase following the Ofsted inspection.

4.2. The review of the safeguarding improvement plans to be undertaken by the Commissioner will be key in assessing the on-going financial requirement which will be taken into account as part of the budget setting process for 2016/2017.

5. Assurance Reporting

5.1. The Risk and Assurance Team has been supporting the planning and monitoring of the Children's Safeguarding Improvement activities. The Team has also provided an independent view of progression against planned actions and the impact of improvement activity so that the assurance rating in the Corporate Assurance Map is kept under review, which currently remains 'red'.

5.2. Until early August, the Risk and Assurance Team were reporting monthly to the Safeguarding Improvement Executive Group & Board and reporting weekly to the Directorate Management Meeting regarding the arrangements to implement the 100 day plan. The weekly presentation of progress against the 100 Day Plan together with the Risk & Assurance Reports highlighted that although improvement activity had been undertaken in some key areas a number of the planned actions were either behind schedule or had not started.

5.3. Whilst the Commissioner's new Improvement Plan is awaited it is understood that monitoring activity has continued within the People's Services Directorate and management reporting has taken place to the Leader of the Council, the Commissioner, Scrutiny and the Health and Wellbeing Board. The Risk and Assurance Team will liaise with the Interim Director of Children's Services regarding obtaining assurance on delivery of the new improvement plan.

6. Impact of Improvement Activity

6.1 In order to obtain assurance about the impact of early improvement activity, the Risk and Assurance team has sought some performance data from the Council's Performance Team as set out below.

6.2 **Unallocated Cases** – The table below shows the impact of the remedial action taken during and since the inspection. There is a significant reduction in the amount of unallocated cases and check status which is a result of data cleansing and case review activity.

Category	19/05/15	01/09/15	Reduction
Open Cases	3,617	2,565	1052 (29%)
Unallocated Cases	1,003	129	874 (87%)
Check Status (no action recorded or plan)	988	158	830 (84%)

6.3 **Data Quality** – The recording of key data in relation to contacts was an area of concern prior to the inspection. Recent performance reports show the recording of contacts has improved generally within all the locality teams although some issues still remain in two areas, one of which is the MASH. Whilst not as significant an area of concern prior to the inspection the recording of referral information has also improved.

6.4 **Case Management timescales** – As demonstrated in the table below there has been a significant improvement in the timeliness of Initial and Core Assessments and Section 47 investigations.

Assessment	19/05/15	01/09/15	Reduction
Number of Initial Assessments not completed in timescale	540	98	442 (82%)
Number of Core Assessments not completed in timescale	455	161	294 (65%)
The number of Section 47 investigations that have been open more than 28 days	173	6	167 (97%)

6.5 Notwithstanding the above, as at 1st September 2015 there was a small number of Initial and Core Assessments shown as significantly overdue and requiring immediate attention.

7. Recommendations

7.1 The Committee is asked to consider the significance of the work required to improve Safeguarding Services in Sunderland. It is recommended that the Committee continues to receive regular reports to monitor the progress and impact of improvement activity in this area.

Sunderland City Council

Inspection of services for children in need of help and protection, children looked after and care leavers

and

Review of the effectiveness of the local safeguarding children board[1]

Inspection date: 11 May 2015 – 4 June 2015

Report published: 20 July 2015

Children's services in Sunderland are inadequate
There are widespread and serious failures that leave children unsafe and mean that the welfare of children looked after is not adequately safeguarded or promoted. It is Ofsted's expectation that all children and young people receive the level of help, care and protection that will ensure their safety and help prepare them for adult life.

1. Children who need help and protection		Inadequate
2. Children looked after and achieving permanence		Inadequate
	2.1 Adoption performance	Inadequate
	2.2 Experiences and progress of care leavers	Inadequate
3. Leadership, management and governance		Inadequate

[1] Ofsted produces this report under its power to combine reports in accordance with section 152 of the Education and Inspections Act 2006. This report includes the report of the inspection of local authority functions carried out under section 136 of the Education and Inspection Act 2006 and the report of the review of the Local Safeguarding Children Board carried out under the Local Safeguarding Children Boards (Review) Regulations 2013.

Contents

The local authority

Information about this local authority area[2]

Previous Ofsted inspections

- The local authority operates five children's homes. Four were judged to be good or outstanding in their most recent Ofsted inspection.
- The previous inspection of Sunderland's safeguarding arrangements was in April 2012. The local authority was judged to be good.
- The previous inspection of Sunderland's services for children looked after was in April 2012. The local authority was judged to be good.

Other information about this area

- The Executive Director of People Services in Sunderland took responsibility for children's services in September 2013. This is in addition to his responsibility for health, housing and adult services (since 2007), and also cultural and leisure services.
- The chair of the Local Safeguarding Children Board (LSCB) has been in post since September 2014 and is also the chair of the Adult Safeguarding Board.

Children living in this area

- Approximately 54,500 children and young people under the age of 18 years live in Sunderland. This is 20% of the total population in the area[3].
- Approximately 25% of the local authority's children are living in poverty[4].
- The proportion of children entitled to free school meals[5]:

  in primary schools is 21% (the national average is 17%)

  in secondary schools is 21% (the national average is 15%)

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[2] The local authority was given the opportunity to review this section of the report and has updated it with local unvalidated data where this was available.
[3] Source: ONS Mid-Year 2013
[4] Source: HMRC Snapshot as at 31 August 2010
[5] Source: DfE Schools, pupils and their characteristics

- Children and young people from minority ethnic groups account for 6% of all children living in the area, compared with 22% in the country as a whole[6].
- The largest minority ethnic groups of children and young people in the area are Asian/Asian British and Mixed[7].
- The proportion of children and young people with English as an additional language[8]:
  - in primary schools is 5% (the national average is 19%).
  - in secondary schools is 4% (the national average is 14%).

Child protection in this area

- At 31 March 2015, 3,255 children had been identified through assessment as being formally in need of a specialist children's service. This is an increase from 2,663 at 31 March 2014[9].
- At 1 June 2015, 394 children and young people were the subject of a child protection plan. This is an increase from 306 at 31 March 2014[10].
- At 31 March 2015, three children lived in a privately arranged fostering placement. This is a reduction from four at 31 March 2014[11].

Children looked after in this area

- At 1 June 2015, 575 children are being looked after by the local authority (a rate of 105 per 10,000 children). This is an increase from 490 (90 per 10,000 children) at 31 March 2014[12].
  - Of this number 175 (or 30%) live outside the local authority area
  - 66 live in residential children's homes, of whom 61% live out of the authority area
  - No children live in residential special schools
  - 450 live with foster families, of whom 30% live out of the authority area
  - 10 live with parents, none of whom live out of the authority area
  - No children are unaccompanied asylum-seeking children.
- In the last 12 months (1 June 2014 to 31 May 2015) there have been:
  - 43 adoptions

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[6] Source: ONS 2011 census
[7] Source: ONS 2011 census
[8] Source: DfE Schools, pupils and their characteristics
[9] Source: DfE Characteristics of children in need in England
[10] Source: DfE Characteristics of children in need in England
[11] Source: DfE Notifications of private fostering arrangements in England
[12] Source: DfE Children looked after in England including adoption

- 40 children became subject of special guardianship orders
- 217 children who have ceased to be looked after, of whom 4% subsequently returned to be looked after
- Nine children and young people who have ceased to be looked after and moved on to independent living
- Four children and young people who have ceased to be looked after and are now living in houses of multiple occupation.

Executive summary

There are widespread and serious failures in the services provided to children and their families in Sunderland. This is a corporate failure by senior leaders and managers that leaves children and young people unsafe. The local authority has established a voluntary improvement board with partner agencies and has an improvement plan but these measures have not had a discernible impact on improving practice or outcomes for children and young people. During the inspection, 21 children's cases were referred back to the local authority by inspectors to request that action be taken to ensure children's needs were met. This is one out of every ten children's cases looked at by inspectors.

Services have significantly deteriorated since the last inspection of children's services in April 2012. Poor practice has already been identified by two independent reviews of children's services commissioned by the local authority in 2014. A voluntary improvement board and an improvement plan are in place as a result. Despite this, inspectors identified widespread, systemic poor practice and services that are neither adequately ensuring the safety nor promoting the welfare of children and young people.

Of serious concern is the number of unallocated and unworked cases, particularly within the multi-agency safeguarding hub (MASH), where 122 cases have been held for five months without being progressed. This means that support for families is compounded by delay. A significant concern is that the local authority cannot know the extent and seriousness of the issues within these cases. This leaves some children potentially at risk of harm.

Children are left in circumstances that are actually or potentially unsafe without their needs or the level of risk being assessed or action taken. This is because there are fundamental shortfalls in frontline practice across the breadth of children's services. Assessments of children are often absent or incomplete and those seen by inspectors were mostly poor. A 'Back to Basics' training programme, introduced to improve front line practice, has only just started and is yet to show impact.

Far too often children and families do not have the support of a consistent allocated worker. There is insufficient oversight of practice by managers and a lack of communication and focus on key priorities. One of the reasons for this is the lack of stability within the workforce, caused by heavy reliance on agency staff and interim appointments at all levels, and compounded by a high turnover of social workers in some key teams. In addition, very high caseloads mean that workers are unable to undertake key tasks. While the local authority has introduced a clear strategy for developing the workforce, it is too new to have had any impact.

There is some effective early help to families, provided, for example by the Strengthening Families service. However, early help services are not well coordinated or focused and the new early help strategy is yet to be formally agreed by partner agencies.

Services for children and young people missing from home or care, missing from education or at risk of child sexual exploitation are insufficient and poorly coordinated. Data and intelligence are not adequately collated and analysed to inform either service development or planning for individual young people.

The local authority is slow to take appropriate legal action to safeguard children. As a result children at risk wait too long before they become looked after. Once they do become looked after there are further delays in finding permanent homes for them. This situation is made worse because of a shortage of appropriate accommodation and placements.

While there is evidence of some better practice within the adoption service, including some good life story work, there is a lack of focus on support and preparation. As a result, there have been four adoption disruptions within 12 months.

Services for care leavers are particularly poor. The support and aspirations for care leavers are seriously lacking, with poor quality planning and a lack of appropriate housing.

The local authority and partner agencies do not have a shared, up to date strategic plan that sets out their current priorities for children, how they will be delivered and how their impact will be measured. A 'framework of cooperation' outlining how partner agencies will work together and a new 'safeguarding Joint Strategic Needs Assessment (JSNA)' were finalised in May 2015. They are positive developments but again it is too early for them to have had an impact on improving the range and quality of services.

Performance management and quality assurance processes are poor, based on unreliable data and do not always focus on services and areas of practice in the greatest need of improvement. Learning from audits, the complaints process and feedback from children, young people and their families is not used to drive improvement planning. In addition, scrutiny by elected members lacks rigour and has had little positive impact.

Recent changes within the Local Safeguarding Children Board, introduced by the experienced new independent chair, together with improved communication between agencies on the improvement board are positive developments. However, they are too recent to have had an impact on improving services or outcomes for children.

Recommendations

The following recommendations are those that inspectors considered to be the priorities for Sunderland. They do not address all of the detailed failings identified in this inspection and contained in the main body of the report.

1. Take urgent action to review the cases of all children and young people who do not have an allocated social worker or who are not being actively worked with, and provide immediate and appropriate assessment and help as necessary. (Para 31)

2. Review as a matter of urgency all cases where children are looked after under voluntary arrangements to establish whether this legal basis is sufficient to ensure their safety and emotional security; and take additional action where it is not. (Paras 58, 62,64, 65)

3. Increase the capacity, quality and focus of the MASH to meet the demand for service. (Paras 29, 30, 31, 32, 33)

4. Review the cases of all children being worked with under the public law outline or in care proceedings to ensure that robust plans are in place and that cases are progressing at a pace that matches children's needs. (Paras 62 ,63)

5. Ensure robust management oversight of frontline practice so that decision making, assessment and planning for children are timely, clear and meets their needs. (Throughout).

6. Ensure children are seen promptly and regularly and that their views inform assessments and plans in line with their developing needs. (Throughout)

7. Take urgent action to recruit qualified and experienced staff and retain and support professional skills and competence. (Paras 139, 140, 141)

8. Ensure manageable caseloads for social workers so that they can respond appropriately and in a timely manner to the needs of children and young people. (Paras 29, 140)

9. Work with partners to ensure that there is a single, clear, up-to-date multi-agency strategic plan to shape services for children and young people in Sunderland and against which progress can be measured. (Para 133)

10. Ensure that strategic planning is focused on the areas of practice most in need of improvement and is underpinned by clear arrangements for operational delivery and the measurement of impact. (Paras 129, 133)

11. Develop performance management and quality assurance processes that focus on key priorities to help drive improved performance. (Paras 128, 129)

12. Strengthen the function of scrutiny committee so that it has a clearer impact on improving outcomes for children. (Para 130)

13. Ensure that the local authority meets its role and responsibilities as a corporate parent. (Paras 110, 116, 131)

14. Ensure there is sufficient breadth and quality of placements to meet the needs of children looked after and care leavers. (Paras 59, 76, 113, 116, 132)

15. Provide an out of hours service that meets the emergency needs of children and young people and is effectively coordinated with day-time services to ensure consistent and safe work with children and their families. (Paras 34)

16. Establish clear practice standards, policies and procedures so expectations are clearly understood by social workers, early help practitioners and their managers. (Paras 141)

17. Strengthen the arrangements for disabled children's transition assessments to adult services. (Para 42)

18. Engage with partner agencies to agree the aims, structure and implementation of the integrated early help offer and its fit with wider services for children and young people. (Paras 40, 52)

19. Build on the recent review of services for children and young people at risk of child sexual exploitation to ensure that these services, and those for children missing from home, care or education, are comprehensive, joined up and have sufficient capacity. (Para 134)

20. Revise the arrangements for supervised contact to ensure these are driven by children's needs and that workers are sufficiently experienced and trained to oversee contact appropriately. (Para 69)

21. Strengthen the Virtual School so that it is able to track effectively the progress of all children looked after and care leavers. (Para 86)

22. Improve the quality, consistency and monitoring of all personal education plans (PEPs,) particularly target setting and action planning, so that these become a more useful tool to help young people make educational progress. (Paras 90)

23. Establish an effective recruitment strategy for adopters. (Para 103)

24. Reduce the likelihood of adoption breakdown by developing the adoption support offer so that children and adopters receive support that matches their needs. (Para 109)

25. Improve ways to keep in touch with care leavers, providing a place for them to drop in and have access to the care leavers' team. (Para 112)

26. Improve pathway plans so that they reflect the needs and aspirations of young people and involve them in the planning process. (Para 119)

27. Improve arrangements to provide and monitor education, employment and training opportunities for care leavers and increase options available to them, for example through apprenticeships. (Paras 111, 117, 18, 120)

Summary for children and young people

- Senior managers in the local authority do not currently make sure children and their families get the right support when they need it most. They do not listen well enough to children and young people to help them provide a better service.
- They do not make sure all of the staff at the local authority have the right support and training to help them meet the needs of children, young people and their families. Inspectors have told them that it is very important that they must quickly do much better for Sunderland's children and young people.
- When children and their families have problems that are easier to solve, they get good support from professionals in their community and their school. When they have more difficult problems, it can take too long to get the help they need. Social workers and managers change too many times and this makes it difficult for children and young people to build a relationship with someone who knows them well. This means they have to tell their story more than once to different people, which can be hard.
- Some children are not seen often enough by their social worker and do not get the help they need to understand the plans for their future. Not all children and young people are asked what they want to happen when decisions are made about their care.
- When children need to become looked after by the local authority they go to live with carers who look after them well. Because lots of children are cared for by the local authority, they do not have enough homes. This means that sometimes children and young people have to live outside of Sunderland. This means children often have to change school, which is not good for their learning. It can also be difficult for children to keep in touch with their family and friends.
- Some children need to live away from their parents permanently. When this happens, it sometimes takes too long to find them a permanent home. The local authority always tries to make sure brothers and sisters live together, and they do this well.
- When young people are old enough and are ready to leave care, they do not get a good choice of somewhere to live and they are not given enough support to live by themselves. Some young people want to stay with their foster carers after they leave care but often their carers do not get enough help and advice from the local authority to make that happen.
- Too many young people leave care without good qualifications, which makes it difficult for them to get a job. They do not get enough support to go to college or university. The local authority knows they need to get better at providing support.

The experiences and progress of children who need help and protection	Inadequate

Summary

Serious and widespread systemic weaknesses in children's social care services mean that the local authority is failing to ensure that the most vulnerable children in need of help and protection are effectively safeguarded.

Inspectors saw many examples of referrals by partner agencies concerned about children where not all necessary action was taken to ensure that they were safe. The work of children's social care is characterised by unallocated and unworked children's cases, leading to drift and delay in providing services to meet children and young people's needs. During the inspection, 21 children's cases were referred back to the local authority by inspectors to request that immediate action be taken to ensure children's needs were met. This is one out of every ten children's cases looked at by inspectors.

Frontline social work managers do not get the support they need from middle managers to make effective decisions. This is compounded by high staff turnover and a dependence upon agency staff. Senior managers do not have sufficient understanding of the issues faced by frontline staff, particularly in the Multi-Agency Safeguarding Hub (MASH), who have very high caseloads and are therefore unable to respond swiftly and appropriately to the needs of children and families.

The threshold for access to children's social care services is not clearly understood and applied by partner agencies and frontline workers in the MASH. Partnership work does not provide an effective and safe response to supporting families who experience parental drug and alcohol or mental health problems, or domestic abuse. The out of hours service, which is meant to ensure that children can receive urgent help and protection during evenings and weekends, is not fit for purpose. Private fostering arrangements do not meet statutory requirements.

Families experience too many changes of social worker. Social work practice is characterised by delays in response to requests for help, children not being seen, limited direct work, and poor quality or absent assessments. This leads to poor quality planning to meet children's needs. In most cases, children and young people are not sufficiently engaged in assessments or involved in shaping their plans. Assessments and plans do not generally take into account distinctive features, such as their ethnicity or disability.

In most cases reviewed in detail by inspectors, social work intervention has not led to sufficient measurable improvement in children's lives. Not all children in need (CiN) or those who are the subject of child protection concerns have a written plan as they should do. Even children that do have a written plan are not always seen as frequently as they should be.

Social workers do not manage core groups of professionals effectively to deliver child protection plans. Core group meetings are not well attended by partner agencies.

The range of early help services and programmes provided by the partnership is not well focused or coordinated by a clear strategy. As a result, it is not always clear what services are available to help, although several individual examples were seen of effective early help to support individual families.

Services to protect children who go missing from home or are at risk of child sexual exploitation (CSE) are seriously underdeveloped and lack coordination. Data collected about children at risk of sexual exploitation is of poor quality. This limits effectiveness, as the partnership does not have a clear understanding of the extent of the problem to enable them to address concerns. When children go missing, return home interviews are not routinely offered as they should be. Arrangements to support children missing education are more effective, but do not link effectively with those for children missing from home or care and those at risk of sexual exploitation. This is a missed opportunity to improve the protection of these children by developing a greater understanding of risks and how to reduce them. The recommended actions from a recently commissioned review of children at risk of CSE are too recent to demonstrate improvement.

Inspection findings

28. Vulnerable children in Sunderland do not get good enough help and protection from children's social care services. Serious and widespread systemic failings mean that the most vulnerable children in need of protection are not effectively safeguarded. Many examples were seen by inspectors of situations where the local authority has not taken all the action necessary to ensure children's safety. During the inspection, 21 children's cases were referred back to the local authority by inspectors to request that immediate action be taken to ensure children's needs were met. This is one out of every ten children's cases looked at by inspectors. Social work staff do not consistently follow safeguarding procedures. Neither they nor their managers get the management support and oversight they need. Senior managers do not have sufficient understanding of the issues to take appropriate action to improve performance and practice at the frontline.

29. Within the Multi-Agency Service Hub (MASH), which deals with all new referrals to children's services, there are not enough social workers to deal with the high number of reported concerns about children's welfare, including incidents of domestic abuse. This lack of capacity is not only because of the number of referrals that come in but also because these social workers are additionally responsible for ongoing work with children up to the point of an initial child protection case conference, the establishment of a child in need plan or case closure. This lack of social work capacity during the key early stages of work with children and their families, leads to very high caseloads for social workers and creates a 'bottleneck' that leads to delay in progressing work with children. This key challenge for the local authority has not been managed effectively.

30. The threshold for referral to children's services is not sufficiently understood and applied by partner agencies and social workers in the MASH. The majority of contacts come from the police, who have no triage process to assess the appropriateness of the referral before contacting the MASH. This leads to 50% of these contacts resulting in no further action. The MASH is expected to provide a swift initial response to concerns about children, but there are significant delays in decisions to progress referrals and take effective action.

31. Within the MASH, inspectors saw significant shortcomings including delays in the allocation of cases to social workers, children not being visited, poor quality case recording and the drift in the completion of assessments. Additionally, 122 children's cases had been held for five months without being progressed effectively. In the worst example, a social worker had 45 assessments to complete that were not entered on the children's electronic records. When inspectors identified these shortcomings, they were told that the local authority had been aware of the concerns and during the first week of the inspection deployed additional social work resources within the MASH to enable staff to assess risk and respond to unallocated and unworked cases.

32. The quality of social work assessments is poor. Social workers are confused about what type of assessment to complete. This is also the case for early help professionals, who use different types of assessment to inform their plans. In almost all cases looked at in detail by inspectors, social work assessments were of poor quality. They are not timely, comprehensive or analytical and do not lead to appropriate or focused help. Assessments have weak analysis of risk and protective factors. They do not consistently include an evaluation of the child's identity. Chronologies are not used effectively to identify historical factors and in some cases, assessments are absent or out of date. The voice of the child is not considered in the majority of assessments seen in the MASH and it is therefore unclear of the child's view of their situation.

33. Transfer arrangements for cases to progress from the MASH to locality social work teams for continuing work are not child-centred, safe or effective. Transfers are made via e-mail with no prior discussion or agreement between managers and are therefore sometimes missed. The delay experienced by

families at this stage means that social workers in the locality teams find it more difficult to develop effective relationships with children and their families as they have been waiting too long for help.

34. The out–of-hours service that provides emergency social work services at evenings and weekends is not fit for purpose. There are no staff members specifically dedicated to it. Arrangements rely on social workers who have been working through the day continuing to work out of hours. Tired out-of-hours social workers often focus only on responding to the immediate presenting safety issues for children. They frequently fail to complete essential records such as full referral details or records of child protection strategy discussions. As a result, this essential information is not available on the electronic records to ensure continuity between the day and out-of-hours services in keeping children safe.

35. The number of children subject to child protection plans in Sunderland is rising. In May 2015, 394 children were subject to a plan. This is a 29% increase from 31 March 2014. A high proportion of children in Sunderland (86%) are subject to a child protection plan for the category of neglect. This is much higher than both statistical neighbours (55%) and England (43%). The reasons for this have not been analysed and are not well understood by the local authority.

36. Not all those assessed as children in need (CiN) under Section 17 of the Children Act 1989, or who are the subject of child protection concerns, have a plan aimed at reducing risk and improving their welfare. In no cases looked at in detail by inspectors was there a good child in need or child protection plan; many were poor. Examples were seen where there was no written plan. Where they did exist, many were out of date, delayed in completion or had key omissions. Plans are not consistently reviewed or updated and so do not adequately reflect children's changing needs or level of risk. In the large majority of cases, children's needs arising from diversity factors are not sufficiently considered. This means that the help being offered to the family lacks focus and is not defined by clear expected outcomes.

37. The allocation of a case to a social worker does not consistently or reliably improve children's safety. Children experience too many changes of social worker. Nearly a quarter of all children subject to a child protection plan are not seen by their social worker in the timescale set by their plan. In the large majority of cases where action is required to remove a child permanently from their family, arrangements are not progressed in a timely manner. There are delays and missed opportunities in obtaining legal advice to help shape assessments and plans and poor contingency planning.

38. Child protection core groups do not always take place regularly and when they do, they are not well managed. They do not use the child protection plans to measure progress and ensure actions are focused on the issues and actions that will make the most difference. There is no designated minute-taker and so no formal record of the core group meeting to share with group members,

including children, young people and parents. Consequently, it is not always clear what action is required from whom and by when. Professionals from the different agencies who attend core groups report that they make their own notes and often have to contact social workers after the meeting to ask them what they need to do.

39. Partnership working to meet children's assessed needs is of inconsistent quality. In most of the cases looked at in detail by inspectors, multi-agency work is not effectively coordinated. There is some poor joint work between children's social care and the police. This includes poor information sharing to determine risk and weak decision-making on whether to undertake single or joint child protection investigations.

40. The consistently poor performance of children's social work services has resulted in a loss of confidence by their partner agencies. This has led to delayed referrals and refusals by agencies at early help panels to accept cases judged by children's social care to be ready to step down from child in need and child protection plans. As a result, many examples were seen of children remaining in the statutory system when this is not necessary and may not be in their best interests. Attendance of some agencies, in particular the police, at core groups and child protection conferences is poor.

41. Identified risks to children are not always clearly documented in case records. This compromises the council's ability to make the right decisions at the right time when children may be at risk of immediate harm. Significant gaps in case records include poor or absent records of strategy discussions and meetings and delays in placing child protection conference minutes on file. The outcome of child protection enquiries is not recorded consistently and the timeliness of progressing to an initial child protection conference (ICPC) is consistently poor. Performance in April 2015 was only 51% within timescale. In addition, social workers use offline documents for the majority of their recording including initial assessments, strategy discussions, child protection enquiries, reports to ICPCs and care plans. Consequently, children's electronic case records do not contain accurate details of social work activity and the dates of completion of work, which hampers frontline managers' ability to monitor and improve practice.

42. Transition arrangements between children's and adult services for disabled children do not consistently ensure effective planning for young people at this important point in their lives. This is because, unless disabled children are assessed as having complex needs, they have a review chaired by a non-social work qualified support officer when a detailed social work assessment to fully identify their needs would be more appropriate.

43. Children at risk of child sexual exploitation and those who go missing from home and care are not adequately safeguarded. Understanding of the numbers of children involved, the effect this has on them and the impact of services in tackling the problem is seriously underdeveloped. Staff from different agencies

have received training and a risk assessment toolkit has been introduced to inform their responses to risk. This is not yet embedded in frontline practice, with some social workers unclear about how to use the tool. The Missing, Sexually Exploited and Trafficked (MSET) group meets monthly and has had some success in working with individual young people who are vulnerable to sexual exploitation or who have repeatedly gone missing but does not routinely compare data and intelligence from different sources to understand the wider picture or who are the most vulnerable young people. In particular, gaps in intelligence and data and a failure to make connections between cases of actual or risk of sexual exploitation, children missing from home or care and those missing education limits the effectiveness of this group. This means that professionals do not have the detailed understanding that would enable them to identify children at greatest risk, identify 'hotspots' or develop services. Although some examples were seen of disruption activity, this work is not yet effectively coordinated.

44. A national charity's 'Cut them Free' campaign and 'Chelsea's Choice', a themed drama production about a true story of exploitation, have been rolled out across all schools, reaching many children.

45. When children do go missing, return home interviews are not always offered. Social workers and managers are not clear on statutory guidance about when a return home interview should be offered. Return home interviews for children not known to children's services who go missing from home are undertaken by a commissioned service. However, there is no equivalent service in place for children and young people who are 'active cases' to children's services, when they go missing from home or care. Copies of return home interview records for children not known to the local authority are sent to the police. However, those that are carried out by social workers for young people who 'open cases' to children's services are not sent to the police. As a result, there is no opportunity to collate information from the full range of interviews to help shape and target services. When this was raised as a concern by inspectors, the local authority put in place revised guidance to staff to ensure copies of all return home interviews are collated centrally.

46. Arrangements to support children missing education are effective but school attendance remains a challenge. Thorough procedures are in place to ensure that any children missing from education (CME) are identified quickly and appropriate action taken to establish their whereabouts. Weekly school returns are followed up swiftly and investigations are referred to the five locality attendance officers. Information about the names and number of children missing education is not however cross-referenced with information about children vulnerable to sexual exploitation or missing from home or care. This limits the local authority's ability to assess who are the most vulnerable children. The authority provides appropriate support to parents of children receiving elective home education including advice and guidance, home visits and examination arrangements. However, procedures are insufficient to assure

the quality of alternative educational provision and they are particularly poor for those children educated outside of the local authority area.

47. The local authority cannot be assured that children who live within families where there are concerns about parental drug or alcohol misuse or mental health problems are supported and safe. Delayed responses by the local authority and the poor quality or absence of assessments, combined with confusion about the availability of services, leads to a lack of appropriate focus on these families' needs. The Safeguarding Joint Services Needs Analysis (May 2015), highlights fragmented pathway arrangements between preventive and early intervention services, Strengthening Families and social care. This includes duplication of service provision in some areas and scarcity of provision in others, with identified problems around the lack of consistent application of child protection thresholds. This mirrors the concerns identified by inspectors.

48. Poor partnership work provides an ineffective response to supporting families experiencing domestic abuse. Insufficient training and support means that social workers do not always have the knowledge they need to spot the signs and symptoms of domestic abuse, or to make effective interventions. The local authority does have a standard assessment tool for assessing risk in cases of domestic abuse but this is not routinely employed. The data on domestic abuse is insufficiently developed to help shape service and management decisions. The rate of domestic abuse referrals has risen sharply by 40% in the last year and the local authority and its partners do not know why. Domestic abuse contacts and referrals from the police are of poor quality. They are not informed by an assessment of the risks posed to children and do not provide a sound basis for social work decision making. The Police triage team uses an evidence-based assessment tool but does not routinely share this information as part of the notification to children's social care. Following referrals, children's services send standard letters to parents who may be either a victim or a perpetrator of domestic abuse, despite the possible risk of further violence inherent in this practice.

49. Private fostering arrangements do not meet statutory requirements. It is acknowledged by the local authority that insufficient work is being done to promote awareness of private fostering across the area. A small number of young people are appropriately identified as privately fostered when referred to the MASH. There were then considerable delays in the completion of assessments of private fostering arrangements and, where these do exist, they are of poor quality. Visits to support privately fostered children and young people are neither sufficiently frequent nor regular, and it is unclear from social work records what help is being offered.

50. There are delays in the progression of some cases being considered by the local authority designated officer (LADO), where child abuse is suspected by an adult who is in a position of trust. This means that children's safety cannot be assured. Despite prioritisation of cases by the LADO to ensure that the immediate safety of children is not compromised, there is insufficient capacity

to provide a timely response to all cases. As in the broader work of the local authority, there is a reliance on the use of offline systems that are not connected with other child protection processes. This leads to poor coordination.

51. The Strengthening Families approach is Sunderland's response to the Troubled Families national initiative. The model became operational in March 2013. By December 2014, Sunderland reported that all of the 805 families they were working with had been 'turned around'. The Strengthening Families panel provides a multi-agency forum for access to services, but the police no longer attend. This delivers less effective joint work to support families.

52. A range of services are provided by the local authority and partner agencies for families requiring early help. These services have greater stability in middle management, make some effective use of co-location of professionals to enable teams around the family (TAFs), and share a robust panel system that monitors thresholds for intervention. However, whilst there are examples of good early help making a difference to families, overall there is a lack of strategic coordination and data is not used to identify the different levels of need across the city and target services to address that need. As a result, help is not always available at the right time and in the right place.

53. Gaps in the provision of early help mean that families experience inequality of access to the services they need. For example, the early help offer for children under five years has much clearer pathways, but this is not the case for children over five. Victims of domestic abuse and others who need to attend parenting programmes experience waiting times of up to five months. There is some targeting of service where there are three or more agencies involved with families through TAFs but the number of families engaging with this service is low, only five in the East locality at the time of the inspection.

54. Local authority family support workers provide some effective services for children just below the threshold for safeguarding. However, there are not enough of them to meet the demand and so some families wait too long to get the help they need. Examples were seen by inspectors of families caring for disabled children with complex needs experiencing delays in getting services and of others experiencing gaps in services.

55. For those receiving services, many families are engaging successfully with the early help provided and they have their cases reviewed to ensure their changing needs are met. Almost all of the 536 children who have been subject to an assessment under the common assessment framework (CAF) last year have been to the Strengthening Families panel and their circumstances have been reviewed. Good preventive work provided in children's centres was also seen by inspectors. This includes targeted work with parents from ethnic minority groups who are accessing parenting programmes, and a language, literacy and mathematics course that is making a discernible difference to their lives. Where outcomes have improved, this work is underpinned by effective

support that meets identified need through a child-focused plan. Some examples were also seen by inspectors of effective use of TAFs involving mental health support services, 'Wear kids' and the Sunderland Youth Offending Service.

56. The youth drug and alcohol project (YDAP) works well with young people up to the age of 18. Effective targeting of young people who present at Accident and Emergency is a good way to engage with young people when they may be at their most receptive. As a result, the number of young people engaged in programmes has gone up by 20% to 126 young people in the 12 months to 31 March 2015. The YDAP is performing above national average in key areas such as early access, with 100% of young people waiting less than three weeks to access the service and planned exits from the service at 87%. This demonstrates good outcomes for this vulnerable group. The rate of first time entrants to the youth justice system is on track to achieve the challenging 2014-15 target of less than 650 FTEs per 10,000 of 10-17 year-olds, following a period year on year improvements.

57. A Charter mark for schools in anti-bullying ensures quality standards that subscribing schools must adhere to, which the large majority do. This includes the completion of a Cyber Safety Agreement. The children's anti-bullying team and individual school leads use creative means of getting the messages across within settings including, drama, poster competitions and poetry.

The experiences and progress of children looked after and achieving permanence	Inadequate

Summary

There are serious and widespread failures in services for children looked after. Some children have remained at home in harmful or potentially harmful situations for too long before becoming looked after. When children do become looked after, they are often unable to develop trusting relationships with their social worker because of frequent staff changes. Children wait too long to be placed with permanent carers and to achieve legal security. The local authority has lost the confidence of the family courts. When children return home from care, the local authority does not always ensure these decisions are underpinned by assessments that demonstrate risks have been addressed, or provide sufficient on-going support and monitoring.

There are significant failings in quality assurance arrangements to ensure that children looked after and care leavers receive prompt and effective services that reflect their identified need. There is limited evidence that challenge by independent reviewing officers (IROs) leads to sustainable improved outcomes for children looked after. There is insufficient placement availability and choice. Increasingly children are being placed outside the city and placement stability is deteriorating.

Corporate parents are not sufficiently ambitious for children looked after. The educational attainment gap between children looked after and all children is widening. Not all children who go missing from care or who are at risk of sexual exploitation are identified or receive a return home interview.

Adoption is not considered soon enough for children who are unable to return home to their birth families. Children do not achieve permanence quickly enough. Permanency planning is not taking place by the time of the second looked after child review. Foster to adopt arrangements are under-developed. Children wait too long to be matched to an adoptive family and adopter recruitment is on hold. There are too many adoption disruptions because of poor support at critical times.

Outcomes for young people preparing to leave care are very poor and the local authority is failing to support young people in the most basic ways. Health, housing, education, employment and training needs are not met and young people spoken to are dissatisfied with the service they receive. Some young people spoken to said they felt unsafe and lonely where they live.

Inspection findings

58. There are currently 586 children and young people looked after by Sunderland City Council. This is an increase of 96 children (20%) since March 2014. This represents a rate of 107 per 10,000 children in the population, which is almost double the England average of 60 and above the average of 84 in similar councils. The local authority has not undertaken any analysis of the reasons for this increase or why a high number of these children are looked after under voluntary arrangements.

59. The local authority acknowledges that only a small number of 'connected persons' placements were previously approved as foster care arrangements. This means children were placed with family members and other connected persons without their capacity to provide safe care being formally assessed or monitored. The local authority took action to address this after a serious incident notification in August 2014 that highlighted the issue. The action taken has not however been sufficient, because inspectors found continued poor practice, including a failure to take action when assessments of carers are not approved. This means that some children remain in placements that may not be appropriate for their needs or may not even be safe. Inspectors found a small number of cases where children have remained in family placements after a temporary approval has been ended due to the unsuitability of carers. The local authority were already in the process of reviewing these children's cases and have been asked to expedite this by inspectors to ensure that children are safe and having their needs met.

60. Insufficient attention has been given to understanding the needs of children and their families and children's pathways into care. There is also a lack of concerted effort to improve early identification and provide support to families at risk of breakdown. There is no family group conference service to work with extended families and help them to make plans in family meetings to support children where concerns have been raised about their care. This also means children are not given early opportunities to live within members of their extended family when remaining with their parents is no longer possible. Consequently, some children have become looked after who otherwise could have remained within their wider family.

61. When children return home from care the authority is failing to comply with recent amendments to the Care Planning Regulations, as this is taking place without the approval of a nominated senior officer. A failure to undertake assessments before returning children home means the local authority cannot be satisfied that the concerns that led to them being removed from home have been adequately addressed. There is also limited evidence that once children return home they have a specific return plan or are visited regularly to ensure they are settled and safe.

62. When children do become looked after either by compulsory removal from home, or under a voluntary agreement to come into care, this is rarely

underpinned by effective pre-proceedings work under the Public Law Outline (PLO). Letters before proceedings are not consistently agreed with legal advisors and so the local authority cannot be confident that they are all of the required standard. Cases in the pre-proceedings stage are not regularly reviewed. Authoritative action is not taken soon enough to issue care proceedings where parents are unable to demonstrate and sustain change within the child's timescale.

63. Applications for care orders do not proceed quickly through the family courts. Consequently, the Judiciary and Children and Family Court Advisory and Support Service (Cafcass) have lost confidence in the local authority's ability to effectively support and progress children and their families through family proceedings. Delays in completing assessments at the pre-proceedings stage and poor quality assessments are two of the reasons performance is outside the requirements of the Public Law Outline where cases are expected to conclude within 26 weeks. Children's cases are currently taking an average of 34 weeks. This means children and young people are experiencing delays in achieving legal permanence and security. There is no strategic oversight of cases in the pre-proceedings process or when care applications have been issued and therefore senior managers are unaware of the delays.

64. Over half (52%) of looked after children are accommodated under Section 20 of the Children Act 1989. This is almost double the national average of 28%. The local authority has no current management information about the length of time children remain looked after under voluntary arrangements or the reasons for it. The local authority began auditing these cases from February 2015. This action remains incomplete with only 66 of 308 children subject to Section 20 being reviewed by a senior manager. There is limited evidence these reviews have led to any remedial action being taken.

65. Inspectors considered all 66 audits of the cases of children subject to Section 20 and a further 112 audits on cases of children with full care or placement orders. The findings show significant delay in securing permanence for children either through care outside their birth family, return to parents or kinship or connected persons care. Inspectors found 11 children subject to the pre-proceedings process, some for more than 12 months with no decision to issue care proceedings despite a lack of improvement in their circumstances. Inspectors also found two children experiencing delay in assessments for Special Guardianship Orders (SGO), one for more than two years; and four children whose plans for possible return to their families have not progressed. In relation to children on full Care and Placement Orders, inspectors found five awaiting assessment for SGO and seven children awaiting revocation of their Placement Order. Evidence in one case had been filed with legal advisors for over 18 months. Given that only 178 of 586 cases have been audited so far, the true extent of delay in progressing children's plans is likely to be far higher.

66. Challenge by IROs does not lead to sustainable improved outcomes for children looked after. IROs are not given sufficient profile and status as

additional guardians of the child's plan. Where IROs identify drift and delay, they escalate this to senior managers but this has little or no impact. Only a minority of children achieve a plan of permanence by their second looked after review. Consequently, children experience unnecessary delay in the implementation of their care plans. Excessive caseloads of more than 100 mean IROs cannot fulfil all of their statutory duties and are not able to track progress on children's plans between reviews. The timeliness of reviews has deteriorated from 94% in timescale in 2013-14 to 76% in 2014-15.

67. Children's needs are not formally reassessed once they become looked after and so care plans are often not informed by children's current developmental needs. Care plans are not always clear about desired outcomes for children and what is expected of the various professionals involved in their lives.

68. Inspectors have seen no evidence that placement and information records are routinely provided to carers when children are placed, or updated when children move placement. This means key information required by carers in order to provide appropriate care for an individual child is not always available. This includes delegated authority for carers. This is a statutory requirement.

69. Arrangements for children's contact with their birth families are not informed by children's needs and are not reviewed by social workers. The contact service is under-resourced and consequently children's contact is being supervised on an ad hoc basis by a variety of staff from across the local authority. Not all dedicated contact supervisors have relevant qualifications and none of the 25 staff had received any relevant training prior to the service starting in April 2014. Children see too many different workers during family contact; this is not helpful for their emotional development and wellbeing. This failure to consider children's needs and routines, to review contact arrangements or to supervise contact with suitably trained staff is compounded by the use of unsuitable venues. This exposes children and young people to risk of harm.

70. There is insufficient local placement capacity to meet the needs of children looked after. Consequently, 166 children (31%) are placed outside the local authority boundary and this has a negative impact on their ability to keep in contact with family members and other significant people in their lives. Children's education is also disrupted at critical periods in their learning, with 146 school age children moving schools for reasons other than a key phase in their education.

71. The local authority currently has five children's homes, four of which are judged good. One children's home requires improvement. The local authority has taken immediate steps to implement an action plan to improve the effectiveness of this home and no further enforcement action has been required. Where young people are placed in private residential homes outside the city, robust commissioning and effective regional consortium arrangements ensure the provision is only used where it is judged good or better by Ofsted.

72. The local authority's fostering service does not have a clear strategy to respond to some significant challenges that it is facing. Despite rising numbers of children looked after and declining placement stability, recruitment of foster carers is not currently being prioritised and there is growing pressure to find enough carers for sibling groups and teenagers with challenging behaviour. The service is overwhelmed with the number of connected person carer assessments that are being requested. Currently the team are assessing 17 such carers, five of which are overdue. Connected person carer assessments are of a poor quality. More positively only two children are currently waiting for long-term carers to be identified and no brothers and sisters are currently placed apart unless this has been in accordance with their care plan.

73. The chair of the fostering panel has recently resigned and a new chair has taken over. The panel is properly constituted and works well together. The panel does not however receive performance information or reports. First reviews of foster carers are presented to panel, though currently there is a backlog.

74. The panel has turned applications down, but the majority have then been overruled by the agency decision maker (ADM). The panel does not currently have confidence that the recommendations they are making will be supported by the ADM. This role has been filled with a series of interim post holders. Consequently senior managers cannot be assured that decisions are being made in the best interests of children.

75. Foster carers feel supported by their supervising social workers and, in cases seen by inspectors, social workers were visiting foster carers every six weeks. Training and development programmes have been maintained. In the case files seen by inspectors, appropriate agreements, checks and references were in place. However, foster carers do not receive formal written confirmation of delegated authority. This means that they do not have the authority to make safe and unchallenged decisions for children and care planning regulations are not being complied with.

76. The stability of short- and long-term placements for children is deteriorating. There has been an increase in the number of placement moves children experience with 76 (13%) out of 586 having three or more moves in the past twelve months. This is a rise from 12% in 2013-14 and compares to a 10% average for 2013-14 in similar local authorities. Five children have experienced six moves. One of these is just five years old. Placement disruption affects children's ability to develop stable and supportive relationships with trusted adults. This is critical to the emotional development of children unable to return to their birth families.

77. This instability is compounded by the significant turnover in social workers that children experience. In the past 12 months almost one third of children looked after have had a change of social worker. One young person told inspectors they had had 12 social workers. This has had a negative impact not only in the

child's ability to develop a meaningful relationship with their social worker but also in relation to: delays in the completion of assessments of children's needs; delays in progressing cases within the Public Law Outline (PLO); delays in children achieving permanent care outside their family; and delays in progressing children's plans either for reunification to their families.

78. Not all children looked after are seen regularly by a social worker. At the time of the inspection, there is no record of 72 children and young people having been seen by a social worker in 2015. One young person spoken to by inspectors commented 'my social worker is unreliable; they sometimes don't come when they are supposed to and they are often late'. Not all statutory visits by social workers are well recorded which makes it difficult to see the purpose of the visit or how the visit monitors and drives forward the child's plan.

79. There is a lack of evidence of management oversight on the vast majority of children's files. Rationale for decisions is unclear. The local authority does not have accurate performance data about statutory visits to children, which means senior managers are not aware whether they have been visited or not.

80. Children and young people who are living in permanent long-term foster homes are not always given access to the services they need to help make these placements successful. For example, when these children and young people receive life story work this is due to the commitment of individual social workers and foster carers rather than an organisational understanding of their needs or a policy and commitment to support this.

81. Procedures to identify and support children who go missing from care or are at risk of child sexual exploitation are underdeveloped. Currently return interviews are not offered in all cases and not all interviews are conducted by a professional with sufficient independence from the carers. Information obtained from interviews is not used or analysed to inform safety plans for individual children or understand 'push' and 'pull' factors. Information is not aggregated to identify patterns, themes and trends.

82. Not all children at risk of child sexual exploitation receive a risk assessment. Where these are undertaken, their poor quality and failure to analyse the full range of findings including the child's history of going missing means children at risk of sexual exploitation are not identified and protected. The local authority's data in relation to missing children and children at risk of sexual exploitation are unreliable. The local authority was unable to provide inspectors with a clear statement of the numbers of children involved. Inspectors sampled 18 return home interviews and cases where children were at risk of child sexual exploitation. In the vast majority of missing cases, children had gone missing on more occasions than is recorded in the authority's performance data. This means senior managers are unclear about the numbers of children at risk of child sexual exploitation and going missing from their care. This is a serious failing.

83. The Council's Pledge to all children looked after and care leavers does not reach the vast majority of children and young people. There is no website to communicate information to children and young people. The 'Change Council', which is the local authority's Children in Care Council, does not fully represent the views of all children looked after, with just five members attending the last two meetings. There are no mechanisms in place to allow Council members to canvass the views of their peers. Despite their small numbers the 'Change Council' has had a significant impact in improving some services, for example, successfully lobbying to keep two children's homes open and to increase the payment made to care leavers.

84. No children in Sunderland are allocated an independent visitor. Only eight children looked after receive the support of an advocate, despite the contracted service having capacity to allocate an advocate within 24 hours and the contract having no limit to the number of advocates who can be commissioned. This number is very low given there are 370 children and young people looked after over the age of seven.

85. The authority has made an improvement of 2.8% in reducing the numbers of children and young people at risk of offending, but this is from a very high starting point. The 2014-15 figure of 13.3% (29 out of 218 children aged 10-17) continues to fall from a high of 16.1% in 2011-12. However, the rate of children and young people offending in Sunderland remains high at 10.4 per ten thousand children compared both with North East local authorities at 6.5 and England at 3.75 per ten thousand. The lack of a restorative justice approach within the local authority's own residential provision is having a negative impact on the numbers of cautions and reprimands young people receive. As a result of this children looked after in Sunderland are around three times more likely to be cautioned or convicted for an offence when compared with children looked after nationally and twice as likely when compared with statistical neighbours.

86. The vast majority of children looked after attend good or outstanding schools. The virtual school does not however have enough staff to support adequately the 446 school-age children who are looked after. Attendance in Sunderland schools is in line with schools in the rest of England but the number of pupils who are persistently absent is slightly higher than nationally. The proportion of children looked after who have had at least one fixed term exclusion has, for the last three years, been higher than for similar groups nationally. No looked after child has been permanently excluded for the last two years.

87. Most children looked after enter school from a low starting point. Too many school moves for very young children mean they are frequently set back in their attainment. For example, out of 15 looked after children at Key Stage 1, three have moved schools four times since starting school, one has moved three times and nine have moved twice.

88. For those looked after for an average of two years or more, the rate of progress at the end of Key Stage 2 and Key Stage 4 is a mixed picture. The number of children achieving a Level 5 in reading at Key Stage 2 was higher than previous years, but at Level 4 children looked after performed below the general population of children locally and nationally. Children identified as having special educational needs perform less well than similar groups nationally at both Key Stage 2 and Key Stage 4.

89. Performance in GCSE examinations at five A*to C in all subjects shows an improving trend and has doubled in the last year from 40% to 80%. Standards in the proportion gaining five or more GCSE grades A*-C including English and mathematics has remained low at 20%, and are well below that which is expected nationally and that of their peers locally. The rate of progress is not rapid enough to close the attainment gap, and the better progress made at Key Stage 2 for some children is not sustained throughout Key Stages 3 and 4.

90. The quality of personal education plans (PEPs) is poor; target setting is insufficiently clear to drive progress effectively, with few targets being specific or measureable enough to monitor progress. Timescales are often unclear, with many actions simply being reported as 'on-going'. Young people's views are not well or consistently recorded.

91. The Anti-Bullying strategy, which includes cyber-bullying, ensures foster carers and residential workers have training to enable them to support children and young people when they encounter discrimination or bullying.

92. Thorough procedures are in place to ensure that any looked after children missing from education are identified quickly and appropriate action is taken to establish their whereabouts. Procedures to assure the quality of alternative educational provision are insufficient, particularly for those children placed outside of the local authority area. Virtual school staff do not visit providers prior to a child being placed and quality assurance procedures are not well defined. Arrangements for the transition of young people into post-16 education and training are not good enough. Young people are not helped to explore sufficiently the whole range of post-16 options.

93. Children and young people have not had their health needs identified and met because initial health assessments of children becoming looked after have often not been completed in a timely way. This has improved during 2015, from 21% in January to 80% in May. However, this improvement needs to be built on and maintained. The high turnover of social workers has been a particular factor behind initial health assessment requests not being sent to the designated doctor within 28 days, and consent not always being sought from parents.

94. Children and young people's emotional and mental health needs are not sufficiently recognised or addressed. Where strengths and difficulties questionnaires are completed for children they are not scored and are not used

to identify young people's emotional needs or gaps in services. Child and Adult Mental Health Services (CAMHs) are delivered by a number of providers and referral pathways are unclear. This means it is confusing for young people, staff, parents and carers to access services. Thresholds and the criteria for transition to an adult specialist service are particularly high. As a result, young people who may need this service are referred back to their general practitioner. Consequently young people experience stop and start assessments and delays in receiving support when they need it. However, children who self-harm are responded to very quickly and appropriately and are seen and assessed by a psychiatrist in hospital.

95. Children looked after are able to get advice and support from a specialist nurse who provides contraception services. The Youth Drug and Alcohol Project (YDAP) is a team of qualified drugs workers providing a service for all young people aged 10-18 who require specialist advice and support to help overcome problems or difficulties relating to drugs or alcohol. YDAP have a link worker specifically identified to work with local authority children's homes. Training on sexual health matters and drug and alcohol issues is regularly provided to foster carers.

96. Tier 3 CAMHS for children and young people with serious mental health difficulties is overwhelmed by the number of referrals it receives. Children wait for up to up to three months to receive a service. Staff in universal services and targeted services lack skill and confidence in dealing with emotional and mental health problems and so refer almost all cases into specialist services. This means that some children receive a mental health service unnecessarily and the service cannot focus on those children most in need. Children looked after receive a degree of prioritisation and have a separate referral pathway but this still lacks sufficient responsiveness. Care leavers are not given priority by the service and do not have a separate referral pathway.

The graded judgement for adoption performance is that it is inadequate

97. Children do not achieve permanence quickly enough. The adoption scorecard (2011-14) reports that it takes 654 days from the point at which a child becomes looked after to them moving to an adoptive family. This is 107 days away from meeting the national threshold target, 77 days longer than statistical neighbours and 26 days longer than the England average. Local authority data show a significant improvement in performance for 2014-2015, which has seen the number of days drop from 599 in 2013-14 to 484.

98. The time taken to find an adoptive family is also too long. The adoption scorecard (2011-14) reports it taking on average 240 days, which is 88 days

away from meeting the national target, 52 days longer than statistical neighbours and 23 days longer than the England average. The local authority again report improved performance for 2014-15, down from 215 in 2013-14 to 201 days. While timeliness against the main two indicators in the adoption scorecard is showing improvement, Sunderland is still not achieving the national thresholds targets for either indicator.

99. Opportunities to put in place concurrent arrangements are being missed. There is no foster to adopt policy and carers are not being actively recruited. The local authority recently identified a worker within the Permanence Team to be a Foster to Adopt Champion but it is too early to assess any impact of this development.

100. Systems are not in place to ensure that permanence planning happens by the time of the second children looked after review. In the cases seen by inspectors, formal discussions had not taken place by this point. Importantly, this means that valuable time is wasted during which contingencies could be explored and profiling work started. Added to this, the progress of children who require a permanence plan is not being tracked. The Permanence Monitoring Group, which used to meet regularly to perform this function, has not met for 18 months.

101. Some of the work within the Permanence and Adoption teams is of a good standard. Care Plans are clear and focused, Child Permanence Reports are well written and regularly updated and children benefit from good quality life story work. Social workers and social work assistants in the Permanence and Adoption teams are knowledgeable, experienced members of staff who have manageable caseloads. However, the current team manager of the Permanence Team does not have the required three years' experience within adoption work to be able to sign off key documents, such as the child permanence report. There is also a lack of appropriate management oversight in case records where management decisions and the rationale behind decisions are not routinely recorded.

102. The adoption service works creatively to find carers for children. If an in-house match cannot be found, profiles are shared with members of the North East Consortium, the Adoption Register is accessed and paper and online publications are used. The local authority has also held a number of events where information about children has been shared with prospective adopters. Sunderland is currently assessing 14 adoptive households. The local authority has a well-established two-stage assessment process and the vast majority of assessments take place within timescales. Adopters spoke positively about the training they had received.

103. Currently, adopter recruitment is on hold. It is not clear why this decision had been taken. The local authority does not have in place robust management arrangements to ensure that there are sufficient adoptive carers in the future.

104. While children in Sunderland wait too long to be adopted, the local authority is successful at securing adoption for a significant number and range of its children looked after. The Adoption Scorecard reports that from 2011-14, 21% of the children who left care were adopted; this is good performance against the England average of 14%. Further, of the children aged five and over leaving care, 9% are adopted, performance which is higher than statistical neighbours by three percentage points and higher than the England average by four percentage points. For 2013–14, eight sibling groups were placed together and there were no sibling groups placed apart where the assessment was for them to be placed together. Good performance was sustained in 2014-15 with the number of older children and sibling groups adopted increasing over the previous year. The number of children adopted from ethnic minority backgrounds is extremely small with only one child being adopted in the last year.

105. Social work assistants produce good quality life story work for adopted children. Later life letters are written and life appreciation days are taking place for the majority of children.

106. The Adoption Panel has an experienced chair, is properly constituted and takes place when required in order not to hinder the progress of cases. However, the agency decision maker is not making decisions within timescales, leading to delay at a critical point in the child's journey.

107. Two, of the current five, children waiting to be matched have been subject to unnecessary delay as a result of medical information not being provided in a timely way. These issues should have been picked up by the family finding tracker meetings, which monitor the progress of children waiting to be matched.

108. Too many children have experienced adoption disruptions over the last 12 months. This has seriously impacted on their ability to secure a permanent family. Four placements have broken down, two during introductions and two shortly after the children had joined their prospective adoptive families. Inspectors noted in all of these cases, poor matching, inadequate preparation and insufficient management oversight. In three of the matches that broke down, activity events (meetings that both children and adopters attend) were used. The local authority needs to reassure itself that this tool is effective. The learning from these placement disruptions has not been used to inform improvements in practice.

109. There is currently no waiting list for adoption support and there are 11 packages of support ongoing. Post-adoption support offered lacks depth, providing no CAMHs support for adopters and professionals dealing with challenging and complex family issues. Currently there are three full-time adoption support workers providing practical assistance and some low level emotional support. These workers have completed only 18 assessments since March 2014. Managers accept that there is a significant gap in both the range

of post-adoption support on offer and its take up despite the capacity available within the service. A scoping exercise is due to take place to consider the best way to meet the needs of adoptive families in Sunderland, while also ensuring value for money.

110. The annual adoption report does not provide a sufficiently analytical account of the work being undertaken within the service or by the Adoption Panel. This means that the Corporate Parenting Board is limited in the extent to which it is able to understand what has taken place and hold staff to account. For example, the 2014-15 report contains only data on the number and range of children who have been adopted and adopters approved. This information is not placed within the context of a service struggling to get children adopted quickly enough, support and maintain children in their adoptive placements and recruit sufficient adopters.

The graded judgement about the experience and progress of care leavers is that is inadequate

111. Care leavers and young people preparing to leave care are being failed by this service. The local authority fails to support these young people in some of the most basic ways. The outcomes for young people leaving care are extremely poor as a result of this failure.

112. Care leavers spoken to by inspectors were unhappy that they could not go in the building where the leaving care team is based to visit their support workers, meet up with each other or drop in for advice. When this was pointed out by inspectors, the local authority took immediate action to change this so that young people can enter the building. This situation has contributed to the poor performance of the service in keeping in touch with care leavers, especially those who do not consistently have access to a mobile phone. Sunderland is currently in contact with only 30% of care leavers. This is 75 of 252 young people who are relevant, former relevant or eligible, which is a decline from 52% in the previous year. This is an exceptionally low number and represents a very serious failing.

113. Housing options and choices for young people leaving care are inadequate. Only 60 out of 136 care leavers (44%) aged 19 to 21 years are in suitable accommodation. This is down from 96 out of 147 (65%) in 2013-2014.

114. Some young people told inspectors that they felt unsafe where they live because of anti-social behaviour, threats of violence or because of the poor quality of accommodation. One 17-year-old met by inspectors lives in a shared home whose bedroom has graffiti and damage from the previous tenant. Two young people living in supported lodgings did say they feel safe and happy where they live, however six that are living in or have recently moved on from trainer flats and hostels say that they felt worried and unsafe. They say that the lack of support and the loneliness they felt living on their own made them feel anxious and isolated.

115. Young people do not all know about their entitlements to funding for setting up home, equipment for work and training and they have not been given any information about advocacy or complaints. Young people are expected to fund expensive deposits and bonds on properties of up to £800 from their leaving care grant, which leaves them with little money for the essential items required to set up their own home. The local authority does not have robust commissioning arrangements in place to ensure sufficient high quality, affordable and safe housing for care leavers.

116. Four care leavers have been homeless in the past six months. They have each recently found accommodation but one young person spent three months

‘street homeless’, while another ‘sofa-surfed’ for six months. A third young person is living with just basic resources in bed and breakfast accommodation. Senior managers were unaware of these issues. Cases of homeless children looked after and care leavers are not formally reported on a regular basis to the leadership team or the Corporate Parenting Panel.

117. The local authority has insufficient contact with many care leavers and outcomes for them are poorly recorded. As such the service is unable to determine whether care leavers are being supported into employment or training. The number of care leavers not in education, employment or training is 101 out of 136 (74%). This is very high and a deterioration in performance from 57% the previous year. Five young people are recorded as being not in education, employment, or training (NEET) due to pregnancy or parenting and a further four due to illness or disability. Activity information for 193 care leavers (77%) is recorded as not known. The local authority’s inability to identify and record care leavers’ employment status is a serious failing that prevents action being taken to improve young people’s economic well-being.

118. There are no apprenticeships available for care leavers and relationships with the local college are poor. Care leavers attending Sunderland College have no transition arrangements in place, the college is not involved in pathway planning and when problems arise for students such as eviction, it is the college that offers pastoral care and support. Liaison between the virtual head teacher and the college is poor. The college does not receive information from the local authority about things that might impact on young people’s future success.

119. Pathway plans are mostly ineffective. The majority seen had important information missing; some had not been started. Those that had did not contain clear goals, expectations or timescales and young people had not been actively involved in developing them. Case recording on care leavers’ files is incomplete and does not demonstrate that comprehensive risk assessments have been undertaken. This means that the local authority does not know how many care leavers are at risk from such factors as drug or alcohol misuse and therefore do not know what support they will need to address these needs.

120. The lack of management oversight of cases means that poor practice and drift and delay in progressing plans are unchallenged. Assessments and plans are not dated, signed or reviewed by managers and the promotion of young people’s education, employment and training is not discussed with any sense of urgency. Supervision takes place regularly but is not well recorded, reflective or focused on problem solving.

121. The ‘Change Council’ provides a forum for children looked after but there is no council for care leavers and this means that their thoughts and ideas are not sufficiently heard and responded to. Care leavers said they would welcome a chance to speak to senior managers and to have a say in how services for them are designed and delivered. There is no forum to celebrate care leavers

achievements, they do not receive birthday presents and there are no arrangements in place to ensure that they are not alone at Christmas and other holidays.

122. The leaving care team is stable and many young people have had the opportunity to develop longstanding trusting relationships with their leaving care workers, who they value highly. Some of the team are experienced in working with young people and are able to offer help with practical matters and work to support young people through emotional issues. However, other workers on the team are offering low-level practical support to young people, which is more like a befriending service than a professional leaving care service. Staff do not receive adequate training and development to ensure that they have the skills to respond to young people's needs around mental health and wellbeing, domestic abuse, drug and alcohol use and sexual health.

123. Young people do not always have information about their medical histories or receive a health passport when they leave care. Some young people who spoke to inspectors have recently become mothers but had received little or no information about medical issues that may have been important to know during their pregnancy or post natal period.

124. Responses to care leavers who go missing or are at risk of child sexual exploitation are under developed and uncoordinated. Some examples of good work were seen in individual cases, such as later life letters, one-to-one work to develop self-esteem, breaking patterns of behaviour and giving young people alternatives, but there is a lack of strategy or consistency in approach. These individual cases are not used to build a picture of the risks to young people.

Leadership, management and governance	Inadequate

Summary

Senior managers and elected members, including at the very highest levels in the council, have not ensured that children and young people receive services that keep them safe. They do not ask the right questions or undertake the right activities to have a good enough understanding of frontline practice and have not put in place the necessary improvements. There has been a serious failure in governance and this has led to broad and deep inadequacies in services for the most vulnerable children.

In the year before the inspection, two independent reviews commissioned by the local authority reported significant failings in services for children and young people similar to those identified during this inspection. Despite these reports, there remain serious and widespread failings in local authority services that potentially leave children unsafe. The local authority has not been able to ensure that all children and young people who need one have a social worker who sees them regularly, an assessment of their needs and a plan aimed at improving their welfare. Decision making for children is often unclear and many children and young people experience delays in receiving help.

Performance management and quality assurance processes are poor, based on often unreliable data, and do not always focus on services and areas of practice in greatest need of improvement. Learning from audits, the complaints process and feedback from children, young people and their families are not used to understand the quality and impact of services and to drive improvement planning. Scrutiny by elected members lacks rigour and has had little positive impact.

The local authority is not meeting its responsibilities as a corporate parent. The needs of children looked after and care leavers have not been adequately analysed or met. A sufficient range and quality of placements has not been provided; both placement stability and the percentage of care leavers in suitable accommodation have declined over the last year. Outcomes for care leavers are particularly poor, with less than half in suitable accommodation.

The local authority and partner agencies do not have a shared, up–to-date strategic plan that sets out their priorities for children, how they will be delivered and how impact will be measured. The Children's Trust has not met since May 2014 and no successor forum is in place to act as a focus for the multi-agency planning and delivery of services for children and young people. A 'framework of cooperation' outlining how partner agencies will work together and a new safeguarding joint strategic needs assessment (JSNA) were both finalised in May 2015. These are positive developments but too new to have had an impact on improving the range and quality of services.

Services for children and young people missing from home or care, missing from education or at risk of child sexual exploitation are insufficient and poorly coordinated. Data and intelligence about young people are not adequately collated and analysed to inform service development and planning for individual young people. A March 2015 review of services for children and young people at risk of child sexual exploitation commissioned by the local authority identified significant weaknesses in the existing strategy and action plan.

The local authority is aware of the need to recruit and retain staff, to provide better support and to develop their skills. Despite some success in recruiting permanent staff, an on-going reliance on interim and agency staff, including at senior management level, has led to continuing instability. Plans to support and develop the skills of staff through the appointment of a chief social worker, the roll out of a 'Back to Basics' training programme and other measures are too recent to have had a measureable impact on improving practice.

Staff morale in Sunderland is low. During the course of the inspection, staff reported feeling frustrated and unsupported because they were not able to provide adequate services to children and families.

Inspection findings

125. The most senior managers and political leaders have failed to ensure that children in Sunderland are supported, protected and cared for appropriately. There are widespread and serious failings in services to the most vulnerable children and young people. Despite a commitment from both political and strategic leaders to making improvements, many of the shortcomings found by inspectors were the same as those identified in the two independent reviews commissioned by the local authority in 2014. The local authority has not shown sufficient leadership, management, impact or pace in understanding, tackling and improving these failings so that outcomes for children and young people improve.

126. Frontline and strategic managers have been unable to ensure that all children who need one have a social worker. Nor have they been able to make sure that vulnerable children's needs and the risks they face are assessed and reduced through prompt and good quality support. Inspectors saw many examples of children and young people who either did not have a social worker

at all or who did but were not being seen regularly and where work was not being done to improve their lives. This is not safe for children and young people. There are not enough frontline managers and this combined with a lack of stability arising from the high number of interim-managers means that there is insufficient management oversight to provide consistent, guidance and scrutiny of practice. As a result, decision-making for children and young people is not always clear, consistent or timely.

127. Managers at all levels have failed to provide the necessary structure, oversight and support to enable social workers to do an effective job. This has a direct impact on the quality of services received by children and their families. In talking to inspectors, social workers in Sunderland variously described the service as 'firefighting', 'overwhelming', 'dangerous', 'unsafe' and 'chaotic'.

128. Senior managers do not have a good enough understanding of practice. The role of performance management in understanding and improving practice is under-developed and the data that support performance management are not reliable. Performance reporting does not focus sharply enough on key weaknesses in services. Senior managers have not established a performance culture in which the analysis of performance is informed by managers and social workers. As a result, performance information is not used as a practical tool to improve services and develop practice. During the course of the inspection, and in response to feedback from inspectors, the local authority took some immediate steps to improve both the quality of data and how it is used to monitor and improve practice. Although positive, these are only the first steps in ensuring a robust and effective performance management system are developed to help improve outcomes for children and young people.

129. Leaders and managers also lack a good enough understanding of the quality and impact of work with children and young people, because the use of audits is weak. Although the local authority is beginning to undertake both case and thematic audits, this is a new development. Case audits began in January 2015 and have not had an influence on improving practice and outcomes for children and young people. The local authority has not made best use of those audits it has undertaken. Learning has not led to subsequent actions plans or training to improve practice or any assessment of their impact. Qualitative information from audits, complaints and feedback from children, young people and their families has not been adequately gathered, analysed and linked to performance data to give the rounded picture of the quality and impact of practice necessary to drive successful service improvement.

130. Political leaders do not have a strong enough grasp of children's experiences outcomes. Although they express a strong commitment to the welfare of children and young people, and have backed this with increased funding at a time of significant financial pressure, they have not been successful in improving services. Elected members scrutiny of children's services has not been rigorous or tenacious enough to have a positive impact on outcomes for children and young people. A new safeguarding committee, created to

scrutinise the implementation of the local authority improvement plan, met in February and March of this year but is too new to have had an impact.

131. As a corporate parent, the local authority has not analysed, prioritised and planned sufficiently to improve outcomes for children looked after and care leavers. Corporate parenting board members cannot give clear evidence of how or where they have made a positive difference for children. The 'Change Council' (children in care council) is underdeveloped. The local authority has not done enough to involve children and young people, leading to low attendance by children and no representation from care leavers. There are no mechanisms in place for the corporate parenting board to seek the views of the wider children looked after population.

132. The 2013–16 sufficiency strategy does not adequately address the 20% increase in the number of children looked after over the last year. The strategy has a much stronger emphasis on describing existing services rather than on analysing need or planning for the future. Consequently, in-house and commissioned placements do not provide a sufficient range and quality of placements to meet the needs of children and young people. This lack of focus on key priorities is also reflected in the paucity of 'edge-of-care' provision, such as a family group conference service, and in the lack of enough good quality housing or an apprenticeship scheme for care leavers. Better placement provision, where it does exist, is driven by strong needs assessment and contract and compliance arrangements, for example through consortia arrangements with other local authorities and for some young people permanently placed in out of city placements. Notably the voice of children and young people is also much more evident in placement planning in these cases. Bringing together commissioners and social care staff at children in care panels is a positive new development but too new to have had a significant impact.

133. The absence of a current priority-based multi-agency plan to deliver services for children is a significant gap and multi-agency governance arrangements lack clarity and accountability. Without such a plan, and an effective forum or board, underpinned by operational delivery plans and focused reliable performance data, agencies are not collectively achieving the best for children and are not able to hold each other to account effectively or to measure outcomes achieved for children. A 'refresh' of the Children And Young People's Plan 2010–2025 carried out in 2014 does not update the plan but rather provides a brief explanation of some key national and local legislative, policy and practice developments in the intervening four years. Delivery plans for key priorities have not been developed in the interim and the performance framework developed to measure impact has not been used. The children's trust has not met since May 2014 and no successor body is in place. A 'Framework of Cooperation' between the Health and Wellbeing Board (H&WB), Sunderland Safeguarding Children Board and Sunderland Safeguarding Adults Board (SSAB), which also envisages the Children's Trust (subject to review) becoming an advisory group to the H&WB, was drafted in May 2015 but is yet to be agreed.

134. The Safeguarding JSNA of May 2015 adds to the overarching JSNA. It provides a much stronger focus on children and young people and identifies 11 appropriate areas of unmet need and service gaps, including CAMHS and developing CSE services. It is however too new to have had impact, lacks analysis and does not focus on some services areas in need of significant development, including services for children missing from home or care and care leavers.

135. The voluntary improvement board established by the local authority has been important in starting to build the improved relationships between the local authority and partner agencies that are a necessary starting point for good inter-agency working. However, the lack of engagement in this process of some key agencies such as the police and general practitioners limits joined-up improvement planning. As with wider partnership working, scrutiny within the improvement board is under-developed and improvement planning is not sharply focused on clear priorities or underpinned by robust plans for operational delivery and impact assessment. Consequently the local authority's own assessment of progress presented to the June 2015 meeting of the improvement board is that less progress has been made than was expected.

136. Services for children missing from home, care or education or at risk of child sexual exploitation are insufficient. They lack the joined up approach and impetus that a clear strategy, action plan and robust performance data and intelligence should provide. This is highlighted in a local authority-commissioned review of March 2015 that led to an immediate action plan to remedy deficits in the previous plan and strategy but this is very new and significant gaps remain in the quality, sufficiency and impact of services.

137. Data and intelligence about children missing from home or care, those missing from education and those at risk of child sexual exploitation have not been brought together and analysed to understand prevalence, levels of risk and trends. This means that service planning, training, awareness raising and disruption activity as well as planning for individual children and young people have not been informed by the information available. In particular, intelligence from return interviews carried out with the most vulnerable children, those whose level of need means that they are an open case to children's services, has not been collated centrally to help understand need and plan service developments.

138. There is only one worker, commissioned from the voluntary sector, available to undertake specialist work with young people who go missing or who are vulnerable to sexual exploitation and to provide training and awareness raising to professionals. Consequently, there is a waiting list and young people experience delays in receiving a service. Information in relation to child sexual exploitation and missing episodes is not always shared between different meetings about children. This means that planning for children is often neither well coordinated nor informed by all relevant information, and is consequently less successful than it could be in reducing risk for children and young people.

139. The local authority recognises that recruitment, retention and workforce development are major challenges and are therefore key priorities. Some success has been achieved in reducing the percentage of the workforce who are agency workers from 30% in September 2014 to 21% in April 2015, and in achieving the target of recruiting three experienced social workers each month since January 2015. However the high percentage of managers who are interim, and the higher concentration and turnover of temporary agency staff in some key teams, remain a very serious issue. The MASH is staffed currently with 37% agency social workers. This means that the stability necessary to build sustained improvement has not been achieved.

140. The local authority has not created the conditions for good social work to thrive. Staff are often not clear about what they need to do, how they need to do it and by when. This is further hampered by a complex and unintuitive electronic case recording system, insufficient and inconsistent management oversight and supervision and very high caseloads, often in the 30s or 40s and even up to 69 in the case of one social worker.

141. The new workforce development strategy underpins a stated commitment to developing and retaining staff but has yet to show significant impact. The efforts of the newly appointed chief social worker to improve communication between frontline managers and staff and senior managers, and to drive up practice standards are well focused but too new to have had an impact. The safeguarding managers and practice champions groups have only started meeting over the last three months. Only one of six modules of the 'Back to Basics' training programme has been delivered to staff so far and risk assessment and 'signs of safety' training is yet to be rolled out.

The Local Safeguarding Children Board (LSCB)

The Local Safeguarding Children Board is inadequate
The arrangements in place to evaluate the effectiveness of what is done by the authority and board partners to safeguard and promote the welfare of children are inadequate. An LSCB that is inadequate does not demonstrate that it has effective arrangements in place and the required skills to discharge its statutory functions. It does not understand the experiences of children and young people locally and fails to identify where improvements can be made.

Executive summary

The Sunderland Safeguarding Children Board is failing to exercise sufficient scrutiny of services for safeguarding children and young people in Sunderland. It has not done enough to evaluate how effectively agencies are keeping children safe or hold partners to account for their practice. It has not provided sufficient leadership and coordination with regard to key priorities including children who may be at risk of sexual exploitation, those who go missing and those who live in homes where domestic abuse is a problem. The board has not undertaken a multi-agency practice audit for over a year. It has not therefore monitored the effectiveness of local arrangements to safeguard children as required under statutory guidance.

The experienced independent chair, appointed in September 2014, has led a comprehensive review of board membership, structure and priorities and there is now a clear commitment at senior leadership level to improving the effectiveness of the board. This has resulted in changes coming into effect in April 2015. These include all board members now being sufficiently senior to be able to commit resources or agree changes to practice in their agencies. However, while considerable development work has been undertaken and a number of initiatives are well underway, these improvements have yet to show a significant impact in ensuring that the LSCB is fulfilling its statutory functions.

Relationships with other statutory boards have until recently remained unclear. This means that the board has had limited impact in ensuring that children's safeguarding issues are prioritised within the work of other boards, such as the Sunderland Safeguarding Adults Board and the Health and Wellbeing Board.

There is a lack of clear links between various planning documents. This means that the board does not have clearly defined priorities or expectations about the quality of services for children in Sunderland against which it can hold agencies to account. For example, with regard to the provision of early help services, a single, streamlined plan is in preparation but it is not yet complete.

The board's limited resources are overwhelmed by the scale of undertaking 10 serious case reviews (SCRs) in two years, and this has seriously limited their capacity to undertake other activity. Current performance information available to the board is insufficient to allow partners to scrutinise and challenge performance.

Representation by Children's Services at sub-committees of the board has been inconsistent because of both poor attendance and staff turnover. Partners express exasperation at what they see as a lack of commitment and capability at middle management level within Children's Services.

Recommendations

142. Ensure full board approval of agreed priorities and action planning.

143. Ensure that the board is able to effectively monitor the quality and impact of services for children across the partnership.

144. Accelerate implementation of an early help strategy, ensuring that it is consistent with the 'multi-agency threshold guidance' document and then monitor its effectiveness.

145. Review multi-agency training to ensure it supports and promotes front line practice and is able to respond to demand following the imminent publication of a high number of Serious Case Reviews (SCRs); then ensure lessons are learnt and improvements embedded.

146. Agree with partner local authorities on Child Death Overview Panel (CDOP), a coordinated response to the high number of SCRs awaiting publication.

147. Ensure that multi-agency arrangements for the oversight of children missing and at risk of sexual exploitation or trafficking are driven by effective information sharing, performance monitoring, action planning and are strategically coordinated and monitored by the board.

148. Review the resources available to undertake the governance of Multi-Agency Looked After Partnership (MALAP) to ensure a sufficient focus

Inspection findings – the Local Safeguarding Children Board

149. The Sunderland Safeguarding Children Board is inadequate because it is failing to meet its statutory duties and does not provide effective oversight of all areas concerned with children's safeguarding as required by statutory guidance. The board has not had a clear or agreed structure through which to exercise its 'critical friend' role or assure itself that children's safeguarding matters are being given sufficient priority at a strategic level by partners. The board has recently (May 2015) signed off a 'framework of cooperation' with the Sunderland Safeguarding Adults Board and the Health and Wellbeing Board, but this is too new to have had an impact.

150. There is not yet a published strategy for the coordination of early help services in Sunderland and this limits the board's ability to monitor effectiveness and hold agencies to account. The board leadership recognises that the delay in its implementation is having a significant impact on planned improvements in frontline services. A draft strategy document seen by inspectors, is not consistent with the existing 'multi-agency threshold guidance' document and this will need to be resolved prior to publication to avoid compounding an existing lack of clarity among professionals about early help pathways and the threshold for referrals to children's services.

151. The board is not monitoring and evaluating the effectiveness of agencies in safeguarding and promoting the welfare of children, nor has it provided sufficient leadership and coordination with regard to key concerns such as child sexual exploitation and domestic abuse. The board has not received reports from the Local Authority Designated Officer (LADO) for two years and has not received a report on Private Fostering Arrangements (PFA). It has not conducted a multi-agency practice audit for over a year or carried out an audit of agencies safeguarding arrangements under Section 11 of the Children Act 2004 since 2012-13. As a result, it does not have a clear understanding of the quality of services. To address this, the board has recently developed and agreed a performance and quality assurance framework and is undertaking a Section 11 audit. It has also formed and trained multi-agency auditing teams, and produced an auditing pack. However, none of this is yet in use.

152. Poor performance management is a particular weakness of the board. Taken alongside the unreliable nature of much of the data and the lack of multi-agency audits, this lack of oversight means that often poor and uncoordinated safeguarding services are not receiving sufficient scrutiny and challenge of their quality and impact. Board members remain largely unaware of the impact of any development activity and cannot easily evidence progress or challenge delay. The most recent performance report to the board shows a sharp decline in domestic violence referrals. Board members knew this was inaccurate and attributable to human error, but the error passed the board's Quality Assurance sub-committee and was included in the board performance report

twice. The commentary within the board's performance reports is too focused on highlighting trends within the data and lacks sufficient analysis of the impact on children.

153. The board's failure to meet its statutory duties has been recognised and responded to by senior leaders including the local authority's Chief Executive. This led to the appointment of the current independent chair in September 2014 who undertook a comprehensive review and reconfigured the board's governance arrangements to improve its performance. The independent chair now has the confidence and trust of board members in what is a very testing environment for effective partnership working; they describe him as, 'inclusive, engaging and committed to change'. His position as independent chair of the SSAB has led to better integration with adult safeguarding matters and the promotion of a 'think family' approach.

154. The board commissions its core policies and procedures from an independent provider and they are kept up to date with current statutory guidance. Examples were seen by inspectors of effective local policy formation. Coordination between the safeguarding children and adult's boards to coordinate partners approach to Female Genital Mutilation (FGM) has led to a multi-agency group working together effectively to raise awareness of the issue, particularly amongst medical professionals working with parents. A detailed policy has been developed, including a flowchart, to undertake preventive action under child protection procedures where there is a risk of FGM.

155. A number of business plans govern the board's actions but these are not joined up. Following changes to its governance structure, the board has completed and agreed a single, streamlined plan but this is not yet in operation. The streamlined plan's outcome measurements are too centred on the completion of processes, and not sufficiently focused on the quality of practice and how this improves outcomes for children.

156. The board's Missing, Sexually Exploited and Trafficked (MSET) sub-committee does not provide the strength of leadership or scrutiny necessary to support a robust and effective multi-agency response to missing children and those at risk of child sexual exploitation. MSET enables known cases of child sexual exploitation to be tracked but does not focus on the children most at risk. Information about sexual exploitation and missing children are not evaluated together to provide an understanding of trends, themes and hotspots. This is a missed opportunity to use intelligence to inform disruption activity, which is underdeveloped, and service planning. Although there has been some ad hoc evaluation of return home interviews, overall evaluation is weak. A recent review by Children's Services of strategy and services available identified an approach to child sexual exploitation that is seriously underdeveloped and not currently capable of safeguarding young people.

157. In response to the unusually high number of serious case reviews (SCRs) following death or serious injury to a child, the board's Learning and Improvement sub-committee streamlined and refined its processes to cope with demand. As a result, it demonstrates improved, decision making, agenda planning, and tracking to ensure that SCRs are completed to their terms of reference. A high number of SCRs has placed additional pressure on board staff, sub-group members, and on resources, limiting the board's capacity to undertake other work.

158. The Learning and Improvement sub-group's six meetings in the last year have been attended by four different Children's Services middle managers. This lack of continuity has led to significant delay in taking steps to ensure that learning from SCRs and other serious cases is effectively disseminated and used to inform practice development.

159. The findings of SCRs are in line with the findings of this inspection. Board members are aware that due to inconsistency, the lessons from SCRs and any consequent changes to frontline social work practice have not had the necessary impact within Children's Services. Service outcomes for children in Sunderland have not therefore improved in line with the lessons identified by SCRs. Repeated challenge from partner agencies using the board's formal escalation process have not led to improved performance by Children's Services in this area.

160. Satisfactory arrangements are in place for the Child Death Overview Panel (CDOP), which is a tri-partite arrangement with two other local authorities. Cases are initially considered by a local child death review panel (CDRP), effectively chaired by the Clinical Commissioning Group's Head of Safeguarding. Scrutiny of LSCB minutes indicates that CDRP provides regular feedback to the board. Current themes highlighted within the CDOP annual report include standard items, such as co-sleeping, road traffic accidents, sudden unexplained deaths, and other local themes such as drowning. Many of the current high number of SCRs are yet to be published and so have not fully impacted on this forum. The current CDRP chair acknowledged that because a number of SCRs are due to be published in the near future, there will need to be effective liaison with partner agencies to ensure that the aggregated findings from these child deaths are used effectively to inform strategic planning.

161. Board arrangements for training are stronger than the board's other statutory functions. A joint committee with the adult safeguarding board oversees the training programme, although this arrangement is recent and proposals for the identification, planning and delivery of joint training are new. Training is administered and delivered by a dedicated board training officer supported by a training pool drawn from the board's partner agencies. A recent, rudimentary training needs analysis (TNA) has provided the committee with a baseline from which to adjust and enhance their training programme. The committee produces a business plan and completes an annual report of its activities.

However, documentation reviewed by inspectors indicates that the TNA was not completed in line with the board's existing business priorities, or its emerging improvement plan. As a result, it identifies a further set of priorities at a time when the board is already overwhelmed by multiple priorities.

162. The boards training budget has considerable demands placed upon it by work arising from the high number of SCRs. This will be a significant pressure going forward.

163. Data collected by the board from training sessions indicates that Children's Services is by far the worst attender, and that children's social workers have the poorest attendance record at board training. This means that partners cannot be assured that the messages from board processes such as SCRs are being heard by frontline workers from the lead agency. The board's Annual Report for 2013-14, published in December 2014, echoing the independent chair's structural review, is a frank analysis of the board's shortcomings and appropriately reads across to the board's improvement plan. However, proper consideration has not yet been given to the resource implications of the board's recent decision to take on governance of the Multi-Agency Looked After Partnership (MALAP). While this shows commendable commitment to the welfare of children looked after, the board needs to be assured that it has the capacity and resources available to ensure that this substantial additional task can be carried out effectively.

Information about this inspection

Inspectors have looked closely at the experiences of children and young people who have needed or still need help and/or protection. This also includes children and young people who are looked after and young people who are leaving care and starting their lives as young adults.

Inspectors considered the quality of work and the difference adults make to the lives of children, young people and families. They read case files, watched how professional staff work with families and each other and discussed the effectiveness of help and care given to children and young people. Wherever possible, they talked to children, young people and their families. In addition the inspectors have tried to understand what the local authority knows about how well it is performing, how well it is doing and what difference it is making for the people who it is trying to help, protect and look after.

The inspection of the local authority was carried out under section 136 of the Education and Inspections Act 2006.

The review of the Local Safeguarding Children Board was carried out under section 15A of the Children Act 2004.

Ofsted produces this report of the inspection of local authority functions and the review of the local safeguarding children board under its power to combine reports in accordance with section 152 of the Education and Inspections Act 2006.

The inspection team consisted of 11 of Her Majesty's Inspectors (HMI) from Ofsted.

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Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **25 September 2015**

CORPORATE ASSURANCE MAP 2015/2016 – 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 covers work undertaken for the Council and Council owned companies.

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 2015 the Committee approved the proposed Corporate Assurance Map for 2015/16 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 15th September 2015, 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.

4.2 The Map also shows assurance received in relation to the Council’s wholly owned companies, Sunderland Care and Support Ltd and Sunderland Live Ltd.

Corporate Assurance Map

Assurance Position (as at 15th September 2015) (Cumulative)		2015/16										
		1st Line	2nd Line								3rd Line	
		Management Assurance	Other Internal Assurance Activity								Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR &OD	Business Continuity	Risk and Assurance		
Strategic Risk Areas												
Current Risk	Residual Risk											
People										X		
Place										X		
Economy										X		
Organisational				X						X		X
Corporate Risk Areas												
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	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	
Wholly Owned Companies												
Sunderland Care and Support Ltd		X		X		X					X	X
Sunderland Live Ltd		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

4.3 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). Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

4.4 A refresh of the Strategic Risk Profile is planned to be undertaken in the next Quarter.

Assurance from Internal Audit

4.5 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

4.6 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 Leisure Services joint venture, Sunderland Care and Support Ltd and place based services.
- Children’s Safeguarding.
- Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3.
- 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 and the future of the service.
- Implementation of the Intelligence Hub.
- Implementation of the Care Act and Children and Families Act.

4.7 As has been reported to the Committee previously, a significant amount of work has been undertaken by the Risk and Assurance team to support Children's Safeguarding. The result of the OFSTED visit was an "inadequate" rating and a separate report regarding this is included on the agenda for this meeting.

<u>Assurance from others within the Council</u>

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

4.9 Whilst the overall financial management arrangements continue to provide substantial assurance in respect of the council's overall financial position, costs in relation to children's safeguarding have continued to increase following the Ofsted inspection, placing significant pressure on the council revenue budget position both in year and in the medium term. The review of the children's safeguarding improvement plans to be undertaken by the appointed Children's Commissioner will be a key element in assessing the on-going financial pressures in this area. The on-going financial pressures will be addressed in the budget planning for 2016/2017.

<u>Assurance from Management</u>

4.10 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.

<u>Assurance from External Sources</u>

4.11 The Map has been updated with the results of external audit work in relation to Sunderland Care and Support Ltd which provided positive assurance.

<u>Overall</u>

4.12 All 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.

5.2 Performance is on target for all KPI’s apart from:

- Percentage of draft audit reports issued within 15 days of the end of the field work – performance of 76.5% against a target of 90%
- The percentage of medium risk recommendations implemented (excluding schools) which stands at 83, as shown below:

Area	Implementation Rate
Council services	83%
Schools	85%

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, except for the arrangements in place for services for children in need of help and protection, children looked after and care leavers, and the effectiveness of the local safeguarding children board. A separate report is on the meeting Agenda providing an update in this regard.

7. Recommendations

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

Appendix 1

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	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PE 1 Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures	Neil Revely, ED of People Services	**2x4 = 8**	**2x4 = 8**	• Implement the Health and Wellbeing Strategy to: o Target prevention and early intervention o Build capacity and reduce dependency to help individuals to be more independent and self-sustaining • Manage demand by empowering customers to take up viable alternatives to council services • Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations **Progress** • Health and Wellbeing Board has responsibility for delivering the Health and Wellbeing Strategy • Delivery plan for the Health and Wellbeing Strategy • Continuing to integrate approach. Consideration being given to an integrated commissioning approach with Health • Joint Strategic Needs Assessment completed and signed off by the Health and Well Being Board • People Services plan on a page in place • Better Care Fund agreement in place	**2x4 = 8**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PE 2 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	• As a Community Leadership Council we will strengthen self-help capacity in our communities • Deliver the Voluntary Community Sector Relationship Transition project • Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance • Through the "PEOPLE" strand of communications deliver an integrated campaign, which encourages people to help themselves **Progress** • Continuing to develop the approach to being a Community Leadership Council • Voluntary Community Sector project complete, it developed an approach that aligns engagement with the VCS and day to day service delivery • Community Resilience Plan being implemented in parts across all partners. Arrangements for monitoring of progress and effectiveness need to be developed.	1x3 = 3
PE 3 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	• Deliver the Public Health improvement responsibilities • Progress the delivery plan and performance management to address improvement in health indicators **Progress** • Plan on a page in place • Progress on overarching indicators to be reported to Health & Wellbeing Board • Board to challenge other under performing indicators • University to review methods of measuring progress as to how things are being done differently • People Services plan on a page includes Activity Policy • Education and Skills Strategy includes what 'great	2x3 =6

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				schools' look like, including healthy eating and activity • Joint Venture agreement for Leisure includes targets for increasing activity levels	
PE 4 Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended	Neil Revely, ED of People Services	3x3 = 9	3x3 = 9	• 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 • Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET • Maximise learning opportunities afforded by the Youth Contract and by 3rd sector providers to young people requiring most support, to move them towards employment opportunities. • The Education Leadership Board to continue to improve the links between schools and employers • Extend the environmental apprenticeship scheme across other Streetscene services **Progress** • NEET interventions continue via work of Locality/Connexions team members. This is being supplemented through People Board initiatives • North East Leadership Board (Combined Authority)has been set up 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 • "Work Discovery" which is now in its third year, was established through business leaders working directly with schools, supported by the Council, providing students with greater knowledge of job opportunities • Education and Skills Strategy launched which prepares young people for employment and successful careers, but no delivery plan in place	2x3 = 6

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PE 5 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	3x3 = 9	3x3 = 9	• Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors • Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families • The Education Leadership Board to continue to Improve links between schools and employers • Set up the Combined Authority whose remit will include regional skills issues **Progress** • ELB is fully in place with key stakeholder involvement, i.e. employers, training providers, college/university, schools and nurseries, Council officer. • Combined Authority in place from April 2014 • FACL continues to have increased participation and improved level of accredited course participation. • 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 • The Economic Leadership Board has established 3 Result Groups including Sector Growth and Skills, providing a greater focus on skills on a city wide basis • 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 • Judgment of 'Good' received from the recent FACL OFSTED inspection	2x3 = 6

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				• Education and Skills Strategy launched which prepares young people for employment and successful careers, but no delivery plan in place	
PE 6 Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions	Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	• Continue to deliver the Welfare Reform "Social Fund" • Prepare for the introduction of "Universal Credit" • Implement the Community Resilience Delivery Plan • Continue to implement the Child and Family Poverty Strategy • Deliver the Strengthening Families project • Develop and implement a delivery plan for the Access to Housing Strategy **Progress** • Uncertainty remains over the introduction of "Universal Credit • Strengthening Families approach being used to address poverty and cohesion issues an being positively supported by the intelligence service	2x3 = 6
PE 7 Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities	Neil Revely, ED of People Services	1x3 = 3	1x3 = 3	• Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements • Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups • Develop an asset based approach to delivery, making better use of assets that already exist in families and communities **Progress** • 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.	1x3 = 3

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				• People Services plan on a page in place • Benefits co-ordination with Gentoo regarding people with complex needs • 2 GP federations established to co-ordinate communications with GPs in the City	
PE 8 Failure to align partner services to ensure we have a city that is safe and secure	Sarah Reed, Assistant Chief Executive	**2x2 = 4**	**2x2 = 4**	• 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 • Apply the Strengthening Families approach to support people out of offending **Progress** • The multi agency Strengthening Families Programme is starting to record success in reducing offending • Negative Ofsted report received and improvement plan being developed by external Commissioner • Integrated locality based teams being established	**1x2 = 2**

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	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PL 1 The Local Development Framework is not adopted thereby restricting development opportunities for the City	Alison Follows, ED of Commercial Development	**2x4 = 8**	**2x4 = 8**	• Develop the LDF (Local Plan) to ensure it meets the required Government criteria **Progress** • Local Plan is being developed in line with government criteria. However adoption of Local Plan is expected to be late 2017/18. Development will not stop however until the Local Plan is adopted • Area Action Plan to be developed in respect of the IAMP site	**1x4 = 4**
PL 2 Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Alison Follows, ED of Commercial Development	**2x3 = 6**	**2x3 = 6**	• 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 • Develop and implement the Sunderland Housing Strategy • 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 • Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund **Progress** • Combined Authority set up to o Provide leadership and a united voice on key strategic transport issues.	**1x3 = 3**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				o Link strategic transport planning with economic priorities. o Provide strong representation on transport issues of national significance including rail, strategic road network and our ports. o Provide more effective co-ordination enable improvement to the area's public transport network. o Offer the best framework to maximise and manage devolution of transport funding • Funding secured for new wear crossing and scoping of the IAMP development	
PL 3 Delivery of capital investment priorities is too slow to realise opportunities available	Alison Follows, ED of Commercial Development	**Score 2x3 = 6**	**Score 2x3 = 6**	• Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity • Continue to support the development of priority areas including o Vaux site o Sunniside o Seaburn **Progress** • Realignment of St Mary's Way and development of city centre square progressing which will support development of the Vaux Site and City Centre. • New Washington Leisure Centre opened. • Creation of the LABV should expedite the delivery of investment priorities, including the Vaux site. • CEO appointed to the LABV • Keel Square opened	**1x3 = 3**
PL 4 Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre	Andrea Winders, ED of Enterprise Development	**2x3 = 6**	**2x3 = 6**	• Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign • Private sector partners to develop a Business Improvement District proposal providing resources	**1x3 = 3**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				that will contribute to physical improvement in the city centre **Progress** • Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The Board membership currently stands at 17 who are elected from businesses and city stakeholders. The Board is responsible for ensuring projects are delivered on time and within budget. A small operational team is now in place to support 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 • Make it Sunderland campaign continues to promote investment in the City • Inward investment secured in respect of The Bridges, Sunniside Leisure and a new hotel complex.	
PL 5 The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility	Neil Revely, ED of People Services	**2x2 = 4**	**2x2 = 4**	• Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes • Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers) **Progress** • On going engagement with NEXUS in relation to community transport. Government funding in respect of community transport may be reduced • Active Travel Plan • Refreshing All Age Friendly City Policy	**2x2 = 4**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
PL 6 Fail to agree and implement a Cultural Strategy and associated action plan	Neil Revely, ED of People Services	**2x2 = 4**	**2x2 = 4**	• Develop Cultural Strategy and implementation plan **Progress** • Cultural Partnership formed to bring a wider base to the development of the strategy • Cultural Strategy being launched • Heritage lottery schemes being progressed • Fulwell Mill – the Activity Centre has been transferred to Sunderland North Community Business Centre (SNCBC) under a 3 year lease and they will develop a Business Plan for the Centre, which will also include future funding options for the Mill. • Monkwearmouth Station – discussions with Sunderland AFC are on-going as to the potential for them taking on the building. An options paper has been produced • Museum and Heritage Service Vision – a vision document has been produced for submission to Arts Council England to enable accreditation to be secured for the Museum and Winter Gardens and options for the future delivery of the Museum are being considered	**1x2 = 2**

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	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
EC 1 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	Alison Follows, ED of Commercial Development	**2x3 = 6**	**2x3 = 6**	• Education Leadership Board to promote the benefits of higher education • North East Local Enterprise Partnership (NELEP) to support the promotion of higher education **Progress** • NELEP and the Education Leadership Board continue to promote the benefits of higher education • Council, schools, colleges and the NE Chamber of Commerce are engaged to strengthen ties between education and business in the city	**2x3 = 6**
EC 2 The City doesn't attract inward investors because of a lack of sites / finance	Alison Follows, ED of Commercial Development	**2x3 = 6**	**2x3 = 6**	• Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City • Allocation of appropriate employment sites through the LDF process **Progress** • Funds secured in respect of the Enterprise Zone • City Deal has been signed, providing funding to begin development of the 100-hectare International Advanced Manufacturing Park (IAMP) • Local Growth Fund and ERDF funding secured in respect of transport infrastructure and the Low Carbon Zone transport scheme • LABV expected to deliver investment for priority areas	**2x3 = 6**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
EC 3 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	Alison Follows, ED of Commercial Development	**3x3 = 9**	**3x3 = 9**	• 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 • 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 **Progress** • Housing Investment Plan to be updated and included in the Housing Strategy • Make it Sunderland campaign continuing to attract jobs and investment into the City	**2x3 = 6**
EC 4 Inability to deliver on the New Wear Crossing in line with the planned timescales	Alison Follows, ED of Commercial Development	**2x3 = 6**	**2x3 = 6**	• Complete the procurement phase and deliver the construction phase of the New Wear Crossing **Progress** • Construction phase for the new bridge has commenced • Contract management strategy and governance arrangements in place	**2x3 = 6**
EC 5 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**	• Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work • Continue to support the Carers Strategy Group **Progress** • On going engagement with Remploy and the Carers Strategy Group • Sunderland Carers Centre successful in bid to run the Independent Supporters Programme in Sunderland • Implementation of the Care Act improves the assessments of carers for adults and young carers	**1x4 = 4**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
EC 6 Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions	Alison Follows, ED of Commercial Development	**2x4 = 8**	**2x4 = 8**	• Progress development opportunities, e.g. Vaux site, City Square, Sunniside • Support the Business Improvement District proposal **Progress** • Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The company has have developed a business plan to invest at least £3.4 m in the city centre. • LABV set up; with the development of the Vaux Site as one of its priority objectives • City Centre has undergone ambitious programme of place shaping to open up a range of investment sites. Opening of Keel Square and realignment of St Mary's Way to support the regeneration of the former Vaux site and the wider city centre nearing completion • Construction started on the new Sunderland College campus on the Holmside site	**1x4 = 4**
EC 7 Partners do not have a coordinated approach to supporting, developing and attracting business to the City	Andrea Winders, ED of Enterprise Development	**2x2 = 4**	**2x2 = 4**	• Continue to support the Business and Innovation Centre which provides a joint approach for business support • Implement the Enterprise and Innovation Strategy • Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones **Progress** • University has secured funding to develop a Business Support centre • Software Centre and Washington centre providing incubation and business space with business support activity • Sector growth and Results group of the Economic Leadership Board tasked with simplifying business support in the city	**1x2 = 2**

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	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
OR 1 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	• Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council • Utilise workforce planning to develop and transfer skills across the council • Deliver the Voluntary and Community Sector Relationship Transition project **Progress** • VCS project completed having developed an approach that aligns engagement with the VCS and day to day service delivery • Both workforce planning and transformation projects are progressing which have/will allowed the Council become more flexible in the use of the Council's human resources • Future priorities require individuals and communities to become more self-supporting	2x3 = 6
OR 2 Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Sarah Reed, Assistant Chief Executive	2x4 = 8	2x4 = 8	• Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities • Deliver the Business Transformation Programme • Deliver Alternative Service Delivery Models **Progress** • Role of Community Leadership Council developing • Sunderland Care & Support Ltd set up in December 2013. Leisure JV live on 1st June 2015	1x4 = 4

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				• Further iteration of the Transformation programme is being developed along with the development of the Council's plan for 2020	
OR 3 Council does not secure the required savings	Sonia Tognarelli, Director of Finance	**2x4 = 8**	**2x4 = 8**	• Agree MTFS (in context of Community Leadership Council) • Agree Service Area efficiency targets and monitor progress • Deliver the Business Transformation Programme • Deliver Alternative Service Delivery Models • Deliver the Workforce Planning project **Progress** • MTFS in place • Workforce Planning efficiency targets for 2014/15 agreed • Care and Support ASDM live December 2013 • Plans for 2015/16 savings in place • Actions being progressed to develop detailed plans to deliver 2015/16 savings • Five year budget planning approach being developed involving a fundamental review of all services which will provide the necessary intelligence aligned to strategic aims to allow Members to prioritise savings proposals as funding becomes clearer for future financial years	**1x4 = 4**
OR 4 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	**2x3 = 6**	**2x3 = 6**	• Development and delivery of the Intelligence Hub • Strategic planning and service redesign to reflect the needs and preferences of our customers and communities **Progress** • 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	**1x3 = 3**

Risk Description	Risk Owner	Score June 2015 LxI	Current Score Sept 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
OR 5 Employee engagement falls as a result of ongoing significant changes	Sue Stanhope, Director of HR & OD	**2x3 = 6**	**2x3 = 6**	• Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing **Progress** • Position continues to be monitored via information obtained from employee surveys, consultations and feedback from unions. Recent results suggest employees continue to remain engaged • There is a degree of uncertainty in the Workforce pending the implementation of the Workforce Transformation proposals	**1x3 = 3**

Appendix 2

Detailed Internal Audit Coverage

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
Customer Focus	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network	M	Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate
	Out of Area Placements	L			Adoption Service		To review the stability of placements prior to adoption.	
	Web Content Development	M			Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
	Crisis Loans / Social Fund	S			Safeguarding and Quality Assurance Unit		To review progress against any agreed action plans resulting from Safeguarding Inspection.	
					Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
					Accounting / General Ledger		To review the interfaces between SAP, Capita and the Council's website	
					Personal Budgets		To review the operation of the new assessment and resource allocation tool	
Legality					Constitution		To assess the level of compliance with constitutional requirements following recent changes.	Substantial
Service / Business Planning	Corporate Service/ Business Planning	M			Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Community and Family Wellbeing - Governance Arrangements	L			Adoption Service		To review the stability of placements prior to adoption.	
	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	M	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
	Operational Asset Management	L	LEP Accountable Body Arrangements	S	Corporate Service Planning Arrangements		To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	
Programme and Project Management	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Corporate Service Planning Arrangements		To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	Moderate
			Realisation of Benefits & Savings	M	Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	
Partnerships			Corporate Partnership Arrangements	L	Follow Up of 2014/15 audit		To review progress against actions agreed following previous audit work.	Limited
Business Continuity and Emergency Planning	HHAS Business Continuity Planning	M	Corporate Business Continuity Planning	M	Emergency Planning	S	To review the arrangements to maintain an up to date fit for purpose Major Incident Plan.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
Procurement	Derwent Hill	M	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Out of Area Placements	L	Contract Management	M	Revenue Procurement	M	Review of compliance with Procurement Procedure Rules	
	Revenue Procurement	S	Capital Procurement	S				
Relationship and Contract Management	Streetlighting PFI Contract Management	M	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Events Company Contract Management	M			Leisure Contract Management		To review the client arrangements for the Leisure Joint Venture.	
					LABV		To review the LABV client role arrangements.	
					Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	
Financial Management	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	S	Grant Certification work	Substantial
	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Grant Certification work	
	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant	M	Troubled Families Performance Reward Grant		Grant Certification work	
	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Personal Budgets - Resource Allocation System		To review the operation of the new assessment and resource allocation tool	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Financial Verification of Leavers from the Direct Payments Scheme	S	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	
	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Port Income		To review the arrangements for billing and collection of income to the Port.	
	Out of Area Placements	L	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
	Foster Care Allowances	M	Port Governance Arrangements	M	Corporate Service Planning Arrangements		To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	
	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements	S	Personnel Administration Arrangements		To assess the robustness of the personnel administration arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
			Personal Budgets / Direct Payments	L	LABV		To review the LABV client role arrangements.	
	Direct Payments	L	Accounting / General Ledger	S	Accounting / General Ledger		To review the interfaces between SAP, Capita and the Council's website	
	34 Schools	S	32 Schools	S	18 schools		Transaction testing in relation to income and expenditure	
	SAP Organisation Structures	S	SAP Organisation Structures		Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	BACS Processing		Transaction testing	
	BACS Processing	S	BACS Processing	S	Cash Receipting		Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Accounts Payable		Transaction testing	
	Payroll	M	Payroll	M	Accounts Receivable		Transaction testing	
	Council Tax	S	Council Tax - Valuation	S	Periodic Income		Transaction testing	
	Business Rates	S	Business Rates - Valuation	S	Benefits Administration		To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Accounts Payable	S	Accounts Payable	M	Business Rates - Liability		Transaction testing	
	Accounts Receivable	S	Accounts Receivable	S	Business Rates - Revised Billing		Transaction testing	
	Aquatic Centre	S	Periodic Income	S	Enforcement Section		A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll		To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Council Tax Support Scheme	S	Recovery of Benefit Overpayments	M	Revenue Procurement		Review of compliance with Procurement Procedure Rules	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Operational Asset Management	M	Elections Hardware Grant	S	Autism Innovation Grant	S		
	Asset Register / Capital Accounting	S	Cash in Transit / Parking Services Income	M	Agency Workers (Unplanned)	N		
	Building Maintenance	N						
	Capital Programme Funding and Monitoring	S						
	Treasury Management	S						
	External Funding	S						
	External Funding - Support to Partners / VCS	M						
	Insurance Claims Handling	S						
	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	SAP Organisation Structures	S	SAP Organisation Structures		SAP Organisation Structures		To review the arrangements for grading new posts / staffing structures in the future.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements	L	Induction Procedures		To review the level of compliance with induction procedures following movement of staff into new roles.	
	Corporate HR Management	M			Code of Conduct / Whistleblowing		To review the level of awareness of and compliance with the Employee Code of Conduct and the Council's whistle blowing arrangements.	
					Personnel Administration Arrangements		To assess the robustness of the personnel administration arrangements and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
					Agency Workers (Unplanned)	N		
Information Governance	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	To review progress on the development and implementation of an information governance improvement plan. Review to include physical security checks.	Limited
					Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
Performance Management	Operational Asset Management	M	Corporate Performance Management Arrangements	M	Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Community and Family Wellbeing - Governance Arrangements	L			Community and Family Wellbeing		Review of planning and performance management arrangements.	
					Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	
					Safeguarding and Quality Assurance Unit		To review progress against any agreed action plans resulting from Safeguarding Inspection.	
Asset Management	Derwent Hill	M			LABV		To review the LABV client role arrangements.	Moderate
	Technology Forge	L			Corporate Asset Management		To review the Council's property asset management arrangements against recommended practice.	
	Operational Asset Management	M						
	ICT Asset Management	M						
	Asset Register / Capital Accounting	S						
ICT Strategy and Delivery	ICT Asset Management	M	Physical and Environmental Controls	S	ICT – Cyber Security		Review of the arrangements required for the future of the Council.	Moderate
			Mobile Phone Contract	L				
Fraud and Corruption			Counter Fraud Testing	M	Financial Verification of Leavers from the Direct Payments Scheme	S	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	Substantial
			National Fraud Initiative Case Investigations	S	BACS Processing		Transaction testing	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Direct Payments	L	Schools Counter Fraud Checks	S	Cash Receipting		Transaction testing	
			Personal Budgets	L	Accounts Payable		Transaction testing	
	BACS Processing	S	BACS Processing	S	Accounts Receivable		Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Periodic Income		Transaction testing	
	Payroll	M	Payroll	M	Benefits Administration		To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Council Tax	S	Council Tax - Valuation	S	Business Rates - Liability		Transaction testing	
	Business Rates	S	Capital Procurement	S	Enforcement Section		A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll		To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Accounts Payable	S	Accounts Payable	M	Revenue Procurement		Review of compliance with Procurement Procedure Rules	
	Accounts Receivable	S	Accounts Receivable	S	Agency Workers (Unplanned)	N		
			Periodic Income	S				
			SAP Organisation Structures					

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
			Cash in Transit / Parking Services Income	M				
Risk Management			Port Governance Arrangements	M				Moderate
Schools	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	30 schools completed to date - 24 substantial, 5 moderate, 1 limited	S	18 schools 7 completed 6 - substantial 1 - moderate	S	Transaction testing in relation to income and expenditure	Substantial
Sunderland Care and Support Ltd	Direct Payments	L	Governance Arrangements	L	Governance		Review of integration of Care and Support Sunderland Ltd into the Company and overall governance arrangements to take the Company forward	Moderate
			Farmborough Court	S	Transaction / compliance testing		Compliance with new policies and procedures - to include visits to Supported Living establishments	
			Financial Procedures in Residential and Daycare Units (Establishment Visits)	L	Unit Costing		Audit of methodology / approach to identifying and assessing unit costs	
	Procurement Arrangements	S	Management and Security of Service Users Monies - Compliance with Procedures	S	Reablement		Review of integrated health and social care reablement services	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Risk Management Arrangements	L			Grace House Partnership Working		Review how key objectives are being delivered, including partnership governance	
	Information Management Arrangements	S			Community Equipment Service		Counter Fraud Testing	
	Transaction Testing	S						
Sunderland Live Ltd	Governance Arrangements	M	Airshow Income - Transaction Testing	M	Procurement		Review of the procurement procedure rules, including compliance with them and the arrangements for subcontracting of event services	Limited
	Verification of Expenditure and Income Transactions	M	Income	L	Transactions testing		Review of expenditure transactions	
			Event Management	L	HR management		Review of HR policies, including compliance with them	
					Information Governance		Review of arrangements to keep information secure and comply with appropriate legislation	

Appendix 3

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.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the management of risks through services, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	Risk workshops for schools will take place again later in the year. An assurance framework for schools is being developed with key officers within the People's Directorate. A number of Academies have also bought in the risk service.
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	Major projects / service reviews being supported include: • Workforce Transformation Project • Sunderland Care and Support Ltd. • Intelligence Hub • ICT – various activity • Leisure project • Adult Social Care, Care Act and Children's and Families Act • Safeguarding – Childrens and Adults • Streetscene projects • City Deal and Enterprise Zones • New Wear Crossing and SSTC Phase 3 • Better Care Fund • Place based services

Appendix 4

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2015/16			
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) Behind target –- 76.5% 3) Ahead of target – 94.1% 4) On target - £496 v £865 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 – on target – 100% Behind target - Medium 83% (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 – 1.0 to date 2) Non undertaken 3) 4 compliments 0 complaints

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **25 September 2015**

REVIEW OF THE REMIT AND EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE

Joint Report of the Chair and Director of Finance

1. Purpose of Report

1.1 The purpose of this report is to present the outcome of a review of the remit and effectiveness of the Audit and Governance Committee for discussion, amendment and agreement of Members of the Committee, and approve the suggested updated Terms of Reference for the Committee.

2. Background

2.1 The first review of the remit and effectiveness of the Committee took place in 2009 when it was decided that the review would be undertaken every three years in line with good practice.

2.2 The format of the review has included an update of the self assessment, based on CIPFA guidance, a review of the Terms of Reference for the Committee and consideration of the Annual Reports on the Work of the Committee which have been prepared in the last three years. The review has been undertaken by the Chair and the Director of Finance and the results are presented to Members for discussion, amendment and agreement.

3. Self Assessment

3.1 The self assessment has been updated and is attached at Appendix 1. From this it is considered that the Council's arrangements comply with all of the CIPFA guidance. There is one suggested action which is to update the Committee's Terms of Reference to clarify the arrangements for chairing a meeting of the Committee where both Co-opted Members are absent. A change to the job title of the Director of Finance has also been made. An updated Terms of Reference is proposed at Appendix 2, with the proposed changes being underlined.

3.2 The self assessment refers to the Annual Reports on the Work of the Audit and Governance Committee which show how the CIPFA guidance is being complied with. The reports are considered by the Committee and then presented to Full Council to demonstrate the impact of the Committee's work. For reference purposes, the Annual Reports from the last three years are included at Appendix 3.

4. Recommendations

4.1 The Committee is asked to:

- Consider, discuss and agree the self assessment at Appendix 1.
- Agree the proposed updated Terms of Reference at Appendix 2.

Appendix 1

Assessment of the Effectiveness of the Audit and Governance Committee 2015

Issue	Yes	No	Evidence	Proposed Improvement
Terms of Reference				
1. Have the committee's Terms of Reference been approved by full council?	X		Cabinet 12th April 2006 Council 17th May 2006 Updated September 2009 and 2012	Terms of Reference should be reviewed and updated to cover arrangements for chairing meetings of the committee in the absence of both independent members (See Appendix 2)
2. Do the Terms of Reference follow the CIPFA model?	X		See Terms of Reference	
Internal Audit process				
3. Does the committee approve the internal audit strategy and operational annual plan?	X		Meetings in March – see Annual Reports on the work of the Audit and Governance Committee (Appendix 3)	
4. Does the committee input into the internal audit operational annual plan?	X		Members consulted in November each year prior to the development of the Internal Audit and Risk and Assurance team plans	
5. Is the work of Internal Audit reviewed regularly?	X		Corporate Assurance Map update reports presented quarterly to the Committee plus an Annual Report presented which covers the work and performance of Internal Audit	
6. Are summaries of quality questionnaires from managers reviewed?	X		Summary of the scores provided in the Corporate Assurance Map update reports and Annual Report	
7. Is the annual report, from the head of internal audit, presented to the committee?	X		Meeting in June of each year	
8. Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	X		This is one of the Key Performance Indicators for Internal Audit – area is scrutinised by the Committee. Where necessary, senior managers have been called to the Committee.	

Assessment of the Effectiveness of the Audit and Governance Committee 2015

Issue	Yes	No	Evidence	Proposed Improvement
9. Does the committee take a role in overseeing: • Risk management strategies • Internal control statements • Anti-fraud, corruption and whistle blowing policies	X		Included in the Terms of Reference and included in reports to the Committee	
External Audit Process				
10. Are reports on the work of external audit and other inspection agencies presented to the committee?	X		Update reports from the External Auditor provided to each Committee meeting. Results of Inspection reports summarised in the External Assurance column of the Corporate Assurance Map and detail provided in update reports where appropriate	
11. Does the committee input into the external audit programme?	X		Members consulted in November each year where the External Auditor is present and Members receive the Annual Opinion Audit Plan	
Membership				
12. Has the membership of the committee been formally agreed and a quorum set?	X		Included in the Terms of Reference	
13. Is the chair free of executive or scrutiny functions?	X		Chair is co-opted independent member of the committee	
14. Are members sufficiently independent of the other key committees of the council?	X		Only one Cabinet Member on Committee – this maintains a link to the Executive	
15. Have all members' skills and experiences been assessed and training given for identified gaps?	X		Members asked annually if they require refresher/training courses after considering the schedule of reports for the year	
16. Can the committee access other committees as necessary?	X		Included in the Terms of Reference	

Appendix 1

Assessment of the Effectiveness of the Audit and Governance Committee 2015

Issue	Yes	No	Evidence	Proposed Improvement
Meetings				
17. Does the committee meet regularly?	X		5 times per year	
18. Are separate, private meetings held with the external auditor and internal auditor?	X		Where considered necessary, private meetings take place at the end of a committee meeting, these are not included as agenda items	
19. Are meetings free and open without political influences being displayed?	X		Discussions within the minutes	
20. Are decisions reached promptly?	X		Minutes of meetings	
21. Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	X		Deadlines in place and met	
22. Does the committee have the benefit of attendance of appropriate officers at its meetings?	X		Finance/audit/legal officers plus those from service areas where appropriate	
23. Do reports provide an appropriate level of detail to enable a level of challenge leading to sound decision making?	X		Reports include a summary of the Council's assurance position in the Corporate Assurance Map with appropriate narrative in the report. Appendices include an update on the Strategic Risk Profile, work of Internal Audit, performance of Internal Audit and the work of the Risk and Assurance team	
Training				
24. Is induction training provided to members?	X		Sessions are held with new members appointed to the committee, the latest being held with Cllr O'Neill on 18/06/15	
25. Is more advanced training available as required?	X		Training on Treasury Management and International Financial Reporting Standards has been provided and further sessions offered each year	

Assessment of the Effectiveness of the Audit and Governance Committee 2015

Issue	Yes	No	Evidence	Proposed Improvement
26. Does the training fulfil Member's needs?	X		Members are offered any training required and can ask questions as required.	
Administration				
27. Does the authority's s151 (chief financial officer) officer or deputy attend all meetings?	X		Minutes of meetings	
28. Are the key officers available to support the committee?	X		Minutes of meetings	
Impact				
29. Does the audit committee have a positive impact on the control environment within the Council?	X		Examples include: • Improvements within the ICT Service • Children's Safeguarding • Expediting the implementation of significant recommendations in relation to the testing of emergency lighting • Implementation rates of audit recommendations See Annual Reports on the work of the committee	

Proposed Terms of Reference – Audit and Governance Committee

Composition

Membership

The Audit and Governance Committee will be composed of 7 Members as follows:

5 elected Members on a political balance basis;
2 Co-opted Members.

There will be no more than one Member of the Cabinet on the Committee.

Chairing the Committee

The Chairman will be one of the Co-opted Members.

In the absence of both Co-opted members, the attending members may agree a Chair for the specific meeting from those attending, except the member of Cabinet.

Statement of Purpose

The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its main objectives are to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- independent scrutiny of the authority's financial and other performance to the extent that it reflects the authority's exposure to risk and weakens the control environment;
- oversee the financial reporting process.

Functions

To carry out the following delegated functions from Council:

a) to approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be).

In relation to the following functions to undertake the assurance and advisory role to:

b) consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

c) be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

d) to receive and consider (but not direct) internal audit's strategy, plan and monitor performance;

e) receive and consider the external audit plan;

f) review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;

g) receive and consider the annual report of internal audit;

h) consider the reports of external audit and inspection agencies, including the Annual Audit Letter;

i) ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

j) review the external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;

k) review the adequacy of and compliance with, the Councils Treasury Management Policy;

and make recommendations or comments to Cabinet or Council as appropriate.

Features of the Committee

a) The Committee will exercise delegated powers from Council in relation to item a) above and in relation to the remaining functions act as an advisory committee.

b) The Committee will treat the auditors, the executive and management equally.

c) The Committee can call any officer or agency of the Council as required.

d) The Committee will meet regularly, at least four times per year.

e) <u>The Director of Finance, </u>Council's head of internal audit and the external auditor will be regular attendees. Other attendees may include the Head of Law and Governance and the Chief Executive. These officers all have access to the Committee, or the Chair, as required.

f) The Committee members will have the opportunity to meet privately and informally with the head of internal audit and the external auditor, at a meeting following a normal Committee meeting, and otherwise as necessary, throughout the year.

g) The Committee will assess its effectiveness, including its Terms of Reference, every three years.

h) An Annual Report will be presented to Council regarding the work of the Committee throughout the year.

Appendix 3

ANNUAL REPORTS ON THE WORK OF THE COMMITTEE 2013 – 2015

AUDIT AND GOVERNANCE COMMITTEE **26th June 2015**

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2014/15

Report of the Director of Finance

1. Purpose of Report

1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2014/15 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:

- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive, consider and monitor reports on treasury management policy, strategy and practices.

3. Matters Considered

3.1 The Committee has met five times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings were the Director of Finance, Head of Assurance, Procurement and Projects, Assistant Head of Financial Resources, the Audit, Risk and Assurance Manager and the Council's External Auditors.

3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:

a) The Committee endorsed the Corporate Assurance Map for 2014/15 which set out the key risk areas for the Council, the assurance that will be gathered in relation to them and where the assurance will be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for 2014/15.

b) Committee Members were provided with an update on current and future issues that would impact on the Council so that they could ensure that these issues were appropriately reflected in the work of the committee and the reports presented to them. Members also received a presentation regarding the law and regulations in relation to fraud and the Council's approach to fraud prevention which prompted a number of questions and discussions.

c) Progress reports in relation to the Corporate Assurance map were presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risks areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. The Committee received an update on improvements made to the Council's ICT service from the Assistant Chief Executive, which had been highlighted during the previous year.

d) Specific key issues were highlighted within the Corporate Assurance Map update reports for members to consider further, specifically in relation to the results of external reviews of the Council's Children's Safeguarding service. A number of areas for improvement were identified and the Chief Operating Officer for People Services attended the committee on three occasions to provide an update on progress.

e) The Corporate Assurance Map update report in March 2015 also identified that a significant risk recommendation regarding the arrangements for the testing of emergency lighting in Council premises had not been implemented. The Committee highlighted its concern over this resulting in the testing arrangements being put in place without delay.

f) The Committee raised questions about the activity being undertaken to address the risk in the Strategic Risk Profile regarding the development of skills for younger people and their access to education. A presentation was provided on the Changing Role of the Local Authority in Improving Educational Outcomes by the Head of Educational Attainment & Lifelong Learning.

Information regarding performance measures was also provided.

g) The newly appointed Executive Director of Commercial Development attended the committee to explain her role within the Council and her background.

h) External Auditors provided progress reports to each meeting, the Annual Audit Letter, Audit Completion report and the Annual Certification of Claims and Returns report. These reports provided a very positive opinion regarding the Council's performance, financial management and value for money arrangements. The External Auditor also presented their Audit Strategy Memorandum setting out their work for the coming year.

i) The results of the Annual Governance Review for 2013/14 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The head of internal audit's opinion on the Council's internal control environment was positive. The resultant Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.

j) The annual Statement of Accounts 2013/14 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.

k) The annual statement of Accounts 2013/14 were also presented for the Tyne and Wear Development Joint Committee and Beamish Museum Joint committee as both of these committees no longer existed to consider the accounts.

l) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, and asked questions in relation to the Council's approach.

m) Included within the Corporate Assurance Map update reports the Committee was provided with information regarding the areas of counter fraud work undertaken and the results of this work. No particular concerns were highlighted.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Corporate Assurance Map* – The Committee received quarterly update reports in relation to the assurance provided through the Corporate Assurance Map. This co-ordinates assurance from different sources to provide an overall view of the governance arrangements within the Council and its arrangements to manage risks. The implementation of improvements in the Children's Safeguarding service was specifically considered.

- *Treasury Management* – The Committee have received regular updates regarding the Council's performance in relation to Treasury Management and continue to assure themselves about the arrangements in light of current developments in this area.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

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

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2013/14

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

1.2 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2013/14 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

2.2 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:

- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive, consider and monitor reports on treasury management policy, strategy and practices.

3. Matters Considered

3.3 The Committee has met five times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings were the Executive Director of Commercial and Corporate Services, Head of Assurance, Procurement and Projects, Head of Law and Governance and the Council's External Auditors.

3.4 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:

n) The Committee endorsed the Corporate Assurance Map for 2013/14 which set out the key risk areas for the Council, the assurance that will be gathered in relation to them and where the assurance will be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for 2013/14.

o) Committee Members were provided with an update on current and future issues that would impact on the Council so that they could ensure that these issues were appropriately reflected in the work of the committee and the reports presented to them. Members were also received a presentation on the framework underpinning the Corporate Assurance Map, including details of how assurance is gathered and the details of work that make up the opinions in each of the columns on the Corporate Assurance Map.

p) A new Independent Member was welcomed to the Committee.

q) Progress reports in relation to the Corporate Assurance map were presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risks areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to issues raised by a whistleblower in relation to the issue of Housing Related Support Grants. The appropriate Executive Director was in attendance to explain how the issues were being addressed. At the end of the year, issues in relation to ICT were discussed. The Assistant Chief Executive was in attendance to explain the actions that were being taken to address the issues raised. Members asked questions regarding the capacity of the ICT service to deal with the issues and were assured that options were being considered to ensure that the ICT could deliver on its priorities and support the Council.

r) It is pleasing to note that the Internal Audit Plan was delivered with all of the Key Performance Indictors being met. The head of internal audit's opinion on the Council's internal control environment was positive.

s) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the External Auditor (Mazars) was very positive, and concluded that the internal audit function continues to meet all relevant professional standards.

t) Members received a report regarding a review of how the Integrated Assurance Framework had been implemented, which was undertaken by PricewaterhouseCoopers. The review concluded that good progress had been made in the development of the framework so far and made a small number of recommendations detailing how the arrangements could be further developed.

u) External Auditors provided progress reports to each meeting, the Annual Audit Letter, Audit Completion report and the Annual Certification of Claims and Returns report. These reports provided a very positive opinion regarding the Council's performance, financial management and value for money arrangements. The External Auditor also presented their Audit Strategy Memorandum setting out their work for the coming year.

v) The External Auditors provided an update on the Local Accountability Framework and Members discussed what that would mean for the appointment of External Auditors for the Council in the Future.

w) The results of the Annual Governance Review for 2012/13 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.

x) The annual Statement of Accounts 2012/13 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.

y) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, and asked questions in relation to the Council's approach.

z) Included within the Corporate Assurance Map update reports the Committee was provided with information regarding the areas of counter fraud work undertaken and the results of this work. No particular concerns were highlighted.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Corporate Assurance Map* – The Committee received quarterly update reports in relation to the assurance provided through the Corporate Assurance Map. This co-ordinates assurance from different sources to provide an overall view of the governance arrangements within the Council and its arrangements to manage risks.

- *Treasury Management* – The Committee have received regular updates regarding the Council's performance in relation to Treasury Management and continue to assure themselves about the arrangements in light of current developments in this area.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.2 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

AUDIT AND GOVERNANCE COMMITTEE **28th June 2013**

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2012/13

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.3 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2012/13 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

2.3 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:

- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

- receive, consider and monitor reports on treasury management policy, strategy and practices.

2.4 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:

- Statement of Accounts and International Financial Reporting Standards.
- Update on changes resulting from the Council's improvement programmes.

3. Matters Considered

3.5 The Committee has met five times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Corporate Assurance and Procurement, Head of Law and Governance and the Council's External Auditors.

3.6 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:

aa) The Committee endorsed the Corporate Assurance Map for 2012/13 which set out what areas assurance will be gathered on and where the assurance will be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for 2012/13.

bb) A progress report in relation to the Corporate Assurance map was presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risks areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to the rate of implementation of internal audit recommendations by directorates, which improved during the course of the year. It is pleasing to note that the Internal Audit Plan was delivered with all of the Key Performance Indictors being met. The head of internal audit's opinion on the Council's internal control environment was positive.

cc) The committee reviewed it remit and effectiveness during the year. The review confirmed that the Council's arrangements continue to comply with the CIPFA guidance.

dd) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the external auditor (Mazars) is very positive, and concluded that the internal audit function continues to meet all relevant professional standards.

ee) External Auditors provided reports detailing their Interim Opinion report, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. In addition progress reports were provided to the latter meetings in the year. These reports provided a very positive opinion regarding the Council's performance, governance, financial management and value for money arrangements. The External Auditor was also able to confirm that the objection to the accounts which had prevented previous years statement of accounts being signed off, had been resolved.

ff) The updated Risk Management Strategy and Policy for the Council was presented to Members for their comments. Progress was reported in relation to the actions taken to mitigate risks on the Corporate Risk Profile.

gg) The results of the Annual Governance Review for 2011/12 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.

hh) The annual Statement of Accounts 2011/12 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding the International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.

ii) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.

jj) A report was presented to Committee setting out the Councils Counter Fraud Strategy. This explained the Council's arrangements to combat fraud and included an improvement plan to strengthen the arrangements further.

kk) Members received a report setting out the proposal to form a Single Fraud Investigation Service covering the work of the Department of Work and Pensions, Local Authority Benefit Fraud Investigators, and HRMC in relation to tax credits. The single service aims to rationalise the investigation and prosecution policies into a single way of working.

ll) The Committee was updated on the results of the work undertaken to investigate the matches provided through the National Fraud Initiative administered by the Audit commission. This compares data for a number of services across a number of organisations to identify potential frauds. No particular concerns were highlighted but Members commented that they were pleased the Council was continuing with this initiative, especially given Welfare Reform.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Implementation of Agreed Internal Audit Recommendations* – The implementation of actions agreed with Directorates as a result of Internal Audit work are monitored and reported to Members on a quarterly basis. The Committee take particular interest in the performance of individual directorates. In particular the performance of Children's Services and Health, Housing and Adults Services were discussed and improvements sought.

- *Integrated Assurance Framework* – The Committee received quarterly update reports in relation to the assurance provided through the Corporate Assurance Map. This co-ordinates assurance from different sources to provide an overall view of the governance arrangements within the Council and its arrangements to manage risks.

- *Corporate Risk Profile* – The Committee have received updates regarding the Council's Corporate Risk Profile through the corporate Assurance Map.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.3 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **25 September 2015**

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2015/2016

Report of the Director of Finance

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2015/2016.

2. Description of Decision

2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 2 of 2015/2016.

- 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 2015/2016, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2015/2016 – 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. PWLB rates have fluctuated since the start of 2015/2016 and continue to be volatile. Consequently no new borrowing has been taken out to date during 2015/2016 but the position continues to be monitored closely.

4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2015/2016 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.50%, and as such the Council benefits from this lower cost of borrowing and also 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 £516.408m for 2015/2016. The Council's maximum external debt at 31st August 2015 was £336.211m 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 Council's 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 31st August 2015, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.90% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is a little more 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.

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 which has been extended to January 2016) to increase their capital/cash reserves in line with revised regulatory requirements. Consequently demand for local authority funds continues to be low and whilst interest rates have improved slightly there is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate. Even special tranche investment rates (which offer better than market average returns) have followed the downward trend.

Interest rates are being carefully monitored and managed 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 since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2015/2016.

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.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2015/2016

A1 Borrowing Strategy and Performance – 2015/16

A1.1 The Borrowing Strategy for 2015/2016 was reported to Cabinet on 11th February 2015 and approved by full Council on 4th March 2015.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2015, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until September 2016 before steadily rising to 2.00% by March 2018 and that PWLB borrowing rates would increase during 2015/2016 across all periods.

The Bank Base Rate has remained at an all time low of 0.50% since March 2009 with monetary policy set by the Bank of England (BoE) to meet a 2% inflation target in the medium-term. Financial analysts continue to speculate on the timing of an increase in the current Bank Rate. Most do not anticipate a rise until at least the second quarter of 2016, a view shared by the Council's economic advisers Capita Asset Services, with rates then increasing gradually to 1.75% by March 2018.

In its August 2015 Inflation Report, the BoE reported UK growth in Quarter 2 up 0.7% from 0.4% in Quarter 1 with GDP growth expected to continue at a solid pace in the near term. Inflation forecasts over the next 2-3 years barely rise above the 2% target with significant downside risks if wage growth is offset by increased productivity, partially aided by an increase in business investment. The election of a majority Conservative Government with continued plans for significant cuts in government expenditure to reduce the budget deficit is also expected to slow growth marginally.

Forecasts for PWLB interest rate levels have increased for 5 and 10 year durations with benchmark rates of 2.3% for 5 years and 2.9% for 10 years. Longer term rates have fallen slightly with benchmark rates of 3.5% for 25 and 50 years. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2015 which are highly correlated to geo-political and sovereign debt crisis developments, with movements of up to 0.5% in a quarter not unusual. The ECB began a huge programme of quantitative easing measures in March 2015 which will last up until September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment in the Eurozone.

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

2015/2016	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Aug) %
7 days notice	0.36	0.36
1 year	1.23*	1.30*
5 year	2.09*	2.20*
10 year	2.75*	2.84*
25 year	3.37*	3.44*
50 year	3.29*	3.31*

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

A1.2 The strategy for 2015/2016 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 4.25% for long-term borrowing was set for 2015/2016 in light of the views prevalent at the time the Treasury Management policy was set in March 2015. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 31st August 2015, but this will be kept under review.

A1.3 The Borrowing Strategy for 2015/2016 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 2015/2016 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

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 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2016.

A1.4 The Council's treasury portfolio position at 31st August 2015 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	177.9		
	Market	39.6		
	Other	1.1	218.6	3.90
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			**246.2**	**3.50**

A2 Treasury Management Prudential Indicators – 2015/2016

A2.1 All external borrowing and investments undertaken in 2015/2016 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 2015/2016 as follows:

	£m
Borrowing	426.719
Other Long-Term Liabilities	89.659
Total	**516.408**

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

	£m
Borrowing	332.537
Other Long Term Liabilities	89.659
Total	**422.196**

The Council's maximum external debt in respect of 2015/2016 (to 31st August 2015) was £336.211m and is well within the limits set by both of these key indicators.

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

Prudential Indicators		**2015/2016 (to 31/08/15)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	245,000	38,883
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	60,000	9,314
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	11.74%
	12 months and within 24 months	60%	0.04%
	24 months and within 5 years	80%	5.75%
	5 years plus	100%	82.58%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2015/2016

A3.1 The Investment Strategy for 2015/2016 was approved by Council on 4th March 2015. 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 31st August 2015, the funds managed by the Council's in-house team amounted to £296.800 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. 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.

	2015/2016 Actual to 31/08/15 %	**2015/2016 Benchmark to 31/08/15 %**
Return on investments	0.90	0.36

A3.3 Investments placed in 2015/2016 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which 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 very 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 to shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) which have a AA+ rating applied to them, or separately 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.

A3.9 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.

<u>Counterparty Criteria</u>

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.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					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.

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 £100m 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	100

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
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

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 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.

Approved Lending List

Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA+	-	Aa1	-	AAA	-	350	2 years
Lloyds Banking Group (see Note 1)							**Group Limit 100**	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Royal Bank of Scotland Group (See Note 1)							**Group Limit 100**	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	100	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	**BBB+**	A-2	100	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	**BBB+**	A-2	100	2 years
Ulster Bank Ltd	BBB+	F2	**A3**	**P-2**	**BBB**	A-2	100	2 years
Santander Group							**Group Limit 65**	
Santander UK plc	A	F1	**A1**	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank / Yorkshire Bank */**	A	F1	**Baa1**	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	**A1**	P-1	A	A-1	65	364 days
Standard Chartered Bank	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	**A2**	**P-1**	-	-	**65**	364 days
Leeds BS	A-	F1	**A2**	**P-1**	-	-	50	364 days
Newcastle BS **	BB+	B	-	-	-	-	0	
Nottingham BS **	-	-	**Baa1**	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS **	**BBB+**	F2	**Baa2**	**P-2**	-	-	0	
West Bromwich BS **	-	-	**B1**	NP	-	-	0	
Yorkshire BS **	A-	F1	**A3**	P-2	-	-	**50**	**364 days**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA		Aaa		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	-		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AAA		Aaa		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Pohjola Bank	A+	F1	Aa3	P-1	AA-	A-1+	70	364 days
Germany	AAA		Aaa		**AAA**		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	**Aa2**	P-1	AA-	A-1+	**75**	**2 years**
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Netherlands	AAA		Aaa		AA+		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AA+	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AA+	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA-	F1+	**Aa2**	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

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 £100m.

* 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 Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

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
1. Strategic Risk 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.	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 Director of Finance's 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). 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.
2. Interest Rate Risk 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.	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. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Director of Finance's own view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy . A proactive 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.

	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 Director of Finance 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. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep

	Risk	Controls
		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 Director of Finance 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.

Sunderland City Council

Item No. 8

AUDIT AND GOVERNANCE COMMITTEE **25 SEPTEMBER 2015**

AUDITED STATEMENT OF ACCOUNTS 2014/2015

Report of the Director of Finance

1.0 PURPOSE OF REPORT

1.1 To present the Letter of Representation for 2014/2015, to receive the Audit Completion Report received from Mazars LLP concerning the financial statements for 2014/2015 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 members with a slightly amended Annual Governance Statement to be approved.

1.3 To provide an audited Statement of Accounts for 2014/2015. This has been revised to take into account the auditor's findings, for approval by members of the Committee. A list of the amendments made to the Statement of Accounts is set out in Appendix A for member's information.

2.0 DESCRIPTION OF DECISION

2.1 Members are recommended to:

2.1.1 Note the contents of the Letter of Representation - Item 8 (i)

2.1.2 Note the contents of the Audit Completion Report - Item 8 (ii) provided by Mazars LLP.

2.1.3 Approve the slightly amended Annual Governance Statement – Item 8 (iii)

2.1.4 Approve the Amended Audited Statement of Accounts for the financial year ended 31st March 2015 - Item 8 (iv).

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 Director of Finance 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 8 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 31st March 2015.

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 31st March 2015 and its income and expenditure for the year then ended. The Audit Completion Report 2014/2015 is included as **Item 8 ii** on the Agenda.

3.6 The revised Annual Governance Statement 2014/2015 (**Item 8 iii)** has been amended to reflect the updated position on Children's safeguarding issues and the Statement of Accounts 2014/2015 has also been amended to reflect a few minor presentational adjustments following the audit. The revised Statement of Accounts 2014/2015 is set out at **Item 8 iv** 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, in all significant respects, proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2015 'except for' services for children in need of help and protection, children looked after, care leavers and adoption performance which were the subject to an Ofsted inspection which found these services and their leadership, management and governance inadequate despite the Council's attempts to improve these services. Consequently the Auditor proposes to issue a qualified value for money conclusion in respect of 2014/2015.

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 30th September statutory deadline, by which time the Council is required to publish its Audited Statement of Accounts for 2014/2015.

Changes made to the Accounts

Description	Statements / Notes affected
Annual Governance Statement To reflect July 2015 Ofsted report on children's services	Page 22
Cash and Cash Equivalents (in hand and bank) increased from £25.998m to £28.386m Cash and Cash Equivalents (overdrawn) overdrawn position increased from (£18.713m) to (£21.101m) Group companies cash in hand and bank figure of £2.388m had been offset against the single entity overdrawn position in error following adjustments made for inter-company transactions	Group Balance Sheet – page 129 Group Note 2 page 132
PFI Changes made in relation to the waste pfi model in relation to the valuation of Sunderland's waste transfer station which impacted on a number of pfi entries in relation to the lease liability. In addition, following identification of incorrect treatment of depreciation of the new waste facilities, caused by differing depreciation policies between the Council and the lead authority for the waste pfi scheme, depreciation of £2.944m was eliminated from the accounts. Amendment to note 40 to identify additions in year in respect of waste pfi, and presentational change to this note to ensure the two tables are consistent.	MiRS / CIES / Bal Sheet / Cash Flow Notes: 7, 10, 12, 16, 24, 24a, 24b, 27, 28, 38, 40 Group: MiRS, CIES,CIES reconciliation, Bal Sheet, Cash Flow, Note 5, Note 11
Change in treatment relating to transfer of school balances to academies (£901k) Previously this was shown under Education Services on CIES but has now been moved to Note 10, Financing and Investing Activities	CIES, Note 10, Note 28 Group CIES, Group Note 11
Note 6, Events after the Balance Sheet Date Amended to show value of Sandhill View land and buildings that is to be removed from the asset base in 2015/2016 following transfer to academy status in Sept 15	Note 6
Note 31, Pooled Budgets Mental Capacity Act / Deprivation of Liberties - CCG income increased by £27k	Note 31
Note 34, External Audit Costs Expenditure reduced by £38k (creditor overstated by £2k and costs of £26k re 13/14 included in error). Revised total of £184k re-profiled in line with Audit Strategy Memorandum.	Note 34

Note 33, Remuneration, £50k bands table £50k-£55k – both teaching and non-teaching increased by 1. £70k-£75k (teaching) increased by 1 and £5k-£80k (teaching) reduced by 1.	Note 33
Foreword – Councils Borrowing and Treasury Management Position. Narrative amended to take out reference to accounting treatment	Foreword – P11
Balance Sheet / MiRS / Note 7 Reserve figures changed from credits to debits Impact is presentational only	Bal Sheet / Group Bal Sheet MiRS / Group MiRS Note 7
Note 22, Provisions Signage changed so that note presents provisions as liabilities (credits) in line with Balance Sheet presentation. Impact is presentational only	Note 22
Note 24e, Deferred Capital Receipts Reserve Footnote added to cross reference to LABV info in Foreword	Note 24e
Group Accounting policies Policy re accounting standards expanded – now refers to Leases and Employee Benefits	Note 1 (Group)

Key: MiRs (Movement in Reserves Statement)

CIES (Comprehensive Income and Expenditure Statement)

Sunderland City Council

Item No. 8(i)

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

Date: 25th September 2015
Our ref: CFA/DDN
Your ref:

Dear Mark,

Sunderland City Council – Letter of Representation for the year ended 31st March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2015 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 and the group's financial positions, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council and the group 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 material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and its group 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 and its group 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 and group 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 and group's related parties and all related party relationships and transactions of which I am aware.

Group statements consolidation process

I confirm that I have been provided with access to information from the Council's subsidiaries that has enabled a thorough consolidation process for the preparation of the group statements.

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 its 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 and its group 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.

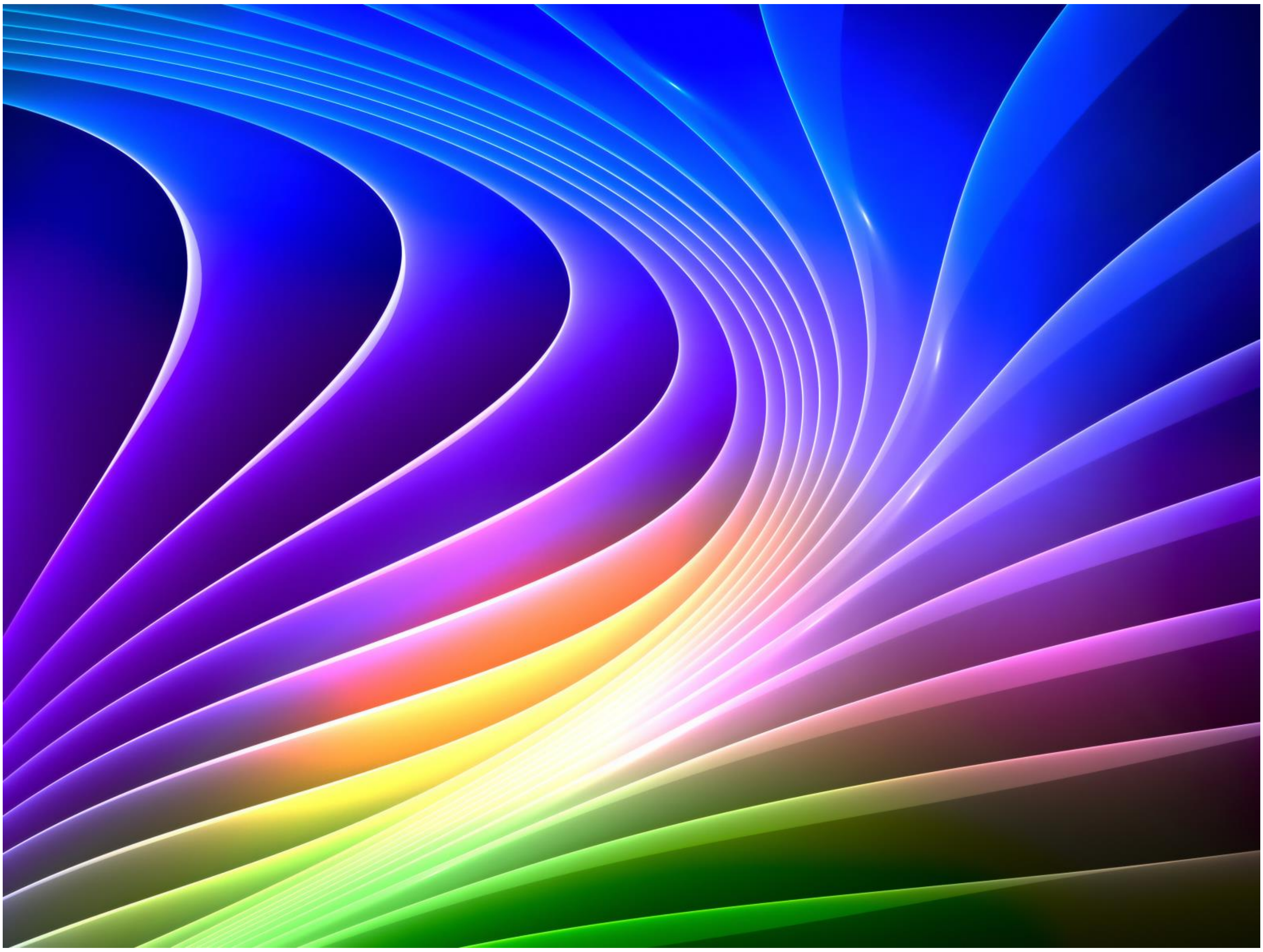
Yours faithfully,

Sonia Tognarelli
Director of Finance

Audit Completion Report

Sunderland City Council – year ended 31 March 2015

September 2015



Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Audit and Governance Committee
Sunderland City Council
Civic Centre
Burdon Road
Sunderland
SR2 7DN

15 September 2015

Dear Members

Audit Completion Report – Year ended 31 March 2015

We are delighted to present our Audit Completion Report for the year ended 31 March 2015. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks was outlined in our Audit Strategy Memorandum which we presented on 27 March 2015. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me 0191 383 6300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
Partner

Mazars LLP

Contents

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2015 to the Audit and Governance Committee of Sunderland City Council and forms the basis for discussion at the Audit and Governance Committee meeting on 25 September 2015.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Sunderland City Council; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2015.

At the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (PWC) over IAS 19 (pensions) related entries in the financial statements. We will provide an update to you in a follow up letter to this report should any issues arise in relation to this matter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. This is explained further in section 5 of this report.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 2 October 2015.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Good finances are the foundation of the Council's ability to deliver essential services and to achieve value for money for taxpayers. The Statement of Accounts is the key medium by which the Council communicates financial performance with external stakeholders. As such it provides valuable data on how resources have been employed and what assets and liabilities are outstanding, and is a useful indicator as to the financial health of the organisation.

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2014/15 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15. The statement shows a surplus for the year for the provision of services of £38.0m. As with other local authorities the statement differs from the Council's reported performance on its revenue budget for 2014/15 because of items of expenditure which are correctly charged to the CIES under accounting rules but are not charged to the General Fund under statute.

The Council's performance against its revenue budget is set out in the Explanatory Foreword to the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £0.6m.

The CIES then accounts for other items, primarily the gains arising from the revaluation of Property, Plant and Equipment and a significant actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a deficit of £63.5m.

Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £63.5m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 7 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Council's reserves. Total Usable Reserves represent real resources available to the Council. Between 31 March 2014 and 31 March 2015 these increased from £182.9m to £189.7m. The General Fund balance, which is available to meet unforeseen circumstances, was maintained at £7.57m, with an additional £9.7m held by schools.

Capital expenditure

The Council's capital programme aims to ensure that the city has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2014/15 was £71.5m, and £28.8m of this was financed from capital grants and contributions.

Balance Sheet

The Balance Sheet shows the value of the Council's assets and liabilities on a single date at the year end. It shows the Council's net assets of £389.6m which was a decrease of £63.5m or 14% on last year. The most significant movement from last year relates to an increase in the net pension liability of £59.4m following the assessment by the actuary.

The Council's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance and funds held by schools, the Council also has £8.0m in a capital receipts reserve and £5.3m of capital grants unapplied. A further £159.1m is held in earmarked reserves. Note 8 to the financial statements sets out the Council's earmarked reserves in more detail, showing that £132.3m is held in earmarked revenue reserves and £40.1m relates to earmarked capital reserves. Although these reserves are earmarked, they do provide the Council with some flexibility in managing in the current challenging financial environment.

03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- Our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- Any significant difficulties we experienced during the audit.

Significant risks

Management override of controls
Description of the risk International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
How we addressed this risk We addressed this risk through performing audit work on: • consideration and review of accounting estimates impacting amounts included in the financial statements; • consideration and review of any unusual or significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
Audit conclusion Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Revenue recognition
Description of the risk In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.
How we addressed this risk We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. We also undertook a range of substantive procedures including: • testing receipts in March, April and May 2015 to ensure they were recognised in the right year; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Pensions estimates (IAS19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the Audit Commission.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (PWC) over IAS 19 (pensions) related entries in the financial statements.

Audit conclusion

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (PWC) over IAS 19 (pensions) related entries in the financial statements.

Subject to a satisfactory response from PWC, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting for the Council's investment in Siglion LLP

Description of the risk

The Council has transferred the majority of its rental properties to Siglion LLP in return for loan notes and an equity share in the LLP. The values involved are material to the Council's statements. The accounting entries required for this transaction are still to be clarified, and will require an assessment of the treatment of revenue and capital transactions. Judgements will need to be exercised around the valuation of assets.

How we addressed this risk

We reviewed the Council's accounting treatment and assessed it against the requirements of the CIPFA Code of Accounting Practice and International Accounting Standards, as well as the Capital Financing Regulations (2003, as amended).

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting policies and disclosures

We have reviewed Sunderland City Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

We have reviewed the overall neutrality, consistency and clarity of the disclosures in the statement of accounts relating to areas where judgements are made in formulating particularly sensitive financial statement disclosures (for example disclosures related to remuneration, going concern, subsequent events, and contingencies). There are no reporting issues arising from our review.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have not identified any matters to report. If we had performed more extensive procedures on internal control we might have identified deficiencies to be reported. Our comments should not be regarded as a comprehensive record that there are no deficiencies or improvements that could not be made.

IT general controls

As part of Mazars commitment to audit quality, our IT specialists have carried out a review of IT general controls, including:

- physical security;
- back-up and disaster recovery arrangements;
- access management and logical security;
- strategy and internal control; and
- change management.

Although there are some issues raised, our IT specialists have concluded that the significant IT risks are being substantially mitigated by the control environment in place, and they have not identified any significant weaknesses which could significantly threaten IT reliability in respect of the production of the financial information in the financial statements.

The detailed work has only recently been completed and our findings and recommendations are still being discussed with officers. When these discussions are complete, we will update members through a future Audit Progress Report if there are any further matters of detail that require reporting.

05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £7.57m with a clearly trivial threshold of £227k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2014/15 audit, based on the final statement of accounts, is unchanged from that previously reported.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

There were no unadjusted misstatements and management has amended all the misstatements identified and reflected the corrections in the final version of the financial statements presented to Members for approval.

Adjusted misstatements 2014/15

		Comprehensive Income and Expenditure Statement (CIES)		**Balance Sheet**	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Revaluation gains (other comprehensive income and expenditure) / Property, Plant and Equipment		**1,124**	**1,124**	
	Movement in Reserves Statement / Revaluation Reserve	**1,124**			**1,124**
	Waste Facility PFI – recognition of the asset. The Council's share of the new waste treatment facility was brought into the Council's accounts at a figure that did not agree to the payments made as part of the PFI scheme. The closing position as at the balance sheet date was not affected as the asset was revalued after being brought into use, and so the change in additions has resulted in a lower revaluation gain being reflected in the Council's statements. Consequential amendments were made to various disclosure notes as a result of this amendment, such as the Revaluation Reserve, the Capital Adjustment Account and the Capital Financing and Expenditure note.				
2	Property, Plant and Equipment			**2,944**	
	Cost of Services – Environmental and Regulatory Services, Depreciation		**2,944**		
	The Council's depreciation policy is not to depreciate assets in the year of acquisition. In the draft statements the New Waste Treatment Facility had been depreciated. This was amended to ensure that this asset is depreciated in line with the Council's policy. This has the effect of decreasing the amount of depreciation charged in year and increasing the value of the asset as at the balance sheet date. The impact on the surplus/deficit on the CIES is reversed out through the Movement in Reserves Statement as part of the statutory overrides which determine which charges can fall on Council Tax payers. Consequential amendments were made to the Movement in Reserves Statement, note 12, note 7 and the Capital Adjustment Account.				
3	Cost of Services – Education Services, expenditure		**901**		
	Financing and Investment Income and Expenditure	**901**			
	Guidance was issued by CIPFA in LAAP bulletin 103 that suggested that schools transferring to academies should be accounted for by writing out the net assets of the transferring school as part of Financing and Investment Income. In the statements this was initially done through the Education Services line in Cost of Services expenditure. The amount transferred out has now been shown in Financing and Investment Income (with detail added to note 10). There is no impact on the overall surplus/deficit on the provision of services shown in the CIES.				

Adjusted misstatements 2014/15 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
4	Cash and cash equivalents	**2,388**			
	Cash and cash equivalents overdrawn		**2,388**		
	Group balance sheet. There was a presentational error identified in the treatment of bank balances held by the subsidiary companies which led to them being netted off the overall bank overdraft figure of the Council. This had the effect of understating both assets and liabilities by the same amount.				

Disclosure amendments

There were several changes required to the disclosure notes:

- Sandhill View Secondary School (PFI) has converted into an academy post balance sheet date. An events after the balance sheet note was added to explain the implications of this;
- The external audit fee note was amended to correct minor errors; and
- other minor typographical and grammatical errors within the statements have been corrected.

Uncertainties relating to PFI schemes

During 2014/15 officers have sought to address issues relating to the Street Lighting and Sandhill PFI schemes that were raised in our 2013/14 audit. Significant work was undertaken by officers, including revisiting the PFI model in detail and addressing the issues previously identified. However, there remain some non-material differences when comparing the accounting entries and balances to those in the PFI models:

- actual payments were higher than those in the updated models by £246k (Street Lighting) and £219k (Sandhill). Officers have already identified events which account for some of the difference and will analyse the models further in 2015/16; and
- there is a difference of £2.6m between the net book value of scheme assets when compared to the PFI model. Officers will revisit the model in 2015/16 to ensure that all known events are correctly recorded.

These differences are not necessarily errors in the accounts, and are uncertainties that require follow up and clarification by officers.

The Waste PFI scheme became operational in 2015/16. We found that there was a difference between the estimated charge in the accounts for the scheme and the actual outturn of £281k. The overstatement of estimated costs will be adjusted for in 2015/16.

06 Value for money

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report our conclusion to those charged with governance, having regard to criteria specified by the Audit Commission.

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your annual governance statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine to be appropriate.

We are not required to consider, nor have we, all aspects of the Council's arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist.

We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

Focus for this year's work

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We carried out work to address this risk area.

We took into account the matters disclosed in the Council's annual governance statement in undertaking our work.

There was one report by other regulatory bodies or inspectorates that was relevant to our work this year. This was the Ofsted report in relation to the Council's children's safeguarding services.

We did not identify a need to carry out additional risk-based audit work in relation to other areas.

Our conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

The exception to this are the areas of children's safeguarding services that were identified as inadequate in Ofsted's report to the Council in July 2015.

The wording of the Value for Money conclusion is set out in Appendix B.

The basis for our assessment of the Council's arrangements is set out in more detail on the following pages.

Significant Value for Money risk

VFM risk
Description of the risk The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.
How we addressed this risk We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on service delivery. We reviewed the plans that were developed to deliver savings.
Conclusion There is strong evidence of the Council's delivery of savings. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m. In 2014/15, the Council delivered significant savings and still achieved a small net budget underspend of £0.6m. The Council has identified the need for significant future savings and plans are in place or developing to address these challenges.

Financial resilience and securing economy, efficiency and effectiveness

The Council has a strong track record of delivering savings and keeping within budget. The Council also has a reputation for strong leadership and innovation. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m while implementing its Community Leadership Programme and its Business Transformation Programme. Measures taken have included:

- significant changes in the way the Council provides services including new models of service delivery, for example, establishing Sunderland Care and Support Ltd, and closer working with partners, for example, with Sunderland Clinical Commissioning Group (CCG) through the Better Care Fund;
- investment in regeneration including the establishment of Siglion LLP, a local asset backed vehicle, as a joint venture with the private sector to accelerate investment in the City; and,
- other investment in infrastructure including: the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre.

The future looks even more challenging. Government has not yet clarified how much funding levels will reduce but the outlook for the Council is that resources available will not be sufficient to pay for the services it provides. The Council forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be a further £149m. The Council shows an understanding of what these challenges will mean:

> *"The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.*
>
> *The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will be through a programme of activity based around the council's Community Leadership approach. The Council's role will increasingly shift from delivering services to enabling individuals, communities and other organisations in the public, private and voluntary sectors to work together to address the needs of the city and to encourage people to be more self-supporting."*
>
> *Source: Explanatory Foreword, Sunderland City Council Financial Statements 2014/15*

Ofsted inspection

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

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

We have identified much good practice in the Council's overall corporate arrangements. However, the Ofsted assessment of children's safeguarding services as 'inadequate' provides evidence of a significant service failure. We note that corporate management had identified that there were significant issues that needed to be addressed in relation to the Council's children's services, had already taken action and planned further improvement measures. This provides some evidence of the Council's corporate arrangements operating effectively in terms of identifying risks and seeking to address them. Progress with the actions to date, however, has not yet led to the improved outcomes that are needed.

The Ofsted report, although acknowledging some of the measures that have been taken, concluded that they have not yet improved practice or outcomes for young children. The issues raised by Ofsted focus on "widespread, systematic poor practice" in the management of social work for children, which has left significant numbers of cases that have not been fully assessed or progressed, issues over the stability of the workforce and high caseloads, and issues over partnership working, performance management and quality assurance and oversight. Ofsted describe this as "a corporate failure by senior leaders and management that leaves children and young people unsafe."

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

The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.

Appendix A – Draft management representation letter

Sunderland City Council

25 September 2015

Dear Mr Kirkham

Sunderland City Council - audit for year ended 31 March 2015

This representation letter is provided in connection with your audit of the statement of accounts for Sunderland City Council and its group for the year ended 31 March 2015 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 and the group's financial positions, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council and the group 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 material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and its group 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 and its group 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 and group 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 and group's related parties and all related party relationships and transactions of which I am aware.

Group statements consolidation process

I confirm that I have been provided with access to information from the Council's subsidiaries that has enabled a thorough consolidation process for the preparation of the group statements.

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 its 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 and its group 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.

Yours faithfully

Sonia Tognarelli
Director of Finance

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND CITY COUNCIL

Opinion on the financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Basis for qualified conclusion

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

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham
For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2015

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Amended 2014/15 Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

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

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is on the Council's website [here] or can be obtained from the Director of Finance. This Statement explains how the Council has complied with its Code in 2014/15.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

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

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

3.2 The Council has developed a set of guiding principles to help decision making and agree priorities. These are:

- Elected members are community leaders at the core of decision making
- Our communities, residents and businesses are at the centre of everything we do
- We encourage, respect and value innovation and enterprise
- We demand high performance, personal responsibility and personal accountability
- We value people's individual contributions to our collective goals
- We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.

3.3 To translate these principles into action, the Council has set out its priorities under the following clear outcomes that are derived from its vision

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

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

3.5 Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are overseen by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.

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

3.4 The roles and responsibilities of Council members and employees are clearly documented, although the delegation arrangements need to be updated following recent senior management changes. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

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

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

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

3.7 A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to ongoing review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

3.8 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance is the designated Chief Finance Officer and fulfils this role through the following:

- Attendance at meetings of the Executive Management Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
- Alignment of medium term business and financial planning processes;

- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
- Ensuring that the finance function is resourced to be fit for purpose.

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

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

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

3.11 The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.

3.12 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

3.13 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role. The Council's HR strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.

3.14 Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of over 1,000 residents from all parts of the city.

3.15 The Council has a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements.

4. REVIEW OF EFFECTIVENESS

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

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report.
- The external auditors (Mazars) Annual Audit Letter for 2013/14 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and for challenging how it secures economy, efficiency and effectiveness.

The Head of Assurance, Procurement and Projects has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The outcome of the review of effectiveness provided the necessary assurance that overall the arrangements in place remain effective however significant weaknesses have been identified specifically in relation to services for children in need of help and protection, children looked after and care leavers, and the effectiveness of the local safeguarding children board. The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed. Significant improvement activity in relation to Children's safeguarding services is on-going.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements and urgently improve Children's safeguarding services. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation.

Paul Watson	Sonia Tognarelli
Leader of the Council	Director of Finance

Dated : 25th September 2015

Statement of Accounts

2014/2015

Contents

Cabinet 2014/2015

Cabinet membership and responsibilities are as below:

Member	Portfolio
P. Watson	Leader of the Council
H. Trueman	Deputy Leader of the Council
M. Speding	Cabinet Secretary
P. Smith	Children's Services
G. Miller	Health, Housing and Adults
J. Kelly	Public Health, Wellness and Culture
J. Blackburn (until 9th June 2014)	City Services
M Mordey (from 10th June 2014)	City Services
C. Gofton	Responsive Services and Customer Care

Introduction

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

With regard to corporate governance, the Council considers an annual review of its Local Code of Corporate Governance. The 2014/2015 review was considered by the Audit and Governance Committee in June and will be reported to Cabinet in July followed by full Council. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Council's arrangements for compliance with the Code, which identifies the underlying principles of corporate governance - openness and inclusivity; integrity; and accountability – across the various dimensions of the Council's business. The review found that the Council continues to have robust and comprehensive arrangements in place and has identified a small number of areas for improvement and development, which are not considered significant and which will be acted upon during 2015/2016.

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

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

Councillor Paul Watson	Sonia Tognarelli CPFA
Leader of the Council	Director of Finance

Dated: 25th September 2015

Certification of the Statement of Accounts

Statement of Accounts 2014/2015 (Subject to Audit) Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (2) the Statement of Accounts for 2014/2015 (subject to audit) presents a true and fair view of the financial position of Sunderland City Council as at 31st March 2015 and its income and expenditure for the year then ended.

Sonia Tognarelli CPFA
Director of Finance

Dated: 26th June 2015

Audited Statement of Accounts 2014/2015 Certification on behalf of those charged with governance

As Chairman of the Audit and Governance Committee, I hereby acknowledge receipt of the audited Statement of Accounts for 2014/2015 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8(3), and confirm that the Statement of Accounts was approved at the Audit and Governance Committee of 25th September 2015 in accordance with sub-paragraph 8 (3) (c) with regard to the aforementioned Regulations.

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

Dated: 25th September 2015

Audited Statement of Accounts 2014/2015 Certification by the Responsible Finance Officer

As the Council's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2014/2015 in accordance with Regulation 8 (2) of the Accounts and Audit Regulations 2011.

Sonia Tognarelli CPFA
Director of Finance

Dated: 25th September 2015

Foreword by the Director of Finance

This Statement of Accounts shows, in the following pages, the Council's final accounts for 2014/2015. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2014/2015' (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Local Government Act 2003 and the Accounts and Audit Regulations 2011.

Certain financial statements are required to be prepared under the Code and these are detailed below:

1. Statement of Responsibilities

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

2. Movement in Reserves Statement (MiRS)

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

3. Comprehensive Income and Expenditure Statement

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

4. Balance Sheet

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

5. Cash Flow Statement

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

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

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

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

7. Collection Fund Account

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

8. Group Accounts

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

- Care and Support Sunderland Ltd;
- Sunderland Care and Support Ltd;
- Sunderland Live Ltd;
- Siglion LLP (Joint Venture).

Foreword by the Director of Finance

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2014/2015 to be met from Government Grants and local taxpayers was approved at £250.691m. This meant that the Band D Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates and including both the Police and Fire and Rescue Authority precepts, was set at £1,345.73 for 2014/2015. This represented no Council Tax increase from the 2013/2014 Band D Council Tax level as a Council Tax freeze was implemented in setting the 2014/2015 budget. The Council again set the lowest Council Tax level in the whole of the North East region for 2014/2015 for the eighth consecutive year and has continued to set the lowest Council Tax in Tyne and Wear since Council Tax was introduced in 1993/1994.

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

The table below summarises the financial position for the year 2014/2015 for General Fund Balances, which is made up of the Council's General Reserve and Balances held by Schools under the Local Management Scheme, in accordance with the Code, and also shows the original budget and the revised budget positions for 2014/2015.

Financial position for the year 2014/2015 for General Fund Balances

	2014/2015 Original Estimate £'000	2014/2015 Revised Estimate £'000	2014/2015 Actual £'000	2013/2014 Actual £'000
Expenditure on Services*	230,885	232,321	230,541	231,729
Levies and Precepts	17,293	17,293	17,293	17,820
(Surplus) / Deficit from Trading Operations and Dividends	0	0	(646)	(556)
Transfers to / (from) Capital Reserves ***	0	0	(6,698)	16,778
Transfers to / (from) other Revenue Reserves ***	2,841	2,841	12,134	1,901
Total Net Expenditure	251,019	252,455	252,624	267,672
Financed by:				
Revenue Support Grant and General Grants	98,253	99,689	99,815	116,127
Top Up Grant	35,274	35,274	35,274	34,600
National Non Domestic rates**	40,057	40,057	39,184	39,239
Council Tax Collection Fund Receipts**	76,607	76,607	79,186	76,167
Council Tax Surplus	500	500	500	500
Total Net Budget Requirement	250,691	252,127	253,959	266,633
Addition / (Use):				
General Reserve (See Note 1)	0	0	0	0
Schools LMS Reserve (See Note 2)	(328)	(328)	1,335	(1,039)
General Fund Balance brought forward:				
General Reserve	7,570	7,570	7,570	7,570
School LMS Reserve	8,325	8,325	8,325	9,364
General Fund Balance carried forward:				
General Reserve	**7,570**	**7,570**	**7,570**	**7,570**
School LMS Reserve	**7,997**	**7,997**	**9,660**	**8,325**

***** This excludes the effect of IAS19 pension fund adjustments.

****** This figure includes an adjustment for Council Tax debtors and creditors as required under the Code of Practice on Local Authority Accounting in the United Kingdom 2014/2015.

*** Movements in Capital and Revenue usable reserves are detailed in Note 8 (page 56).

Foreword by the Director of Finance

Note 1 - General Reserve

The table shows the general reserve balance of £7.570m has been maintained as forecast at estimate stage. This is after taking into account a transfer of funds to the Strategic Investment Reserve as reported to Cabinet as part of the outturn report.

The outturn position takes account of the following variations to budget during 2014/2015:
- Debt charge and interest on investment savings of £1.517m due to slippage
- in the Capital Programme and additional investment income over and above that utilised to fund in year transitional costs and safeguarding pressures as reported during the year.
- Other net savings of £3.130m in respect of contingencies, additional one off income, other variations in non-delegated expenditure, released reserves and net of provisions for known future pressures.
- Earmarking of Specific Reserves of £3.998m as reported to Cabinet as part of the outturn report.

The net under spend of £0.649m has been transferred to the Strategic Investment Reserve to support transitional arrangements arising from implementation of the savings programmes for 2015/2016 and future years.

Note 2 - Movement on Locally Managed Schools Reserve

The Education Reform Act 1988 provides for the carry forward of individual school balances. These earmarked reserves are not for Council use and the level of the reserve, in accordance with the Code, forms part of the movement in General Fund Balances in the Movement in Reserves Statement. The movement in school balances during 2014/2015 amounted to a net return to balances of £1.335m (£1.039m net use of balances in 2013/2014), as a result of reduced spending by schools and is reflected in the Statement of Accounts within the Comprehensive Income and Expenditure Statement on the Education cost of service line. School balances are fully committed and are required to meet the challenges in respect of reduced funding in 2015/2016 and future years.

As a result, the balance of this reserve as at 31st March 2015 increased to £9.660m compared to £8.325m as at 31st March 2014. Further details are set out in Note 8 (page 56) to the Accounts.

Funding Context and Financial Planning

2014/2015 represented the fifth year of the implementation of the Government's plans to eliminate the national deficit. During that period the Government has regularly revised its forecasts. Its current stated intention is to continue with reductions in national funding up until 2018/2019 to enable a small budget surplus.

The government funding reductions and unavoidable cost pressures over the five year period 2010/2011 to 2014/2015 has meant Sunderland City Council has had to achieve savings of £171m.

£36m of these reductions were achieved in 2014/2015 through the implementation of the Council's Business Transformation Programme based around the Council's Community Leadership approach which aimed to meet need and achieve savings while protecting as far as possible frontline services and maximising non-frontline savings. Directorate improvement plans have reshaped services with the aim of protecting core services by prioritising service provision with targeting of resources rather than universal provision. Service reviews have included consideration of alternative methods of service delivery in order to identify the most effective and efficient models for service provision.

In addition to the government's funding reductions the general economic situation has continued to impact on the Council's financial position in 2014/2015:

- The very low interest rates continued to have an impact on the financial return on the Council's investments, leading to reduced levels of income available to support the Council's Revenue Budget.
- The ability of the Council to generate capital receipts from the sale of surplus assets continues to restrict the resources available for the Council's capital programme. However alternative means of funding priority investment continue to be rigorously pursued with positive results in a number of areas.
- The general economic position continues to affect the level of income which can be generated from fees and charges for Council services.

Looking to 2015/2016, further reductions in Government funding and cost pressures mean that the budget has been set taking account of a further £36m of reductions. These involve re-commissioning services, reprioritising spend, maximising income, increased collaboration, use of alternative delivery models and maximising non front line service savings. Full detail of the savings plans for 2015/2016 is set out in the Budget Report to Council of 4th March 2015.

Looking to the medium term, the Government has yet to provide funding levels beyond 2015/2016. However, the Chancellor has indicated that reductions will continue on a similar trajectory to that experienced since 2010. This would indicate the five year savings requirement for 2015/2016 to 2019/2020 to be in the region of £149m. The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.

The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will be through a programme of activity based around the council's Community Leadership approach. The Council's role will increasingly shift from delivering services to enabling individuals, communities, and other organisations in the public, private and voluntary sectors to work together to address the needs of the city and to encourage people to be more self-supporting.

The Council's Improvement Agenda

The Council has continued to address the significant Government funding reductions through a programme of improvement activity across the Council, which includes:

- The Business Transformation Programme remains the Council's key method to reduce cost and drive improved outcomes. This seeks to understand and meet most important community needs by:
    - Developing improved service and customer insight and intelligence to help target resources effectively;
    - Development of communities by:
        - enabling partners, businesses and residents to come together for future service delivery models and regeneration activity;
        - working with communities and the voluntary sector to help support the delivery of services in the future;
    - Managing demand and facilitating those services which make a difference in the most effective way;
    - Continuing the focus on the CSN as the gateway of demand and supply for services with the aim of targeting resources to areas of greatest need, and encouraging and supporting self-help;
    - Continuing the review of Strategic Services and Fixed Assets;
    - Integrating Commissioning to ensure services are commissioned in the most effective way;
    - Continuing to focus on progressing Regeneration, funding leverage and commercial opportunities.

  The programme continues to consider the most effective models for service delivery and in February 2015 Sports and Leisure Management Limited were appointed as the partner for a joint venture for the management and operation of the council's leisure facilities. Contractual arrangements have now been concluded and SLM began operating the facilities from 1st June 2015.

  The Business Transformation programme delivered savings in 2014/2015 via:

    - Reviews within Strategic and Shared Services, ICT and CSN to re-engineer services to reflect the business needs of the Council and reviewing the Council's use of operational buildings and fleet arrangements to reduce costs.
    - A range of service review activity including:
        - reviews of operational arrangements for responsive local services and waste collection;
        - the delivery of care and support services through a Local Authority Trading Company in its first full year of operation:
        - Reviews of Directorate staffing structures to reflect the business needs of the Council.

- A range of Workforce Planning measures over the last five years has enabled the size of the workforce to be reduced in a planned and managed way. A combination of measures, including restrictions on external recruitment, internal redeployments, early retirements and a voluntary severance scheme, has meant the workforce reduced by another 7.4% (359 employees) during 2014/2015. The severance scheme has continued to demonstrate strong value for money enabling early release of planned savings for 2015/2016 and significant annual on-going savings to be secured. The costs of the scheme were contained within the 2014/2015 budget.

- Underpinning the Council wide approach to improvement is a programme of activity based around the Council's Community Leadership approach. This is helping to deliver savings through:
    - Promoting transformation in the Councils approach to demand management
    - Strengthening the councils drive to make services more responsive to the needs of our communities
    - Strengthening the community leadership contribution of local councillors
    - Working with main partner organisations to explore more efficient means of addressing common issues and opportunities and maximise the use of our collective asset base
    - Changing the relationship between the Council and the communities it serves in order to identify priorities, shape the best ways of addressing these and maximising the contribution of the communities themselves to finding sustainable solution.

- The Economic Regeneration Programme focuses on the Council's contribution to the delivery of those programmes and projects identified and prioritised as being important to achieving the aims of the Sunderland Economic Master Plan. The main objective is to improve Sunderland's economic prosperity. The Economic Regeneration Programme is directed by an Economic Leadership Board comprising representatives of the private sector, public sector and social enterprises. Key successes for 2014/2015 include:
    - Progressing with the Council's City Deal proposal to create a new International Advanced Manufacturing Park, a proposed 100 hectare development to the north of the Nissan plant that will house new automotive, logistics and offshore manufacturing businesses. This development will support the vision for local economic growth as set out by the North East Local Enterprise Partnership and increasing private sector growth and employment. The deal also includes a range of Government improvements to the A19 plus confirmation of funding towards the new Wear bridge project and its approach roads.
    - Completing the St Mary's Boulevard realignment scheme to create a four lane gateway into the city centre for vehicles and a pedestrian-focussed connection between the city centre and the central business district planned for the former Vaux brewery site. The newly realigned road forms part of the Sunderland Strategic Transport Corridor (SSTC) that connects key city locations; including the North East's Low Carbon Enterprise Zone, major assets including the Port of Sunderland (with its huge growth area as both a gateway to Europe and key to supporting the off-shore wind industry) and the dynamic Nissan car plant.
    - Appointing Farrans Victor Buyck (FVB) as the preferred contractor for the delivery of the New Wear Bridge. Following confirmation of funding from central government and contract signature in early May 2015, FVB will begin the construction with completion for all of the works programmed for spring 2018 which will improve transport connectivity and assist with economic regeneration of the City.
    - Establishment of a £112m capital programme within the Council's budget to bring forward major developments during 2015/2016.
    - Forming Siglion LLP, a joint venture with Carillion (Maple Oak) Limited in November 2014 for its Local Asset Backed Vehicle, with Igloo Regeneration Limited providing a range of asset and development management services. The Council transferred the majority of its investment property portfolio and a number of development sites into Siglion which will accelerate and deliver physical and economic regeneration of the city on those sites.

Business Rates and Council Tax

The financial year 2014/2015 marked the second year of the revision to the local government finance regime with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in their area. However it also increases the financial risk due to volatility, non-collection of rates and additional liabilities in respect of appeals.

In addition, 2014/2015 also marked the second year of the abolition of the national Council Tax Benefit system which required local authorities to develop local schemes known as the Local Council Tax Scheme.

These changes have resulted in significant risk transfer to the Council from Central Government as any non-collection of income must now be borne, at least in part by the Council. Arrangements ensure this additional risk is closely monitored and reviewed as part of the regular budget monitoring carried out by the Council.

Equal Pay claims

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

Workforce Transformation

The Council is currently undertaking a Workforce Transformation project. The purpose of the project is to devise and implement a new local agreement for employees that will provide a set of modern, streamlined terms and conditions of employment and a modern, flexible pay and grading structure that meets the future needs of the organisation. The project is expected to be implemented during 2015/2016.

Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals during 2014/2015

Capital Expenditure for the year totalled £71.477m. Expenditure on non-current assets for 2014/2015 was £56.420m (Note 12, page 61), whilst expenditure on intangible assets was £0.427m (Note 15, page 65). The remainder of £14.630m represents grants, advances to other organisations for capital purposes, de-minimis expenditure transferred to revenue, and expenditure on property not owned by the Council.

The above total capital expenditure was financed by Borrowing of £35.057m, Capital Receipts of £2.842m, Government Grants and other Contributions of £28.820m, and Revenue Contributions from Reserves of £4.758m.

The Council spent £6.457m on the purchase of land and property during 2014/2015. This included strategic land acquisitions that will be used to regenerate the city centre and surrounding areas, and investment for the Port to benefit economic growth.

The Council is involved in a number of major projects. The main schemes are listed below for information, and show the amounts of expenditure incurred during 2014/2015, the total estimated gross cost of each scheme, and the status of the project at the end of this financial year.

Scheme / Project	Expenditure during 2014/2015 £'000	Total Currently Estimated Gross Cost £'000	Physically Completed / In Progress as at 31 March 2015
Washington Leisure Centre	7,202	11,300	In progress
Waste Transfer Station	5,651	5,651	Complete
St Mary's Boulevard & Keel Square	4,838	12,581	In progress
Industrial Portfolio Improvements Works	3,027	6,147	In progress
Low Carbon Enterprise Zone Transport Infrastructure	2,904	8,810	In progress
Strategic Transport Corridor Phase 2 (New Wear Bridge)	2,697	117,600	In progress

The Council transferred the majority of its investment property portfolio and a number of development sites into its Local Asset Backed Vehicle, Siglion which will accelerate and deliver physical and economic regeneration of the city on those sites. The Council received loan notes totalling £23.5m for these assets that will be repaid over the term of the LABV agreement. There were no other major asset disposals (over £0.500m) made during the year. In addition six schools became academies as disclosed in Note 5 (page 51). In these cases, the assets transferred from the Council to the academies without a capital receipt in accordance with government regulations.

Council's Borrowing and Treasury Management Position

The Capital Programme report incorporating Prudential Indicators and the Treasury Management Policy and Strategy submitted to Council on 5th March 2014 detailed the 2014/2015 borrowing limits for the Council.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code, which was introduced on 1st April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2014/2015 were as follows:

- Authorised Limit for External Debt for 2014/2015 of £440.123m.

- Operational Boundary for External Debt for 2014/2015 of £331.753m.

As part of the Council's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis. The Authorised Limit for the Council was not exceeded during 2014/2015. The highest level attained by the Council in respect of the above limit, during 2014/2015, was £338.202m. However the Operational Limit was exceeded due to the fact that the Council's share of the Joint Waste Disposal PFI arrangement, which Gateshead Council leads, has had to be included in the Council's Balance Sheet for 2014/2015. This change has been reflected in both specific borrowing limits for 2015/2016.

In line with best accounting practice, the Council must follow the Treasury Management Policy and Strategy agreed by full Council each year. The Policy for 2014/2015 is included in detail within the Accounting Policies (Note 1, page 32) for information.

The Greek Debt crisis and expectations of low inflation and economic growth have forced the Eurozone via the European Central Bank (ECB) into implementing a significant package of financial support measures to bolster the EU economy. Added to this, is the continuing conflict in the Ukraine and other geopolitical concerns which have weighed heavily on global markets in 2014/2015 with the result that there has been considerable movement of funds into UK gilts as investors have sought safer investment options. This has had the effect of pushing down both gilt yields and PWLB rates to historic lows. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred at each stage during the year and took out £50 million of new borrowing during the financial year to support the agreed capital programme. These rates were considered opportune at each point in time and will benefit the council's revenue budget over the longer term The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
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
50 years	16/10/2014	20/10/2014	20/10/2064	3.54	10.0
49.5 years	03/02/2015	05/02/2015	05/08/2064	2.84	10.0
14.5 years	12/02/2015	16/02/2015	16/08/2029	2.84	10.0

The Council's economic advisers believe that the UK economy will continue to grow during 2015 and 2016. However the UK economic recovery is fragile and is heavily influenced by the worldwide economic position and by geopolitical events. Projected low levels of inflation mean that the Bank Base rate is not anticipated to rise until at least the second quarter of 2016. Forecasts are that PWLB interest rate levels will rise in the medium-term as a result of the continued recovery in confidence in equity markets, however bond yields remain extremely unpredictable and Economic forecasts will be closely monitored to ensure that potential risks to the Council are minimised.

Foreword by the Director of Finance

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

The performance of the Council's Treasury Management function continues to contribute significant financial savings that are used to provide funding for future years' capital programmes and to help support the Council's revenue budget. The average rate of the Council's borrowing at 3.11% is in the top quartile when benchmarked against other authorities and the 0.76% rate of return achieved on investments in 2014/2015 (benchmark rate of 0.35%) represents a very good achievement, especially when short-term investment rates continue to remain very low, and this helps to show how proactive Treasury Management can have significant positive effects on the Council's resources.

Pensions

The cost of pensions to the Council continues to increase year on year and remains a major item of expenditure which the Council has to meet each year. Through the Hutton Review, pensions have been reviewed and core scheme arrangements agreed which will support the reduction/stabilisation of the employer's costs of funding pensions for public sector workers and to make them more affordable to the Council Tax payer. These changes were implemented on 1st April 2014.

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

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2013 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2015.

The Council continues to comply fully with this Standard and the Accounting Policy (Note 1, page 33) and the Notes to the Core Financial Statements provide details of the necessary disclosures required.

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

The financial health of the Council is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in Note 24 (page 72), as assessed by the Actuary, as at 31st March 2015, is being addressed by the Council in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Council can meet the assessed deficit with planned and agreed future years' contributions based on independent actuarial advice.

Foreword by the Director of Finance

Better Care Pooled Budgets

The Health and Social Care Act introduces substantial changes to the way the NHS in England is organised and run, with responsibility for public health transferring to Local Authorities including the Better Care Fund (BCF).

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

The Council has entered into a Section 75 agreement with Sunderland Clinical Commissioning Group to create a pooled budget as part of its plans for the BCF from 1 April 2015. The agreement was signed in March 2015 establishing a pooled commissioning budget across health and social care of circa £156m in 2015/2016.

Sonia Tognarelli CPFA
Director of Finance
25th September 2015

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

1. To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance.
2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/2015 ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2015.

Authorised for Issue Date

The unaudited accounts were certified on 26th June 2015 and the audited accounts are now authorised for issue on 25th September 2015.

Certificate of the Director of Finance

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

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

I have also:

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

Sonia Tognarelli CPFA
Director of Finance

25th September 2015

Independent Auditors' Report to the Members of Sunderland City Council

Opinion on the financial statements

We have audited the financial statements of Sunderland City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Sunderland City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Sunderland City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters

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

Independent Auditors' Report to the Members of Sunderland City Council

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Basis for qualified conclusion

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

Independent Auditors’ Report to the Members of Sunderland City Council

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Sunderland City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of Sunderland City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham
For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2015

Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is on the Council's website [here] or can be obtained from the Director of Finance. This Statement explains how the Council has complied with its Code in 2014/15.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

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

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

The Council has developed a set of guiding principles to help decision making and agree priorities. These are:

- Elected members are community leaders at the core of decision making
- Our communities, residents and businesses are at the centre of everything we do
- We encourage, respect and value innovation and enterprise
- We demand high performance, personal responsibility and personal accountability
- We value people's individual contributions to our collective goals
- We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.

To translate these principles into action, the Council has set out its priorities under the following clear outcomes that are derived from its vision

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

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

Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are overseen by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.

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

The roles and responsibilities of Council members and employees are clearly documented, although the delegation arrangements need to be updated following recent senior management changes. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

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

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

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

A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to on-going review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance is the designated Chief Finance Officer and fulfils this role through the following:

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

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

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

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

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

The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role. The Council's HR strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.

Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of over 1,000 residents from all parts of the city.

The Council has a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements.

REVIEW OF EFFECTIVENESS

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

- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.

- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report.
- The external auditors (Mazars) Annual Audit Letter for 2013/2014 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and
  for challenging how it secures economy, efficiency and effectiveness.

The Head of Assurance, Procurement and Projects has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The outcome of the review of effectiveness provided the necessary assurance and that overall the arrangements in place remain effective however significant weaknesses have been identified specifically in relation to services for children in need of help and protection, children looked after and care leavers, and the effectiveness of the local safeguarding children board. The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed. Significant improvement activity in relation to Children's safeguarding services is ongoing.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements and urgently improve Children's safeguarding services. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation.

Paul Watson	Sonia Tognarelli
Leader of the Council	Director of Finance

Dated 25th September 2015

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the Council's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net (Increase) / Decrease before Transfers to / (from) Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves are undertaken by the Council. The tables below show the details for both 2013/2014 and 2014/2015 as required by the Code of Accounting Practice.

Financial Statements

Movement in Reserves Statement for 2014/2015 (including 2013/2014 comparative information)

	Notes	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Authority Reserves £'000**
Balance at 31 March 2013 carried forward		16,934	132,165	8,647	7,506	**165,252**	176,060	**341,312**
Movement in reserves during 2013/2014								
Deficit on provision of services		(134,023)	0	0	0	**(134,023)**	0	**(134,023)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	245,875	**245,875**
Total Comprehensive Income and Expenditure		**(134,023)**	**0**	**0**	**0**	**(134,023)**	**245,875**	**111,852**
Adjustments between accounting basis & funding basis under regulations		150,382	0	1,584	(303)	**151,663**	(151,663)	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		16,359	0	1,584	(303)	**17,640**	94,212	**111,852**
Transfers to / (from) Earmarked Reserves		(17,398)	17,398	0	0	**0**	0	**0**
(Increase) / Decrease in 2013/2014		(1,039)	17,398	1,584	(303)	**17,640**	94,212	**111,852**
Balance at 31 March 2014		**15,895**	**149,563**	**10,231**	**7,203**	**182,892**	**270,272**	**453,164**
Movement in reserves during 2014/2015								
Deficit on provision of services		(34,979)	0	0	0	**(34,979)**	0	**(34,979)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	(26,639)	**(26,639)**
Total Comprehensive Income and Expenditure		**(34,979)**	**0**	**0**	**0**	**(34,979)**	**(26,639)**	**(61,618)**
Adjustments between accounting basis & funding basis under regulations	7	45,884	0	(2,203)	(1,931)	**41,750**	(41,750)	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves		10,905	0	(2,203)	(1,931)	**6,771**	(68,389)	**(61,618)**
Transfers to / (from) Earmarked Reserves	8	(9,570)	9,570	0	0	**0**	0	**0**
(Increase) / Decrease in 2014/2015		1,335	9,570	(2,203)	(1,931)	**6,771**	(68,389)	**(61,618)**
Balance at 31 March 2015		**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**391,546**

Financial Statements

Comprehensive Income and Expenditure Statement

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

Financial Statements

Comprehensive Income and Expenditure Statement for 2014/2015 (including 2013/2014 comparative information)

2013/2014					2014/2015		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
9,815	7,317	2,498	Central services to the public		**9,355**	**6,504**	**2,851**
30,476	9,833	20,643	Cultural and related services		**26,731**	**8,060**	**18,671**
29,822	8,006	21,816	Environmental and regulatory services		**27,477**	**7,983**	**19,494**
31,311	10,006	21,305	Planning services		**26,323**	**11,367**	**14,956**
196,861	166,163	30,698	Education services		**180,254**	**157,788**	**22,466**
40,058	4,818	35,240	Children's social care		**44,152**	**2,840**	**41,312**
32,004	11,833	20,171	Highways and transport services		**34,058**	**13,597**	**20,461**
130,491	125,012	5,479	Other housing services		**128,128**	**124,203**	**3,925**
134,144	46,377	87,767	Adult social care		**134,102**	**56,911**	**77,191**
20,208	20,776	(568)	Public Health		**21,659**	**21,413**	**246**
17,623	13,052	4,571	Corporate and democratic core		**21,292**	**13,840**	**7,452**
5,007	0	5,007	Non distributed costs		**2,893**	**0**	**2,893**
7,192	0	7,192	Exceptional item - severance costs		**1,917**	**0**	**1,917**
11,065	0	11,065	Exceptional item - equal pay settlement/provision		**4,521**	**0**	**4,521**
22,000	0	22,000	Exceptional item - property revaluation loss		**0**	**0**	**0**
(12,260)	0	(12,260)	Exceptional item - IAS19 settlement adjustment	44	**0**	**0**	**0**
705,817	423,193	282,624	**Cost of Services**	28	**662,862**	**424,506**	**238,356**
95,850	0	95,850	Other operating expenditure	9	**43,366**	**0**	**43,366**
45,326	4,988	40,338	Financing and investment income and expenditure	10	**31,942**	**4,883**	**27,059**
0	284,789	(284,789)	Taxation and non-specific grant income and expenditure	11	**0**	**273,802**	**(273,802)**
846,993	712,970	134,023	**(Surplus) or Deficit on Provision of Services**	28	**738,170**	**703,191**	**34,979**
			Items that will not be reclassified to (surplus)/deficit on Provision of Services				
		(33,222)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	12/24a			**(24,251)**
		(213,020)	Re-measurements of the defined benefit liability	44			**50,890**
		(246,242)					**26,639**
			Items that may be reclassified to (surplus)/deficit on Provision of Services				
		367	(Surplus) or deficit on revaluation of available for sale financial assets	24h			**0**
		(245,875)	**Other Comprehensive Income and Expenditure**				**26,639**
		(111,852)	**Total Comprehensive Income and Expenditure**				**61,618**

Financial Statements

Balance Sheet

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

31st March 2014 £'000		Notes	**31st March 2015 £'000**
892,125	Property, Plant and Equipment	12	**942,592**
11,342	Heritage Assets	13	**12,192**
60,607	Investment Property	14	**61,409**
2,051	Intangible Assets	15	**2,010**
16,420	Long Term Investments	16	**21,415**
39,574	Long Term Debtors	16	**57,258**
1,022,119	**Long Term Assets**		**1,096,876**
90,619	Short Term Investments	16	**180,919**
807	Inventories	17	**678**
49,810	Short Term Debtors	18	**47,385**
1,732	Assets Held for Sale	20	**3,027**
71,031	Cash and Cash Equivalents (In-hand & bank	16/19	**25,998**
213,999	**Current Assets**		**258,007**
(17,776)	Cash and Cash Equivalents (overdrawn)	19	**(21,101)**
(40,734)	Short Term Borrowing	16	**(30,988)**
(44,900)	Short Term Creditors	21	**(63,666)**
(24,798)	Provisions	22	**(21,119)**
(5,206)	Grant Receipts in Advance - Capital	36	**(10,817)**
(133,414)	**Current Liabilities**		**(147,691)**
(169,533)	Long Term Borrowing	16	**(218,220)**
(475,081)	Other Long Term Liabilities	16/24d	**(591,861)**
(4,926)	Provisions	22	**(5,565)**
(649,540)	**Long Term Liabilities**		**(815,646)**
453,164	**Net Assets**		**391,546**
182,892	Usable Reserves	8	**189,663**
270,272	Unusable Reserves	24	**201,883**
453,164	**Total Reserves**		**391,546**

Financial Statements

Cash Flow Statement

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

2013/2014 £'000		Notes	**2014/2015 £'000**
134,023	Net (surplus) or deficit on the provision of services		**34,979**
(164,836)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(90,200)**
24,562	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**27,527**
(6,251)	Net cash flows from operating activities	25	**(27,694)**
(33,586)	Investing activities	26	**115,882**
10,479	Financing activities	27	**(39,830)**
(29,358)	**Net (increase) or decrease in cash and cash equivalents**		**48,358**
23,897	Cash and cash equivalents at the beginning of the reporting period		**53,255**
53,255	**Cash and cash equivalents at the end of the reporting period**	19	**4,897**

Notes to the Accounts

Notes to the Accounts

Notes to the Accounts

Notes to the Accounts

Note 1 – Significant Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/2015 financial year and its position at the year end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/2015 and the Service Reporting Code of Practice 2014/2015, supported by International Financial Reporting Standards (IFRS).

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

1.2 Accruals of Income & Expenditure

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

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

1.3 Cash and Cash Equivalents

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

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

1.4 Exceptional Items

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

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

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

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

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

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

1.6 Charges to Revenue for Non-Current Assets

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

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

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

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

1.7 Employee Benefits

Benefits Payable during Employment

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

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and as a result no liability for future payments of benefits is recognised in the Council's Balance Sheet. The Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

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

a) Service cost comprising:

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

b) Re-measurements comprising:

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

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

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

Discretionary Benefits

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

1.8 Events after the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a

material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

1.9 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into four types:

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

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

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

Soft Loans (loans below market rate)
A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Council by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount on the open market is charged to the Income and Expenditure Account under the relevant net cost of service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on Council Tax.

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

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

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

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

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

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

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

1.10 Government Grants & Contributions

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

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

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

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

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

Business Improvement District (BID)

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

1.11 Intangible Assets

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

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

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

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

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

1.12 Interests in Companies & Other Entities

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

1.13 Inventories

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

1.14 Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

(a) The Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of

the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

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

(b) The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

1.16 Overheads & Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/2014 (SeRCOP). The charging method varies according to the service provision, with the most appropriate basis being agreed with the customer on an annual basis, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

1.17 Internal Interest

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

1.18 Delegated Budgets

As set out in the Local Management of Schools Scheme, schools may carry forward any under-spending on their budgets to the following financial year as provisions for specific future spending plans or as earmarked general balances. Similarly, the principle of delegated budgets was extended to all Council Directorates in a report approved by Council on 22nd July 1992, and revised and approved by Management Committee on 18th September 1996.

1.19 Property, Plant & Equipment

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

Recognition

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

Notes to the Accounts

Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Capital projects that are still in progress are classed as 'non-current assets under construction' and are shown in the balance sheet under the relevant asset category. For material capital schemes that have been completed an assessment is undertaken by the Valuation Manager to determine any change the capital scheme has made to an asset's value.

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historic cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

Notes to the Accounts

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

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

De-Minimis Levels

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value divided by the future life expectancy. Depreciation is charged in the year following acquisition, with the exception of acquisition and enhancement of buildings that are revalued at 31st March and of disposals where depreciation is charged in the year the acquisition, enhancement or disposal takes place.

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

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

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

- Building structure;
- Mechanical and electrical

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

Disposals & Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Immediately before the initial classification of an asset as held for sale the carrying amount of the asset is measured in accordance with the relevant section of the code. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.20 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

1.21 Provisions

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

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

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

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

1.22 Contingent Liabilities

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

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

1.23 Contingent Assets

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

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

1.24 Reserves

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

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

1.25 Revenue Expenditure Funded from Capital under Statute

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

1.26 VAT

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

1.27 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.28 Carbon Reduction Commitment (CRC) Energy Efficiency Schemes

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority’s services and is apportioned to services on the basis of energy consumption.

1.29 Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 introduced a change to the treatment in accounting for heritage assets held by the Council. Heritage assets are now required to be carried in the balance sheet at valuation.

Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classifications in the Balance Sheet or were not recognised in the Balance Sheet and it was not possible to obtain cost information on the assets. Community Assets (that are now classed as Heritage Assets) that were donated to the Council are held at valuation as a proxy for historical cost. The Council has not recognised any assets previously held as community assets as heritage assets, this is because the cost of revaluing elements of community assets outweighs the benefit of the disclosure. Capital schemes on community assets are now analysed and any of the expenditure in excess of £10,000 relating to Historic Assets is capitalised as Historic Assets and held at historic cost. Revaluations, impairments or disposals are actioned against this balance sheet valuation.

The Council has recognised collections that are maintained on behalf of the Council by Tyne and Wear Museums for artefacts with a value in excess of £10,000 and assets valuations held on the Council's insurance schedule for assets classified as historic assets with a value in excess of £10,000.

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

The Code for 2015/2016 has introduced several changes in accounting policies which are required from 1st April 2015. None of these changes are expected to have a material impact on the Council's Financial Statements.

IFRS 13 Fair Value Measurement

IFRS 13 requires valuations of assets and liabilities which are measured at fair value to be based on their value in their 'best and highest use'. However, public sector assets should be measured according to their service potential rather than market-based exit prices. Therefore, only surplus assets held by the Council would need to be valued at 'best and highest use'.

Annual Improvements to IFRSs 2011-2013 Cycle

The IASB's annual improvements project provides a streamlined process for enhancing the quality of standards, by clarifying guidance and wording and making minor corrections.The issues to be considered during the 2011-2013 cycle are:

- IRFS 1: Meaning of effective IFRSs;
- IRFS 3: Scope exceptions for joint ventures;
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.

IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by the government. This is not expected to impact on Local Authorities.

Notes to the Accounts

Note 3 – Critical Judgements in applying accounting policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Retirement benefit obligations – the Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 ‘Employee Benefits’. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 44.
- Provisions – provisions are measured at the Director of Finance’s best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.
- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management’s assumptions and estimates.
- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies. The selection of these residual values and estimated lives requires the exercise of management judgement.
- Valuation Newcastle Airport – the value of the Council’s investment in Newcastle Airport is based on the open market value of shares at 16th November 2012.

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

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

The items in the Council’s Balance Sheet at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings and their components would increase by £3.274m for every year that useful lives had to be reduced.*
Provisions	The Council has provisions of	An increase over the forthcoming year of

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	£26.684m, £5.041m of this relates to Insurance.	10% in either the total number of insurance claims or the estimated average insurance settlement would each have the effect of adding £0.504m to the provision needed.*
Provision – Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses. This includes the relevant share of any historic appeals lodged, but still outstanding and also any appeals likely to be lodged against the current 2010 ratings list. Therefore, a provision has been recognised for the best estimate of the amount that will be successfully appealed (i.e. that businesses have been overcharged) in relation to 2014/15 and previous years, regardless of when that appeal is raised or settled. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA as at 31 March 2015.	Any increase or decrease in appeals lodged would impact on the overall position of the Collection Fund and future income receivable via Business Rates.
Arrears	At 31st March 2015, the Council had a balance of debtors of £52.602m. A review of significant balances suggested that an impairment of doubtful debts of 24.89% (£13.091m) was appropriate. However, significant changes to the current economic climate could affect the adequacy of this provision.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £13.091m to be set aside as an allowance.*
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the pension liability of £26.57m. However, the assumptions interact in complex ways. During 2014/2015, the Council's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £8.03m as a result of estimates being corrected as a result of experience and increased by £131.17m attributable to updating of the assumptions.

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

Note 5 – Material items of income and expenditure

The loss on disposal of non-current assets of £24.252m relates mainly to schools which have opted out of local authority control and have become academies. Under statutory regulations, assets in respect of the school are transferred from the local authority to the new academy body on a long term lease. As such the Council has had to write these assets out of its accounts for a nil consideration. The accounting entries require this 'loss' to be charged to Other Operating Expenditure within the Comprehensive Income and Expenditure Account and then this 'charge' is reversed out in the Movement in Reserves Statement, so that it does not have any impact on the Council Tax payer. In addition, in 2014/2015 the Council transferred the majority of its investment property portfolio and a number of development sites into its Local Asset Backed Vehicle, Siglion which will accelerate and deliver physical and economic regeneration of the city on those sites. The Council received loan notes totalling £23.5m for these assets that will be repaid over the term of the LABV agreement.

The following assets have been transferred at a loss during 2014/2015;

	Loss on Disposal £m	Date of Transfer
Schools:		
North View Academy	**6.139**	1st August 2014
Barnwell Academy	**5.933**	1st April 2014
Oxclose Primary Academy	**4.952**	1st April 2014
Ryhope Infants School Academy	**2.879**	1st September 2014
Castlegreen Community School	**2.576**	1st July 2014
Barnes Infants Academy	**2.337**	1st July 2014
Non Schools:		
Local Asset Backed Vehicle sites	**(0.229)**	7th November 2014
Other Net (Gains) and Losses	**(0.335)**	
Total	**24.252**	

Note 6 – Events after the Balance Sheet date

Non-adjusting Events after the Balance Sheet date

There are a number of events that have taken place since the accounts were closed on 31st March 2015 which are judged to be non-adjusting post balance sheet events, which need to be included in the financial statements for information.

Assets transferred to Joint Venture Partnership

The following assets that were part of the Council's asset base at 31st March 2015 transferred on a long term lease to the Council's joint venture partnership with Sport and Leisure Management Ltd on 1st June 2015 and the value of the assets that will be written out of the accounts are as follows.

- Sunderland Aquatic Centre - £21.226m
- Silksworth Community Pool, Tennis and Wellness Centre - £8.051m
- Washington Leisure Centre - £5.129m
- Hetton Community Pool and Wellness Centre - £4.834m
- Houghton Sports Centre and Wellness - £4.241m
- Seaburn Leisure Centre and Wellness – £2.682m
- Silksworth Sports Complex - £1.400m

Sandhill View School that was part of the Council's asset base at 31st March 2015 has since transferred to Academy status and the value of the assets that will be written out of the accounts is £25.406m.

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

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

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

2013/2014					**2014/2015**			
Usable			Movement in Unusable Reserves		**Usable**			**Movement in Unusable Reserves**
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000		**General Fund Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied £'000**	**£'000**
				Adjustments primarily involving the Capital Adjustment Account:				
				Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
48,671	0	0	(48,671)	Charges for depreciation and impairment of non current assets	**44,205**	**0**	**0**	**(44,205)**
32,654	0	0	(32,654)	Revaluation losses on Property Plant and Equipment	**2,547**	**0**	**0**	**(2,547)**
8,316	0	0	(8,316)	Movements in the fair value of Investment Properties	**(802)**	**0**	**0**	**802**
438	0	0	(438)	Amortisation of intangible assets	**468**	**0**	**0**	**(468)**
(11,020)	0	0	11,020	Capital grants and contributions applied	**(15,024)**	**0**	**0**	**15,024**
6,774	0	0	(6,774)	Revenue expenditure funded from capital under statute	**14,631**	**0**	**0**	**(14,631)**
80,265	0	0	(80,265)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**50,208**	**0**	**0**	**(50,208)**
				Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
(12,074)	0	0	12,074	Statutory provision for the financing of capital investment	**(14,811)**	**0**	**0**	**14,811**
(4,895)	0	0	4,895	Capital expenditure charged against General Fund balances	**(4,758)**	**0**	**0**	**4,758**
				Adjustments primarily involving the Capital Grants Unapplied Account:				
(11,296)	0	11,296	0	Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	**(11,865)**	**0**	**11,865**	**0**
0	0	(11,599)	11,599	Application of grants to capital financing transferred to the Capital Adjustment Account	**0**	**0**	**(13,796)**	**13,796**

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

2013/2014					**2014/2015**			
Usable			Movement in Unusable Reserves		**Usable**			**Movement in Unusable Reserves**
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000		**General Fund Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied £'000**	**£'000**
				Adjustments primarily involving the Capital Receipts Reserve:				
(2,246)	2,246	0	0	Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	**(638)**	**638**	**0**	**0**
0	(666)	0	666	Use of the Capital Receipts Reserve to finance new capital expenditure	**0**	**(2,842)**	**0**	**2,842**
				Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposal				
11	(11)	0	0	Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	**3**	**(3)**	**0**	**0**
				Adjustments primarily involving the Deferred Capital Receipts Reserve:				
39	0	0	(39)	Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	**(23,460)**	**0**	**0**	**23,460**
0	15	0	(15)	Transfer to the Capital Receipts Reserve upon receipt of	**0**	**4**	**0**	**(4)**
				Adjustments primarily involving the Financial Instruments Adjustment Account:				
125	0	0	(125)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**126**	**0**	**0**	**(126)**

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

2013/2014					2014/2015			
Usable			Movement in Unusable Reserves		Usable			Movement in Unusable Reserves
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000
				Adjustments primarily involving the Pensions Reserve:				
47,180	0	0	(47,180)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	**40,490**	**0**	**0**	**(40,490)**
(35,060)	0	0	35,060	Employer's pensions contributions and direct payments to pensioners payable in the year	**(31,980)**	**0**	**0**	**31,980**
				Adjustments primarily involving the Unequal Pay Back Pay Adjustment Account:				
0	0	0	0	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	**0**	**0**	**0**	**0**
				Adjustments primarily involving the Collection Fund Adjustment Account:				
1,534	0	0	(1,534)	Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	**(2,761)**	**0**	**0**	**2,761**
				Adjustments primarily involving the Accumulated Absences Account:				
966	0	0	(966)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(695)**	**0**	**0**	**695**
150,382	1,584	(303)	(151,663)	**Total Adjustments**	**45,884**	**(2,203)**	**(1,931)**	**(41,750)**

Note 8 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/2015.

	Balance at 31 March 2013 £'000	Transfers Out 2013/2014 £'000	Transfers In 2013/2014 £'000	Balance at 31 March 2014 £'000	Transfers Out 2014/2015 £'000	Transfers In 2014/2015 £'000	**Balance at 31 March 2015 £'000**
Delegated Budget Reserves:							
General Fund Balance	7,570	(376,273)	376,273	7,570	0	0	**7,570**
Balances held by schools under a scheme of delegation	9,364	(9,326)	8,287	8,325	(1,894)	3,229	**9,660**
Total Delegated Reserves	16,934	(385,599)	384,560	15,895	(1,894)	3,229	**17,230**
Capital Reserves:							
Unutilised RCCO Reserve	3,009	(904)	531	2,636	(857)	10	**1,789**
Strategic Investment Plan Reserve	7,383	(239)	9	7,153	(939)	21	**6,235**
Capital Priorities Reserve	0	0	5,001	5,001	(793)	0	**4,208**
Children's Social Care Capital Reserve	192	0	0	192	0	0	**192**
Riverside Transfer	0	0	9,953	9,953	0	0	**9,953**
HCA Stadium Transfer	0	0	1,158	1,158	(6)	0	**1,152**
Other General Capital Reserves	3,314	(12)	0	3,302	0	0	**3,302**
Usable Capital Receipts	8,647	(677)	2,261	10,231	(2,845)	642	**8,028**
Capital Grants Unapplied	7,506	(11,599)	11,296	7,203	(13,796)	11,865	**5,272**
Total Capital Reserves	30,051	(13,431)	30,209	46,829	(19,236)	12,538	**40,131**
Earmarked Revenue Reserves:							
Delegated budgets reserve - general	4,441	(3,572)	3,612	4,481	(4,132)	4,111	**4,460**
Insurance Reserve	3,931	(132)	1,343	5,142	(534)	50	**4,658**
Strategic Investment Reserve	52,523	(3,607)	428	49,344	(6,331)	3,088	**46,101**
Service Pressures Reserve	1,066	0	0	1,066	0	0	**1,066**
Sandhill Centre PFI Smoothing Reserve	2,666	(76)	0	2,590	(52)	0	**2,538**
School Community Reserve	1,243	(1,018)	936	1,161	(310)	465	**1,316**
Education Redundancies Reserves	1,779	0	754	2,533	0	603	**3,136**

Note 8 – Transfers to/from Earmarked Reserves

	Balance at 31 March 2013 £'000	Transfers Out 2013/2014 £'000	Transfers In 2013/2014 £'000	Balance at 31 March 2014 £'000	Transfers Out 2014/2015 £'000	Transfers In 2014/2015 £'000	**Balance at 31 March 2015 £'000**
Street Lighting and Highways Signs PFI Smoothing Reserve	6,258	(248)	0	6,010	(354)	0	**5,656**
Adult Services Modernisation and Service Pressures Reserve	1,217	(970)	1,697	1,944	(1,436)	3,209	**3,717**
Play Areas Reserve	1,306	(388)	301	1,219	(173)	522	**1,568**
WNF-Software City	1,537	(327)	0	1,210	(25)	0	**1,185**
WNF Visible Workshop and other projects	3,548	(329)	85	3,304	(368)	0	**2,936**
Modernisation Improvements	1,464	(464)	0	1,000	0	0	**1,000**
Utilities Reserve	1,043	0	0	1,043	(1,043)	0	**0**
Commercial and Economic Development Activity	1,500	0	0	1,500	0	0	**1,500**
Transition Enablement	1,037	0	0	1,037	(1,037)	0	**0**
Riverside Transfer	11,876	(10,058)	34	1,852	(105)	37	**1,784**
Weekly Collection Reserve	1,010	(617)	2,232	2,625	0	977	**3,602**
External Placements Reserve	1,357	0	1,530	2,887	(2,887)	0	**0**
Public Health Reserve	900	(308)	965	1,557	(597)	0	**960**
New Homes Bonus Reserve	1,596	(21)	20	1,595	(603)	0	**992**
Business Rates Safety Net Reserve	0	0	6,097	6,097	0	3,341	**9,438**
HCA Stadium Transfer	0	(1,158)	2,954	1,796	0	1,281	**3,077**
Troublesome Families Reserve	0	0	1,206	1,206	0	328	**1,534**
DSG Surplus	321	(321)	1,044	1,044	(1,044)	2,638	**2,638**
House Sale Income	942	(93)	58	907	(137)	409	**1,179**
Housing Benefit Smoothing Reserve	0	0		0	0	1,594	**1,594**
Safeguarding Pressures Reserve	0	0	0	0	0	4,000	**4,000**
Safeguarding Action Plan	0	0	0	0	0	3,400	**3,400**
Other Earmarked Reserves	13,706	(3,967)	4,279	14,018	(12,121)	15,370	**17,267**
Total Revenue Reserves	118,267	(27,674)	29,575	120,168	(33,289)	45,423	**132,302**
Total Reserves	**165,252**	**(426,704)**	**444,344**	**182,892**	**(54,419)**	**61,190**	**189,663**

Notes to the Accounts

Purpose of Earmarked Reserves

Capital Reserves:	Purpose of the Reserve
Un-utilised RCCO Reserve	The reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan approved by Council in April 2008.
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.
Children's Social Care Capital Reserve	This reserve has been established to fund future capital developments of Social Care establishments.
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.
HCA Stadium Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.
Other General Capital Reserve	Usable capital receipts set aside to fund future capital projects previously approved.
Revenue Reserves:	**Purpose of the Reserve**
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.
Strategic Investment Reserve	A reserve established to address some of the Council's key developments and strategic priorities.
Service Pressures Reserve	To mitigate the potential budgetary impact of the economic downturn.
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
School Community Reserve	The reserve holds the surpluses on community schemes at schools. Reserve to be held until all schemes are closed.
Education Redundancies Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within Maintained schools.
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact of the contract across the 25 years of the contract life.
Adult Services Modernisation and Service Pressures Reserve	The reserve was established to meet increased demand pressures especially in Learning Disabilities, Residential Nursing and Home and Day Care and modernisation investment requirements.
Play Areas Reserve	The reserve relates to monies paid over by the developers of new housing estates, under Section 106 of the Town and Country Planning Act 1990. On completion of the development the contributions are used to provide play equipment on housing developments.
WNF - Software City	Reserve established to help fund the development and running of Software City.
WNF Visible Workshop	Reserve established to help fund the development and running of visible workshop.
Modernisation Improvements	Reserve established to assist with the financial implications of the Council's Modernisation plans including invest to save initiatives.
Utilities Reserve	Reserve established to protect the council against the future volatility of utility costs.

	Purpose of the Reserve
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.
Transition Reserve	Reserve established to meet the cost of future organisational changes.
Riverside Transfer	Reserve established to fund on-going maintenance of Homes and Communities Agency land transferred to the Council.
Weekly Collection Reserve	Reserve held to smooth funding over the five year weekly collection scheme.
External Placements Reserve	The reserve was established to meet increased demand pressures and future costs of external placements in respect of Children's Social Care.
Public Health Reserve	Reserve to be used to fund expenditure on Public Health initiatives.
New Homes Bonus Reserve	Reserve established to fund initiatives that will stimulate house building or bring empty homes back into use.
Business Rates Safety Net Reserve	Reserve established to address any potential impact arising from the increased risk and uncertainty within the new Business Rates Retention Scheme.
HCA Stadium Transfer	Reserve established to fund on-going maintenance of Homes and Communities Agency land transferred to the Council.
Troublesome Families Reserve	Reserve to be utilised to transform the lives of troubled families in Sunderland.
DSG Surplus	This reserve is the underspend from the Dedicated Schools Grant that will be utilised to support schools funding in future years.
House Sale Income	The reserve relates to the sale of clients homes that will be utilised to support future support needs of those clients.
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.
Safeguarding Pressures Reserve	Established to address the on-going pressures in relation to increased demand in Children Looked After
Safeguarding Improvement Action Plan	To fund the implementation of the Safeguarding Improvement Action Plan
Other Earmarked Reserves	Numerous small revenue reserves set up for specific purposes.

Notes to the Accounts

Note 9 – Other operating expenditure

2013/2014 £'000		**2014/2015 £'000**
54	Parish Council Precept	**54**
17,766	Levies	**17,239**
11	Payments to the Government Housing Capital Receipts Pool	**3**
76,722	(Gain) / losses on the disposal of non current assets	**24,252**
1,297	(Gain) / losses on the derecognition of non current assets	**1,818**
95,850	**Total**	**43,366**

Note 10 – Financing and investment income and expenditure

2013/2014 £'000		**2014/2015 £'000**
9,888	Interest payable and similar charges	**11,813**
27,100	Net interest on the net defined benefit liability	**18,180**
(4,410)	Interest receivable and similar income	**(3,435)**
(578)	Surplus on Trading Undertakings	**(646)**
22	Deficit on Trading Undertakings	**0**
8,316	Income and expenditure in relation to investment properties and changes in their fair value	**(802)**
0	Disposals and impairments of susbidiaries	**1,949**
40,338	**Total**	**27,059**

Note 11 – Taxation and non-specific grant income and expenditure

2013/2014 £'000		**2014/2015 £'000**
(76,667)	Council tax income	**(78,039)**
(39,239)	Non-domestic rates income and expenditure	**(41,886)**
(150,727)	Non-ringfenced government grants *	**(135,089)**
(18,156)	Capital grants and contributions *	**(18,788)**
(284,789)	**Total**	**(273,802)**

* Further analysis of grants is shown within Note 36, Grant Income

Notes to the Accounts

Note 12 – Property, Plant and Equipment
Movement on Balances 2013/2014

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation							
At 1 April 2013	761,934	78,019	300,408	20,664	2,367	1,163,392	54,973
Additions	16,574	7,288	6,710	13,365	0	43,937	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	19,736	0	0	0	4	19,740	0
Revaluation increases / (decreases) recognised in the Provision of Services	(34,255)	0	0	0	0	(34,255)	0
Impairment charged to the Provision of Services	(6,560)	0	(732)	0	0	(7,292)	0
Derecognition recognised in the Provision of Services	(1,377)	0	0	0	6	(1,371)	0
Disposals	(84,601)	(7,216)	0	0	0	(91,817)	0
Other movements in Cost or Valuation	(1,471)	180	1,896	(4,936)	2,850	(1,481)	0
At 31 March 2014	**669,980**	**78,271**	**308,282**	**29,093**	**5,227**	**1,090,853**	**54,973**
Accumulated Depreciation and Impairment							
At 1 April 2013	56,299	44,815	84,980	0	1	186,095	12,871
Depreciation Charge	25,945	7,121	8,228	0	85	41,379	1,786
Depreciation written out to Revaluation Reserve	(13,497)	0	0	0	0	(13,497)	0
Depreciation recognised in the Provision of Services	(1,601)	0	0	0	0	(1,601)	0
Derecognition recognised in the Provision of Services	(73)	0	0	0	(1)	(74)	0
Disposals	(7,128)	(6,446)	0	0	0	(13,574)	0
At 31 March 2014	**59,945**	**45,490**	**93,208**	**0**	**85**	**198,728**	**14,657**
Net Book Value							
At 31 March 2013	705,635	33,204	215,428	20,664	2,366	977,297	42,102
At 31 March 2014	**610,035**	**32,781**	**215,074**	**29,093**	**5,142**	**892,125**	**40,316**

Movement on Balances 2014/2015

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation							
At 1 April 2014	669,980	78,271	308,282	29,093	5,227	1,090,853	54,973
Additions	14,380	4,816	6,984	30,240	0	56,420	0
Recognition of PFI assets and Embedded Leases	63,571	1,147	4,183	0	0	68,901	67,753
Revaluation increases / (decreases) recognised in the Revaluation Reserve	11,601	0	0	0	1,080	12,681	5,526
Revaluation increases / (decreases) recognised in the Provision of Services	(3,427)	0	0	0	0	(3,427)	0
Impairment charged to the Provision of Services	(3,962)	0	(1,502)	0	0	(5,464)	0
Derecognition recognised in the Provision of Services	(643)	(415)	0	0	(1,235)	(2,293)	0
Disposals	(55,614)	0	0	0	(81)	(55,695)	0
Assets reclassified (to) / from Assets Held for Sale	(475)	0	0	0	(1,175)	(1,650)	0
Other movements in Cost or Valuation	1,877	132	2,936	(5,144)	199	0	0
At 31 March 2015	**697,288**	**83,951**	**320,883**	**54,189**	**4,015**	**1,160,326**	**128,252**
Accumulated Depreciation and Impairment							
At 1 April 2014	59,945	45,490	93,208	0	85	198,728	14,657
Depreciation Charge	22,996	7,263	8,459	0	23	38,741	1,655
Depreciation written out to Revaluation Reserve	(10,842)	0	0	0	(3)	(10,845)	(5,076)
Depreciation recognised in the Provision of Services	(880)	0	0	0	0	(880)	0
Derecognition recognised in the Provision of Services	0	(415)	0	0	(60)	(475)	0
Disposals	(7,527)	0	0	0	(8)	(7,535)	0
At 31 March 2015	**63,692**	**52,338**	**101,667**	**0**	**37**	**217,734**	**11,236**
Net Book Value							
At 31 March 2014	610,035	32,781	215,074	29,093	5,142	892,125	40,316
At 31 March 2015	**633,596**	**31,613**	**219,216**	**54,189**	**3,978**	**942,592**	**117,016**

Depreciation

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

- Land and Buildings – 3 to 68 years
- Vehicles, Plant and Equipment – 5 to 20 years
- Infrastructure - 5 to 40 years

Capital Commitments

As at 31st March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/2016 and future years budgeted to cost £9.246m (as at 31st March 2014 £21.553m). The major commitments are:

- Industrial Portfolio Improvement Works – £2.247m
- St Mary's Boulevard & Keel Square - £2.229m
- Washington Leisure Centre - £1.713m
- Various other schemes - £3.057m

Revaluations

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

The significant assumptions applied in estimating the fair values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the Council to deliver services but the property is considered to be of a specialist nature in that there is little or no market evidence to support value
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value
- Assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulations
- The assets are free from contamination and deleterious or hazardous substances
- Current use fully complies with current planning legislation and consents and the existing use will continue for the near future and will remain viable
- No allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses
- Properties assessed by the DRC method of valuation are subject to the prospect and viability of the continuance of the occupation and use.

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historic cost	0	83,951	320,883	54,189	0	459,023
Valued at fair value as at:						
31 March 2015	196,576	0	0	0	505	197,081
31 March 2014	166,543	0	0	0	1,178	167,721
31 March 2013	159,713	0	0	0	2,332	162,045
31 March 2012	56,884	0	0	0	0	56,884
31 March 2011	117,572	0	0	0	0	117,572
Total Cost or Valuation	**697,288**	**83,951**	**320,883**	**54,189**	**4,015**	**1,160,326**

Note 13 – Heritage Assets

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

	Collections Held by Tyne & Wear Museums £'000	Statues, Monuments and Public Art £'000	Other Historic Assets £'000	Total Assets £'000
Cost or Valuation				
1st April 2013	9,140	556	1,661	11,357
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	(15)	0	0	(15)
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2014	9,125	556	1,661	11,342
Cost or Valuation				
1st April 2014	9,125	556	1,661	11,342
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluation Gains / (Losses) recognised in the Revaluation Reserve	850	0	0	850
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses / (Reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
Depreciation	0	0	0	0
31st March 2015	**9,975**	**556**	**1,661**	**12,192**

Further details of the Council's Heritage Asset holdings can be found in Note 48.

Note 14 – Investment Properties / Land

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

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

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

2013/2014 £'000		**2014/2015 £'000**
68,923	Balance at the start of the year	**60,607**
(1,316)	Disposals	**(163)**
(7,000)	Net gain / (losses) from fair value adjustments	**965**
	Transfers:	
0	To / (From) Property, Plant and Equipment	**0**
60,607	Balance at the end of the year	**61,409**

Losses in 2014/2015 from fair value adjustments reflect changes to planning status for some land and building assets (losses in 2013/2014 from fair value adjustments reflect market conditions and changes to planning status).

Note 15 – Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life for software is deemed to be between 5 and 10 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.468m charged to revenue in 2014/2015 was charged to administration cost centres and absorbed where appropriate as an overhead across service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

Notes to the Accounts

2013/2014 £'000		**2014/2015 £'000**
	Balance at start of year:	
3,535	Gross carrying amounts	**3,839**
(1,350)	Accumulated Amortisation	**(1,788)**
2,185	Net carrying amount at the start of the year	**2,051**
	Additions	
304	Purchases	**427**
(438)	Amortisation for the period	**(468)**
2,051	Net carrying amount at the year end	**2,010**
	Comprising	
3,839	Gross carrying amounts	**4,266**
(1,788)	Accumulated amortisation	**(2,256)**
2,051		**2,010**

Software Licences have been purchased in the year for use on a number of the Council’s IT systems. There are no items of capitalised software that are individually material to the financial statements.

Notes to the Accounts

Note 16 – Financial Instruments

Categories of Financial Instruments

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

Long Term 31 March 2014 £'000	Current 31 March 2014 £'000		**Long Term 31 March 2015 £'000**	**Current 31 March 2015 £'000**
		Investments		
0	90,619	Loans and receivables	**0**	**180,919**
16,420	0	Available-for-sale financial assets	**16,415**	**0**
0	0	Unquoted equity investment at cost	**5,000**	**0**
0	0	Financial assets at fair value through profit and loss	**0**	**0**
16,420	90,619	**Total Investments**	**21,415**	**180,919**
		Debtors		
39,574	71,031	Loans and receivables	**57,258**	**25,998**
0	49,810	Financial assets carried at contract amount	**0**	**47,385**
39,574	120,841	**Total included in Debtors**	**57,258**	**73,383**
		Borrowings		
(169,533)	(58,510)	Financial liabilities at amortised cost	**(218,220)**	**(52,089)**
0	0	Financial liabilities at fair value through profit and loss	**0**	**0**
(169,533)	(58,510)	**Total included in Borrowings**	**(218,220)**	**(52,089)**
		Other Long Term Liabilities		
(35,461)	0	PFI and finance lease liabilities	**(92,841)**	**0**
(35,461)	0	**Total other long term liabilities**	**(92,841)**	**0**
		Creditors		
0	(1,247)	PFI and finance lease liabilities	**0**	**(4,454)**
0	0	Financial liabilities at amortised cost	**0**	**0**
0	(48,860)	Financial liabilities carried at contract amount	**0**	**(70,029)**
0	(50,107)	**Total creditors**	**0**	**(74,483)**

Notes to the Accounts

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

2013/2014					**2014/2015**			
Financial Liabilities	Financial Assets		Total		**Financial Liabilities**	**Financial Assets**		**Total**
Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	£'000		**Liabilities measured at amortised cost £'000**	**Loans and receivables £'000**	**Available for sale assets £'000**	**£'000**
(9,888)	0	0	(9,888)	Interest Expense	(11,813)	0	0	**(11,813)**
(9,888)	0	0	(9,888)	**Total expense in Surplus or Deficit on the Provision of Services**	**(11,813)**	**0**	**0**	**(11,813)**
0	4,410	0	4,410	Interest Income	0	3,435	0	**3,435**
0	4,410	0	4,410	**Total income in Surplus or Deficit on the Provision of Services**	**0**	**3,435**	**0**	**3,435**
(9,888)	4,410	0	(5,478)	**Net Gain / (loss) for the year**	**(11,813)**	**3,435**	**0**	**(8,378)**

Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- For PWLB debt, the discount rate used is the premature repayment rates as per rate sheet number 126/15.
- There were limited trades in the LOBO market during the financial year ended 31st March 2015. The rates used have been derived by applying a margin above gilts, which is based on pricing for instruments when the market was more active.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms for a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.

Fair values for all instruments in the portfolio have been estimated. The fair values calculated are as follows:

31 March 2014		**Liabilities**	**31 March 2015**	
Carrying Amount £'000	Fair Value £'000		**Carrying Amount £'000**	**Fair Value £'000**
127,850	145,037	PWLB	**177,817**	**247,632**
40,201	40,388	LOBOs	**40,194**	**52,144**
94	74	Stock	**90**	**88**
1,388	1,398	Other	**119**	**156**
17,776	17,776	Bank Overdraft	**21,101**	**21,101**
40,734	40,739	Short Term Borrowing	**30,988**	**30,994**
228,043	245,412	**Financial Liabilities**	**270,309**	**352,115**

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rates payable are higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest is below current market rates, reducing the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

31 March 2014		**Assets**	**31 March 2015**	
Carrying Amount £'000	Fair Value £'000		**Carrying Amount £'000**	**Fair Value £'000**
160,966	161,096	Deposits with Banks & Building Societies	**206,252**	**206,460**
160,966	161,096	**Financial Assets**	**206,252**	**206,460**

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

At 31st March 2015 the Council holds £22.954m of funds in relation to the North Eastern Local Enterprise Partnership (£25.857m at 31st March 2014) and £1.483m of funds in relation to the Associated of North East Councils (£1.794m at 31st March 2014). These funds do not belong to the Council and are therefore not reflected in the Statement of Accounts.

Notes to the Accounts

Note 17 – Inventories

2013/2014

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	971	119	245	1,335
Purchases	2,184	182	92	2,458
Recognised as an expense in the year	(1,972)	(187)	(245)	(2,404)
Written off balances	(579)	(3)	0	(582)
Balance outstanding at the year-end	604	111	92	807

2014/2015

	Consumable Stores £'000	Maintenance Materials £'000	Client Services Work In Progress £'000	Total £'000
Balance Outstanding at start of year	**603**	**111**	**92**	**806**
Purchases	**3,915**	**160**	**81**	**4,156**
Recognised as an expense in the year	**(3,947)**	**(158)**	**(33)**	**(4,138)**
Written off balances	**(33)**	**(113)**	**0**	**(146)**
Balance outstanding at the year-end	**538**	**0**	**140**	**678**

Note 18 – Short Term Debtors

2013/2014 £'000		**2014/2015 £'000**
16,007	Central government bodies	**6,303**
240	Other local authorities	**1,620**
1,333	NHS bodies	**1,793**
32,230	Other entities and individuals	**37,669**
49,810	**Total**	**47,385**

Note 19 – Cash and cash equivalents

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

2013/2014 £'000		**2014/2015 £'000**
(17,092)	Cash held by the Council	**(20,436)**
70,347	Bank current accounts and Money Market Funds	**25,333**
0	Short-term deposits with banks and building societies	**0**
53,255	**Total Cash and Cash Equivalents**	**4,897**

This is presented on the Balance Sheet as follows:

2013/2014 £'000		**2014/2015 £'000**
71,031	Cash and Cash Equivalents (in hand & bank)	**25,998**
(17,776)	Cash and Cash Equivalents (overdrawn)	**(21,101)**
53,255	**Total Cash and Cash Equivalents**	**4,897**

Note 20 – Assets Held for Sale

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

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

2013/2014 £'000		**2014/2015 £'000**
975	Balance outstanding at start of year	**1,732**
(725)	Assets Sold	**(230)**
0	Revaluation Losses	**(125)**
1,482	Transfer from non-current assets to current assets at year end	**1,650**
1,732	**Balance outstanding at year-end**	**3,027**

Note 21 – Short-Term Creditors

2013/2014 £'000		**2014/2015 £'000**
(9,057)	Central government bodies	**(12,928)**
(3,754)	Other local authorities	**(6,798)**
(2,478)	NHS bodies	**(2,324)**
(29,611)	Other entities and individuals	**(41,616)**
(44,900)	**Total**	**(63,666)**

Note 22 – Provisions

	Insurance Provision £'000	Other Provision £'000	Total £'000
Balance at 31 March 2014	**(4,325)**	**(25,399)**	**(29,724)**
Additional provisions made 2014/2015	(716)	(4,774)	(5,490)
Amounts used 2014/2015	0	8,323	8,323
Unused amounts reversed 2014/2015	0	207	207
Balance at 31 March 2015	**(5,041)**	**(21,643)**	**(26,684)**

Long Term provisions at 31st March 2015	(5,037)	(528)	(5,565)
Short Term Provisions at 31st March 2015	(4)	(21,115)	(21,119)

The nature of the individual provisions held at 31st March 2015 is detailed in the table below:

Nature of provision	2013/2014 £'000	2014/2015 Short Term £'000	2014/2015 Long Term £'000	2014/2015 Total £'000
Insurance provision	4,325	4	5,037	**5,041**
Back on the Map temporary funding - Council-led selective licensing project	234	92	0	**92**
Funding for known early retirements	1,934	776	0	**776**
Carbon Reduction Commitments	520	0	0	**0**
Unequal back pay provision	17,876	14,295	0	**14,295**
Guarantee bonds held relating to rents and highways works	522	82	118	**200**
City Centre Property costs - disputed ground rent	57	57	0	**57**
Investment Grants - grants committed to businesses	295	80	294	**374**
Provision for potential costs of successful NNDR appeals	3,805	5,559	0	**5,559**
Potential grant repayment	156	54	0	**54**
New provisions established 2014/2015:				
Future staffing liabilities	0	0	116	**116**
Potential compensation payment	0	120	0	**120**
	29,724	21,119	5,565	**26,684**

Note 23 – Usable Reserves

The total Usable Reserves held by the Council are £189.663m at 31st March 2015 (£182.892m at 31st March 2014) and these are detailed in the Movement in Reserves Statement. Movements in the Council's Usable Reserves are also detailed in Note 8 –Transfers to/from Earmarked Reserves.

Note 24 – Unusable Reserves

2013/2014 £'000		Note	**2014/2015 £'000**
217,658	Revaluation Reserve	24a	**217,888**
479,965	Capital Adjustment Account	24b	**443,960**
(1,004)	Financial Instrument Adjustment Account	24c	**(1,130)**
(439,620)	Pensions Reserve	24d	**(499,020)**
570	Deferred Capital Receipts Reserve	24e	**24,026**
805	Collection Fund Adjustment Account	24f	**3,566**
(4,135)	Accumulated Absence Account	24g	**(3,440)**
16,033	Available for Sale Financial Instrument Reserve	24h	**16,033**
270,272	**Total Unusable Reserve**		**201,883**

The following tables show the detail for each line item as follows:

24a) Revaluation Reserve

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

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

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

2013/2014 £'000		**2014/2015 £'000**
216,565	**Balance at 1 April**	**217,658**
41,928	Upward revaluation of assets	**29,670**
(8,706)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	**(5,419)**
249,787	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**241,909**
7,345	Difference between fair value depreciation and historical cost	**6,741**
24,784	Accumulated gains on assets sold or scrapped	**17,280**
32,129	Amount written off to the Capital Adjustment Account	**24,021**
217,658	**Balance at 31 March**	**217,888**

24b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

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

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

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

2013/2014 £'000		2014/2015 £'000
584,700	**Balance at 1 April**	**479,965**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(48,671)	Charges for depreciation and impairment of non-current assets	**(44,205)**
(32,654)	Revaluation losses on Property, Plant and Equipment	**(2,547)**
(438)	Amortisation of intangible assets	**(468)**
(6,774)	Revenue expenditure funded from capital under statute	**(14,631)**
(1,297)	Gain / (Loss) on derecognition of non current assets to the Comprehensive Income and Expenditure Account	**(1,818)**
(78,968)	Amount of non current assets written off on disposal or sale as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement	**(48,390)**
(168,802)		**(112,059)**
0	Adjusting amounts written out of the Unequal Backpay Account	**0**
32,129	Adjusting amounts written out of the Revaluation Reserve	**24,021**
(136,673)	Net written out amount of the cost of non current assets consumed in the year	**(88,038)**
	Capital financing applied in the year:	
666	Use of Capital Receipts to finance new capital expenditure	**2,842**
11,020	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**15,024**
11,599	Application of grants to capital financing from the Capital Grants Unapplied Account	**13,796**
12,074	Statutory provision for the financing of capital investment charged against the General Fund balance	**14,811**
4,895	Capital expenditure charged against the General Fund balance	**4,758**
40,254		**51,231**
(8,316)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**802**
479,965	**Balance at 31 March**	**443,960**

24c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council’s case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2013/2014 £'000		2014/2015 £'000
(879)	**Balance at 1 April**	**(1,004)**
0	Premiums incurred in the year charged to the Comprehensive Income and Expenditure Account	**0**
(125)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	**(126)**
(125)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**(126)**
(1,004)	**Balance at 31 March**	**(1,130)**

24d) Pensions Reserve

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

2013/2014 £'000		2014/2015 £'000
(640,520)	**Balance at 1 April**	**(439,620)**
213,020	Remeasurement of the net defined benefit liability	**(50,890)**
(47,180)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**(40,490)**
35,060	Employer's pensions contributions and direct payments to pensioners payable in the year	**31,980**
(439,620)	**Balance at 31 March**	**(499,020)**

24e) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2013/2014 £'000		2014/2015 £'000
624	**Balance at 1 April**	**570**
(39)	Transfer of deferred sale proceeds credited as part of the gain / (loss) on disposal to the Comprehensive Income and Expenditure Statement *	**23,460**
(15)	Transfer to the Capital Receipts Reserve upon receipt of cash	**(4)**
570	**Balance at 31 March**	**24,026**

* Additional details re 2014/2015 relating to transfer to Local Asset Backed Vehicle are presented within the Foreword (page 11/12).

24f) Collection Fund Adjustment Account

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

2013/2014 £'000		**2014/2015 £'000**
2,339	**Balance at 1 April**	**805**
(1,534)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	**2,761**
805	**Balance at 31 March**	**3,566**

24g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2013/2014		**2014/2015**	
£'000		**£'000**	**£'000**
(3,169)	**Balance at 1 April**		**(4,135)**
3,169	Settlement or cancellation of accrual made at the end of the preceding year	**4,135**	
(4,135)	Amounts accrued at the end of the current year	**(3,440)**	
(966)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements		**695**
(4,135)	**Balance at 31 March**		**(3,440)**

24h) Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instrument Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable prices. The balance is reduced when the investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2013/2014 £'000		**2014/2015 £'000**
16,400	**Balance at 1 April**	**16,033**
(367)	Upward / (downward) revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	**0**
16,033	**Balance at 31 March**	**16,033**

Notes to the Accounts

Note 25 – Cash Flow Statement – Operating Activities

The net cash flows for operating activities include the following items in respect of interest transactions according to the requirements of the code:

2013/2014 £'000		**2014/2015 £'000**
3,977	Interest received	**3,435**
(9,888)	Interest paid	**(11,813)**
433	Dividends received	**0**

Note 26 – Cash Flow Statement – Investing Activities

2013/2014 £'000		**2014/2015 £'000**
40,632	Purchase of property, plant and equipment, investment property and intangible assets	**52,502**
90,000	Purchase of short-term and long-term investments	**180,000**
0	Other payments for investing activities	**484**
(2,246)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(638)**
(145,000)	Proceeds from short-term and long-term investments	**(90,000)**
(16,972)	Other receipts from investing activities	**(26,466)**
(33,586)	**Net cash flows from investing activities**	**115,882**

Note 27 – Cash Flow Statement – Financing Activities

2013/2014 £'000		**2014/2015 £'000**
0	Cash receipts of short and long-term borrowing	**(50,049)**
(1,149)	Other receipts from financing activities	**(5,689)**
1,234	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**4,562**
6,440	Repayments of short and long term borrowing	**11,346**
3,954	Other payments for financing activities	**0**
10,479	**Net cash flows from financing activities**	**(39,830)**

Note 28 – Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular;

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- expenditure on some support services is budgeted for centrally and not charged to portfolios.

The income and expenditure of the Council is recorded below in line with the portfolio structure used for internal financial reporting:

Notes to the Accounts

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2013/2014

	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Total £'000
Fees, charges and other service income	**(814)**	**(2,481)**	**(14,954)**	**(7,009)**	**(17,518)**	**(4,668)**	**(10,592)**	**(317)**	**(58,353)**
Government grants	**(722)**	**(126,808)**	**(1,651)**	**(149,026)**	**(2,919)**	**(20,656)**	**(5,997)**	**(2,011)**	**(309,790)**
Other Grants, reimbursements and contributions	**(1,449)**	**(2,928)**	**(4,280)**	**(12,483)**	**(27,733)**	**(1,470)**	**(2,650)**	**(857)**	**(53,850)**
Total Income	**(2,985)**	**(132,217)**	**(20,885)**	**(168,518)**	**(48,170)**	**(26,794)**	**(19,239)**	**(3,185)**	**(421,993)**
Employee expenses	**5,929**	**30,712**	**16,385**	**132,575**	**29,918**	**9,900**	**25,122**	**4,453**	**254,994**
Other service expenditure	**8,162**	**127,732**	**9,651**	**74,671**	**96,519**	**23,172**	**25,720**	**4,261**	**369,888**
Depreciation, amortisation and impairment	**4,101**	**2,649**	**11,684**	**17,172**	**6,752**	**4,301**	**11,318**	**923**	**58,900**
Total Expenditure	**18,192**	**161,093**	**37,720**	**224,418**	**133,189**	**37,373**	**62,160**	**9,637**	**683,782**
Net Expenditure	**15,207**	**28,876**	**16,835**	**55,900**	**85,019**	**10,579**	**42,921**	**6,452**	**261,789**

Notes to the Accounts

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Portfolio Income and Expenditure 2014/2015

1	Leader £'000	Deputy Leader £'000	Cabinet Secretary £'000	Children's Services £'000	Health Housing and Adult Services £'000	Public Health Wellness and Culture £'000	City Services £'000	Responsive Services and Customer Care £'000	Total £'000
Fees, charges and other service income	(953)	(2,869)	(15,568)	(6,843)	(15,739)	(4,359)	(9,034)	(1,615)	(56,980)
Government grants	(961)	(128,090)	(248)	(141,657)	(4,595)	(21,234)	(8,588)	(698)	(306,071)
Other Grants, reimbursements and contributions	(350)	(2,532)	(5,494)	(9,016)	(37,018)	(1,271)	(3,903)	(969)	(60,553)
Total Income	(2,264)	(133,491)	(21,310)	(157,516)	(57,352)	(26,864)	(21,525)	(3,282)	(423,604)
Employee expenses	5,229	20,162	12,413	120,273	14,872	8,673	20,779	4,282	206,683
Other service expenditure	8,821	130,556	20,188	75,514	119,676	20,961	30,599	3,589	409,904
Depreciation, amortisation and impairment	660	2,768	7,044	19,089	666	4,563	11,471	894	47,155
Total Expenditure	14,710	153,486	39,645	214,876	135,214	34,197	62,849	8,765	663,742
Net Expenditure	12,446	19,995	18,335	57,360	77,862	7,333	41,324	5,483	240,138

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2013/2014 £'000		**2014/2015 £'000**
261,789	Net expenditure in the portfolio analysis	240,138
20,835	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(881)
282,624	**Cost of Service in the Comprehensive Income and Expenditure Statement**	**239,257**

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2013/2014

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(112,203)	(1,200)	(113,403)	(578)	(113,981)
Interest and investment income	0	0	0	(4,410)	(4,410)
Income from council tax	0	0	0	(76,667)	(76,667)
Income from non-domestic rates	0	0	0	(39,239)	(39,239)
Government grants and contributions	(309,790)	0	(309,790)	(168,883)	(478,673)
Total Income	(421,993)	(1,200)	(423,193)	(289,777)	(712,970)
Employee expenses	254,994	35	255,029	0	255,029
Other service expenses	369,888	0	369,888	22	369,910
Depreciation, amortisation and impairment	58,900	22,000	80,900	8,316	89,216
Interest Payments	0	0	0	36,988	36,988
Precepts and Levies	0	0	0	17,820	17,820
Payments to Housing Capital Receipts Pool	0	0	0	11	11
Gain or Loss on Disposal of Non-current Assets	0	0	0	78,019	78,019
Total Expenditure	683,782	22,035	705,817	141,176	846,993
Surplus or deficit on the provision of services	261,789	20,835	282,624	(148,601)	134,023

Note 28 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis 2014/2015

	Portfolio Analysis £'000	Amounts not reported to management for decision making £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	(56,980)	(902)	(57,882)	(646)	(58,528)
Grant income	(306,071)	0	(306,071)	(153,877)	(459,948)
Reimbursements and contributions	(60,553)	0	(60,553)	0	(60,553)
Interest and investment income	0	0	0	(3,435)	(3,435)
Income from non-domestic rates	0	0	0	(41,886)	(41,886)
Income from council tax	0	0	0	(78,039)	(78,039)
Total Income	(423,604)	(902)	(424,506)	(277,883)	(702,389)
Employee expenses	206,683	0	206,683	0	206,683
Other service expenses	409,904	21	409,925	0	409,925
Depreciation, amortisation and impairment	47,155	0	47,155	(880)	46,275
Impairment of investment in subsidiaries	0	0	0	1,048	1,048
Interest Payments	0	0	0	30,071	30,071
Precepts and Levies	0	0	0	17,293	17,293
Payments to Housing Capital Receipts Pool	0	0	0	3	3
Gain or Loss on Disposal of Non-current Assets	0	0	0	26,070	26,070
Total Expenditure	663,742	21	663,763	73,605	737,368
Surplus or deficit on the provision of services	240,138	(881)	239,257	(204,278)	34,979

Note 29 – Trading Operations

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

2013/2014				2014/2015		
Expenditure £'000	Turnover £'000	(Surplus) / Deficit £'000		**Expenditure £'000**	**Turnover £'000**	**(Surplus) / Deficit £'000**
5,152	5,730	(578)	General Highways	**5,621**	**6,233**	**(612)**
7,575	7,553	22	Education and Civic Buildings Maintenance	**5,852**	**5,886**	**(34)**
12,727	13,283	(556)		**11,473**	**12,119**	**(646)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Where these activities support other Council services, the expenditure relating to the trading operation is allocated to appropriate headings within Cost of Services. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 10).

Note 30 – Agency Services

As detailed within Related Party Transactions (Note 37), the Council provides support services to various other Authorities or Bodies.

A limited range of agency services are also provided to third parties on behalf of these organisations, however, the level of income generated from this activity is relatively low in value and has therefore not been detailed in the accounts.

Note 31 – Pooled Budgets

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

As part of the changes to the NHS brought about by the Health and Social Care Act 2012, Primary Care Trusts (PCTs) ceased to exist on 31st March 2013. Their responsibilities, including all pooled budget arrangements with local authorities, have been taken over by Clinical Commissioning Groups (CCGs).

Included within the Council’s accounts are four such partnership schemes with Sunderland Clinical Commissioning Group (Sunderland CCG). The notes below summarise the financial performance of each scheme and offers a brief explanation of their purpose.

Community Equipment Service
The aim of this service is to provide all the residents of Sunderland, with an assessed need, appropriate equipment in order to improve their ability to live in their own homes and to encourage independence.

2013/2014 £'000		2014/2015 £'000
(802)	Sunderland City Council	**(802)**
(1,562)	Sunderland Clinical Commissioning Group	**(1,562)**
(2,364)	**Total Funding**	**(2,364)**
2,720	Gross Expenditure	**2,654**
356	**Net (Funding) / Expenditure**	**290**

Learning Disabilities

The aim of this service is to plan and implement a joint service for people in residential care with learning disabilities identified as difficult to support within existing learning disability establishments.

2013/2014 £'000		2014/2015 £'000
(1,208)	Sunderland City Council	**(1,159)**
(1,378)	Sunderland Clinical Commissioning Group	**(1,378)**
(2,586)	**Total Funding**	**(2,537)**
2,553	Gross Expenditure	**2,398**
(33)	**Net (Funding) / Expenditure**	**(139)**

Intermediate Care

The aim of this service is the improvement of the intermediate care for older people to facilitate early discharge of people who are medically fit but need extra support through rehabilitation care and preventing unnecessary admission or re-admission to hospital or longer term care, through closer working arrangements with partners.

2013/2014 £'000		2014/2015 £'000
(1,295)	Sunderland City Council	**(1,218)**
(1,033)	Sunderland Clinical Commissioning Group	**(971)**
(2,328)	**Total Funding**	**(2,189)**
2,111	Gross Expenditure	**2,130**
(217)	**Net (Funding) / Expenditure**	**(59)**

Mental Capacity Act / Deprivation of Liberties

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

2013/2014 £'000		2014/2015 £'000
(37)	Sunderland City Council	**(48)**
(50)	Sunderland Clinical Commissioning Group	**(63)**
(87)	**Total Funding**	**(111)**
39	Gross Expenditure	**63**
(48)	**Net (Funding) / Expenditure**	**(48)**

Note 32 – Members' Allowances

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

2013/2014 £'000		**2014/2015 £'000**
1,164	Allowances	**1,148**
34	Expenses	**18**
1,198	**Total**	**1,166**

Note 33 – Officers' Remuneration

The tables below disclose the specific remuneration information in relation to 'Senior' officers. Officers whose salary is £50,000 or more per year but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2014/2015 and 2013/2014 in the following categories:

- salaries, fees and allowances;
- bonuses;
- expenses allowance;
- compensation for loss of employment;
- benefits in kind;
- employees' pension contributions.

Notes to the Accounts

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2013/2014								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	**198,726**	**0**	**0**	**0**	**0**	**198,726**	**25,356**	**224,082**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	**127,489**	**0**	**0**	**0**	**0**	**127,489**	**18,441**	**145,930**
Executive Director of Adult Services	**122,366**	**0**	**0**	**0**	**0**	**122,366**	**17,703**	**140,069**
Executive Director of People's Services *	**40,980**	**0**	**0**	**82,521**	**0**	**123,501**	**5,901**	**129,402**
Executive Director of Commercial and Corporate Services **	**81,577**	**0**	**0**	**0**	**0**	**81,577**	**11,802**	**93,379**
Head of Financial Resources **	**31,813**	**0**	**0**	**0**	**0**	**31,813**	**4,609**	**36,422**
Head of Legal Services	**84,393**	**0**	**0**	**0**	**0**	**84,393**	**12,235**	**96,628**
Director of Public Health	**103,437**	**0**	**0**	**0**	**0**	**103,437**	**14,482**	**117,919**

* Officers not in post for a full year

** Section 151 Officer transferred from Executive Director of Commercial and Corporate Services to Head of Financial Resources part way part way through year

Post Holder Information	Salary (Including Fees and Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind £	Total Remuneration excluding Pension Contributions £	Pension Contributions £	Total Remuneration including Pension Contributions £
2014/2015								
Senior Officer Emoluments exceeding £150,000 per year								
Chief Executive - Dave Smith	**209,468**	**0**	**0**	**0**	**0**	**209,468**	**33,300**	**242,768**
Senior Officer Emoluments exceeding £50,000 but less than £150,000								
Deputy Chief Executive	**128,063**	**0**	**0**	**0**	**0**	**128,063**	**20,362**	**148,425**
Executive Director of Commercial Development *	**53,787**	**0**	**0**	**0**	**0**	**53,787**	**8,552**	**62,339**
Executive Director of Enterprise Development *	**54,384**	**0**	**0**	**0**	**0**	**54,384**	**0**	**54,384**
Executive Director of People's Services	**122,940**	**0**	**0**	**0**	**0**	**122,940**	**19,547**	**142,487**
Director of Public Health	**104,201**	**0**	**0**	**0**	**0**	**104,201**	**14,482**	**118,683**
Director of Finance	**98,252**	**0**	**0**	**0**	**0**	**98,252**	**15,719**	**113,971**
Head of Law and Governance	**85,391**	**0**	**0**	**0**	**0**	**85,391**	**13,577**	**98,968**

* Officers not in post for a full year

Notes to the Accounts

The number of other employees, whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 is shown below:

2013/2014		Remuneration	2014/2015	
Non-Teaching Staff	Teaching Staff		**Non-Teaching Staff**	**Teaching Staff**
24	28	£50,000 - £54,999	25	34
15	21	£55,000 - £59,999	10	19
4	20	£60,000 - £64,999	3	18
3	20	£65,000 - £69,999	7	14
3	7	£70,000 - £74,999	1	7
9	1	£75,000 - £79,999	9	5
1	3	£80,000 - £84,999	4	1
6	0	£85,000 - £89,999	4	1
0	1	£90,000 - £94,999	1	1
3	0	£95,000 - £99,999	4	0
1	0	£100,000 - £104,999	0	0
0	1	£110,000 - £114,999	0	0
1	0	£135,000 - £139,999	1	0
0	1	£140,000 - £144,999	0	1

Notes to the Accounts

Note 34 – External Audit Costs

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

2013/2014 £'000		**2014/2015 £'000**
183	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	**181**
0	Fees payable to external auditors in respect of statutory inspections	**0**
12	Fees payable to external auditors for the certification of grant claims and returns for the year	**10**
36	Fees payable in respect of other services provided by external auditors during the year	**11**
(25)	Rebate received relating to audit services in prior years	**(18)**
206	Total Costs	**184**

Note 35 – Dedicated Schools' Grant

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

Details of the deployment of DSG receivable for 2014/2015 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2014/2015 before Academy recoupment			191,992
Academy figure recouped for 2014/2015			71,031
Total DSG after Academy recoupment for 2014/2015			120,961
Plus			
Brought forward from 2013/2014			1,044
Less			
Carry forward to 2015/2016 agreed in advance			0
Agreed initial budgeted distribution in 2014/2015	11,508	110,497	122,005
In Year Adjustments	0	0	0
Final budgeted distribution in 2014/2015	11,508	110,497	122,005
Less			
Actual central expenditure	9,527		9,527
Less			
Actual ISB deployed to schools		109,840	109,840
Plus			
Local authority contribution for 2014/2015	0	0	0
Carry forward to 2015/2016	**1,981**	**657**	**2,638**

Note 36 – Grant Income

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

2013/2014 £'000		**2014/2015 £'000**
	Capital Grant Receipts in Advance	
1,308	Department for Education	**958**
0	Department of Health	**5**
121	Communities and Local Government	**5,350**
0	Department for Transport	**1,259**
187	Department for Environment, Food and Rural Affairs	**0**
3,455	Homes and Communities Agency	**2,939**
135	Heritage Lottery Fund	**135**
0	Department of Energy and Climate Change	**81**
0	Arts Council	**90**
5,206	**Total**	**10,817**

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

2013/2014 £'000		**2014/2015 £'000**
	Credited to Taxation and Non Specific Grant Income and Expenditure	
	Revenue Grants:	
112,757	Revenue Support Grant	**93,968**
34,600	Top Up Grant	**35,274**
2,340	New Homes Bonus	**2,482**
979	Council Tax Freeze Grant	**964**
51	Local Services Support Grant	**51**
0	Section 31 Grant	**2,350**
150,727		**135,089**
	Capital Grants:	
3,052	Department for Education	**3,340**
6,153	Department for Transport	**7,231**
403	Department of Health	**251**
1,287	Homes and Communities Agency	**1,538**
6,386	Communities and Local Government (including European)	**5,101**
0	Department of Energy and Climate Change	**71**
237	Heritage Lottery Fund	**89**
180	Football Foundation	**19**
153	Environment Agency	**696**
150	Tyne and Wear Integrated Transport Authority	**222**
135	Sports Council	**15**
20	Other Capital Grants and Contributions	**215**
18,156		**18,788**
168,883	**Total**	**153,877**

2013/2014 £'000		**2014/2015 £'000**
	Credited to Services	
	Revenue Grants:	
5,012	Communities and Local Government - PFI	**5,539**
2,231	Communities and Local Government - Weekly Collection Grant	**1,481**
1,202	Communities and Local Government - Welfare Reform Social Fund	**1,202**
1,766	Communities and Local Government - Strengthening Families Grant	**893**
588	Communities and Local Government - European Grants	**764**
216	Communities and Local Government - New Burdens	**727**
0	Communities and Local Government - Recycling Reward Scheme	**143**
163	Communities and Local Government - Extended Rights to Free Travel	**120**
111	Communities and Local Government - other grants	**82**
567	Communities and Local Government - S31 return of Capitalisation Grant	**0**
125,075	Department for Work and Pensions - Housing Benefit	**126,145**
1,021	Department for Work and Pensions - S31 NNDR	**0**
254	Department for Work and Pensions - Social Fund	**0**
73	Department for Work and Pensions - other grants	**35**
20,656	Department of Health - Public Health	**21,234**
275	Department of Health - Local Reform and Community	**283**
0	Department of Health - Care Bill Implementation	**125**
0	Department of Health - Helping People Home Grant	**120**
62	Department of Health - other grants	**0**
130,195	Department for Education - Dedicated Schools Grant	**120,961**
7,878	Department for Education - Pupil Premium	**10,062**
3,632	Department for Education - Education Services Grant	**3,222**
2,663	Department for Education - 16-19 Bursary Grant	**2,149**
0	Department for Education - Universal Free School Meals	**1,449**
394	Department for Education - PE and Sport Grant	**587**
366	Department for Education - other grants	**308**
898	Department for Education - Adoption Reform Grant	**266**
3,433	Skills Funding Agency	**1,067**
813	Youth Justice Board	**846**
299	Home Office	**151**
499	ITA Grant	**0**
183	Northern Arts	**171**
310	Arts Council	**316**
147	Other Grants	**276**
310,982		**300,724**
	Capital Grants:	
1,289	Department for Education	**984**
748	Department of Health	**2,090**
1,422	Communities and Local Government	**4,545**
4	Department of Energy and Climate Change	**0**
276	Department for Transport	**0**
183	Homes and Communities Agency	**12**
239	Other Capital Grants	**470**
4,161		**8,101**
315,143	Total	**308,825**

Note 37 – Related Parties

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

Central Government
Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resource allocation decisions and further detailed in Note 36.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 20142015 is shown in Note 32. In respect of the 2014/2015 financial year a number of Council members had a controlling interest in a company, partnership, trust or entity which generated a related party transaction with the Council. The controlling influence was by way of ownership, or as a director, trustee or partner. These transactions amounted to payments of £1.286m made by the Council in 2014/2015 (£1.683m in 2013/2014), of which £0.876m (£1.067m for 2013/2014) relates to payments to companies and £0.410m (£0.616m for 2013/2014) to voluntary organisations.

The figures stated above do not include transactions with Care and Support Sunderland Ltd, Sunderland Care and Support Ltd or Sunderland Live Ltd as transactions between these companies and the Council have been separately identified as part of the production of Group Accounts for 2014/2015.

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

Officers
In respect of the 2014/2015 financial year no Chief Officers had a controlling interest in a company, partnership, trust or entity which is considered to have generated a related party transaction with the Council.

Entities Controlled or Significantly Influenced by the Council

Care and Support Sunderland Ltd

Care and Support Sunderland Ltd commenced trading on the 7th October 2011 following Choices Care Ltd going into administration. The services delivered were residential and supported living schemes for people with Learning Disabilities, Autism and Challenging Behaviour. Sunderland City Council formed Care and Support Sunderland Ltd as a Local Authority Controlled Company (LATC), for the specific purpose of providing these services.

Care and Support Sunderland (Holding Company) was formed on 1st April 2013 and was owned 100% by Sunderland City Council with Care and Support Sunderland Ltd being fully owned by the Holding Company. Sunderland City Council had contracts with Care and Support Sunderland (Holding Company) Ltd for the provision of services. The holding company then subcontracted to Sunderland Care and Support Ltd to deliver the services

Notes to the Accounts

The company had provided twenty three small residential and supported living schemes managed by the company, with a contract valued at £5.892m for the nine month period to 31st December 2014. The company made a loss before tax of £1.053m in the period.

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

The company had no assets.

It was agreed by the Board and the Council during the financial period to transfer the business, assets and employees to Sunderland Care and Support Ltd and wind up Care and Support Sunderland Ltd and Care and Support Sunderland (Holding Company) Ltd. The transfer took place on 1 January 2015 with all activity from both companies ceasing on 31 December 2014.

Sunderland Care & Support (Holding Company) Ltd

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

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

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

On the 1st January 2015 all the business and employees of Care and Support Sunderland Ltd were transferred into Sunderland Care and Support Ltd with the main reasons to allow a number of similar services supporting people with challenging behaviour to be grouped together, in addition there are opportunities for shared governance, management and support arrangements which will eradicate duplication and help deliver financial efficiencies.

The value of the contract for the period is £29.637m. The operating profit for the period, before tax, amounted to £0.689m for the two companies.

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

Sunderland Live Ltd

Sunderland Live Ltd was formed in April 2013. It organises and delivers a programme of events of all sizes for the Council and other partners, from the Christmas Experience starting in November to the flagship event of the Sunderland International Airshow, now held over three days in July. In the 12 months to 31st March 2015, the company's income amounted to £2.125m with expenditure of £2.249m generating an operating loss, before tax, of £0.124m.

Siglion LLP

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

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

The draft accounts for the group for the period 7th November 2014 to 31st March 2015, shows a net profit before taxation of £0.504m and indicates that no dividend is proposed. The overall current net worth of the group is £10.504m.

Tyne and Wear Development Company Ltd

The Tyne and Wear Development Company Ltd (TWEDCo) was established in 1986 by Tyne and Wear County Council and the five District Councils of Tyne and Wear. TWEDCo was a company limited by guarantee and did not have a share capital.

During 2012/13, the board of directors made the decision to review the role of TWEDCo and its related group of companies on the basis that both the economic development landscape had changed with the creation of the North Eastern Local Enterprise Partnership and that the local authorities were now providing a similar role to that of the company. A detailed due diligence process was carried out culminating in the Board approving the cessation of the company's trading activities from 30th April 2013, with a formal recommendation to voluntarily liquidate the group of Companies as soon as practicable.

Sunderland was the lead authority for TWEDCo and carried out the voluntary liquidation of the companies on behalf of its member authorities.

In accordance with the Company's Articles of Association the company's property portfolio was transferred to each of its shareholders according to its location, and Sunderland received assets to the value of £3.598m on 7th July 2013, when the Board formally approved the Voluntary Liquidation and the transfer of assets. These assets were consequently included within the Council's accounts for the financial year 2013/14.

Part of the winding up process also involved agreeing with the Liquidator the amount of surplus cash resources available to the Companies, once all liabilities had been met. There were however complications with settlement of the lease terms of Company Headquarters and a very late notification of some accumulated interest on some surplus funds held in an escrow account that came to light as part of the VL process. These delayed the formal winding up process for a number of months however the total funds held by the Companies was agreed in early September 2014 at £0.501m and these were distributed to each of the five district councils in accordance to the agreed population basis set out in the Articles of Association.

Sunderland received £0.125m from the total cash resources distributed.

The Voluntary Liquidation process was formally completed on 11th December 2014 when the Companies were finally struck off the Companies House Register.

Any further information in respect of the liquidation can be acquired upon application to: Director of Finance, at Sunderland City Council.

Newcastle Airport

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

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

The valuation of the shareholding is reviewed each year to consider whether any events have occurred which would materially change the valuation but no such events have occurred during 2014/2015 with the result that the valuation has remained unchanged.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council now has a revised effective shareholding of 9.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31st December 2014 (£0.433m dividend was received for the year ended 31st December 2013).

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

NIAL Group Limited made a profit before tax of £0.496m and a profit after tax of £0.277m for the year ended 31st December 2014. In the previous year, the Group made a loss before tax of £11.134m (as restated) and a loss after tax of £3.615m (as restated).

Port of Sunderland

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

The Port turnover has improved from 2013/2014 by £0.176m to £5.097m for the 2014/2015 financial year. Investment in recent years in the Port's asset base and the securing of new cargo activity through the Port has generated this increase in turnover and also an increase in profit. The overall net surplus for the 2014/2015 financial year totalled £0.241m, (2013/2014 surplus £0.141m).

Sunderland Empire Theatre Trust

The Sunderland Empire Theatre Trust is a company limited by guarantee. The principal activity of the Trust is to operate the Sunderland Theatre. The Council has twelve representatives on the Board of seventeen Directors.

The Council has a facilities management arrangement with the Ambassador Theatre Group for a fixed annual amount, the amount paid by the Council totalled £0.420m in 2014/2015, (£0.411m in 2013/2014).

In 2014/2015, the turnover of the Trust was under £25,000 and as such audited accounts are not required. The Trust made a small surplus of £22 in 2014/2015 (surplus of £20 for 2013/2014) which will increase its reserves to meet future costs. Its reserves as at 31 March 2015 now stand at £7,156 (£7,134 as at 31 March 2014). In 2014/2015 the Council made a contribution of £11,737 (£11,510 for 2013/2014) to the Trust and the Council also has to meet its own obligations in the form of the upkeep of the building to which the Trust has no liability. A copy of the Trust accounts can be obtained from the Director of Finance, Sunderland City Council, Civic Centre, P.O. Box 106, Sunderland, SR2 7DN.

Beamish Museum Companies

Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council made a contribution of £18,000 towards the running costs of the Museum in 2014/2015 (£15,903 in 2013/2014).

The Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. However, the Joint Committee was dissolved with effect from 1st April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28th March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1st April 2014.

Beamish Museum (BM) is a charitable company limited by guarantee and is responsible for capital development and the management and operation of the Museum. Beamish Museum Trading Limited (BMTL), a subsidiary of BM, manages all of the retailing and catering operations of the Museum. In the draft accounts for 2014/2015, the BM and BMTL group made an operating profit of £23.789m (£0.929m profit excluding £22.860m of assets transfer (2013/2014 £0.549m profit)) and had net assets of £21.913m (2013/2014 net liabilities of £0.721m). The Council receives no income or contributions from the above reported arrangements.

Copies of the BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish Museum, County Durham, DH9 0RG.

North East Local Enterprise Partnership (NELEP)

The North East Local Enterprise Partnership (NELEP) is a strategic partnership committed to promoting and developing economic growth in the North East. NELEP covers the 7 Local Authority areas of Sunderland, Durham, Gateshead, Newcastle, North Tyneside, Northumberland and South Tyneside. The NELEP Board comprises, nine private sector representatives including the Chair, seven local authority representatives, one higher education representative and one representative of further education colleges.

The Council provided support services to the NELEP, however NELEP is a separate organisation and, as such, all transactions relating to NELEP have been excluded from the Council's accounts. At 31st March 2015 the Council held £22.954m of funds in relation to NELEP (£25.857m at 31st March 2014). As these funds do not belong to the Council they are not reflected in the Statement of Accounts and there are no assets or liabilities belonging to NELEP reflected on the Council's Balance Sheet.

Key Cities

The key cities group comprises 26 mid-sized English cities representing 7.9 million people. Sunderland was one of the five founder cities and inaugural chair. The central aim of the group is to allow these cities to boost the country's prosperity through economic development and growth.

The Council is the Designated Accountable Body for the Key Cities group, however key Cities is a separate organisation and, as such, all transactions relating to it have been excluded from the Council's accounts. At 31st March 2015 the Council held £0.096m of funds in relation to Key Cities. As these funds do not belong to the Council they are not reflected in the Statement of Accounts and there are no assets or liabilities belonging to key Cities reflected on the Council's Balance Sheet.

Other Relevant Information

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

Tyne & Wear Fire and Rescue Authority, Beamish Museum Joint Committee, Beamish Museum Limited, Beamish Museum Trading Limited, Empire Theatre Trust Company Limited, Bowes Railway, Hetton Town Council, Tyne and Wear Development Company Limited, Tyne and Wear Economic Development Joint Committee, Care and Support Sunderland Limited, Sunderland Care and Support Ltd, Sunderland Live Ltd, Raich Carter Sports Centre, Pooled Budget Arrangements with Sunderland Clinical Commissioning Group, Tyne and Wear Care Alliance, Academies and Voluntary Aided Schools.

Note 38 – Capital Expenditure and Capital Financing

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

2013/2014 £		**2014/2015 £**
259,473	Opening Capital Financing Requirement	**270,602**
0	Recognition of Embedded Lease Assets	**1,145**
0	Recognition of PFI Assets	**67,754**
	Capital Investment	
43,937	Property, Plant and Equipment	**56,420**
0	Investment Properties	**0**
304	Intangible Assets	**427**
6,774	Revenue Expenditure Funded from Capital under Statute	**14,631**
	Sources of Finance	
(666)	Capital Receipts	**(2,842)**
(22,618)	Government grants and other contributions	**(28,820)**
	Sums set aside from:	
(4,528)	Direct revenue contributions	**(4,758)**
(12,074)	MRP	**(14,811)**
270,602	Closing Capital Financing Requirement	**359,748**
	Explanation of movements in year	
(7,420)	(Decrease) in underlying need to borrow (supported by government financial assistance)	**(7,207)**
20,113	Increase in underlying need to borrow (unsupported by government financial assistance)	**31,870**
0	Assets acquired under finance leases	**797**
(1,564)	Assets acquired under PFI contracts	**63,686**
11,129	Increase / (decrease) in Capital Financing Requirement	**89,146**

Notes to the Accounts

Note 39 – Leases

a) Council as Lessee

Finance Leases

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

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

2013/2014 £'000		**2014/2015 £'000**
10,973	Other Land & Buildings	**9,962**
0	Vehicles, Plant, Furniture and Equipment	**797**
10,973		**10,759**

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

2013/2014 £'000		**2014/2015 £'000**
	Finance Lease Liabilities (net present value of minimum lease payments):	
16	Current	**365**
6,618	Non-current	**6,992**
0	Finance costs payable in future years	**0**
6,634	Minimum lease payments	**7,357**

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

Minimum Lease Payments 2013/2014 £'000	Finance Lease Liabilities 2013/2014 £'000		**Minimum Lease Payments 2014/2015 £'000**	**Finance Lease Liabilities 2014/2015 £'000**
16	16	Not later than one year	**365**	**365**
63	63	Later than one year and not later than five years	**508**	**508**
6,555	6,555	Later than five years	**6,484**	**6,484**
6,634	6,634		**7,357**	**7,357**

Operating Leases

The council has acquired a number of vehicles by entering into operating leases, with typical lives of seven years.

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

2013/2014 £'000		**2014/2015 £'000**
12	Not later than one year	**10**
10	Later than one year but not later than five years	**0**
0	Later than five years	**0**
22		**10**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £59,731 (2013/2014 £151,562).

The council has use of a small number of properties by entering into operating leases. The annual payment in 2014/2015 was £426,056 (2013/2014 £417,695). The annual lease payments payable relating to leases that are due for renewal in the following periods are:

2013/2014 £'000		**2014/2015 £'000**
60	Not later than one year	**25**
18	Later than one year but not later than five years	**12**
340	Later than five years	**389**
418		**426**

b) Council as Lessor

Operating Leases

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

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

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

2013/2014 restated £'000		**2014/2015 £'000**
8,982	Not later than one year	**4,777**
6,760	Later than one year but not later than five years	**3,154**
3,585	Later than five years	**2,550**
19,327		**10,481**

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

Note 40 – Private Finance Initiatives and Similar Contracts

The Council currently operates three PFI schemes:

- Sandhill View School and Community and Learning Centre became operational in September 2002. This development also included some facilities previously provided separately including Grindon Library. The Council receives annual grant of £1.549m towards the cost of this scheme.

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

- The Council, together with Gateshead and South Tyneside Councils, is part of the South Tyne and Wear Waste Management Partnership. In April 2014, an Energy from Waste facility became operational under a PFI contract, led by Gateshead Council. Sunderland Council receives annual grant of £1.805m towards the cost of this scheme.

Property, Plant and Equipment
The assets used to provide services under the two existing PFI schemes are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment in Note 12.

Payments
The council makes agreed payments each year which are increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2015 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £'000	Repayment of Liability £'000	Lifecycle costs £'000	Interest £'000	Total £'000
Payable in 2015/2016	8,450	4,164	843	4,017	17,474
Payable within 2 to 5 years	34,178	15,991	5,359	14,169	69,697
Payable within 6 to 10 years	42,124	23,629	8,640	12,988	87,381
Payable within 11 to 15 years	35,221	21,283	10,256	5,416	72,176
Payable within 16 to 20 years	22,445	12,693	9,322	1,968	46,428
Payable within 21 to 25 years	18,073	12,176	6,771	631	37,651
Total	160,491	89,936	41,191	39,189	330,807

The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets financed by the contractor. This liability is written down over the life of the contract by charging part of the annual payments to the contractor against the initial liability. The movement on this liability in year is as follows:

2013/2014 £'000		**2014/2015 £'000**
31,307	Balance outstanding at the start of the year	**30,074**
0	Additions	**69,220**
(1,234)	Payments during the year	**(9,358)**
30,074	Balance outstanding at the year end	**89,936**

Note 41 – Impairment Losses

During 2014/2015, the Council recognised impairment losses totalling £5.464m (£7.292m in 2013/2014). These impairment losses related to work undertaken on Council assets that had not led to a corresponding increase in value. The main areas of impairment are demolition and improvement works at regeneration sites within the city (£1.745m) and works to various schools (£1.633m).

Note 42 – Termination Benefits

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

The Council terminated the contracts of a number of employees in 2014/2015, incurring liabilities of £4.050 (£12.427m in 2013/2014). This included a limited number of compulsory redundancies (£0.510m relating to 45 employees). The number of all exit packages with total cost per band and total cost of these packages are set out in the tables below:

2013/2014

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	440	3,983	326	4,309	55	365	74	439	4,348	400	4,748
£20 - £40	106	1,909	1,087	2,996	21	490	59	549	2,399	1,146	3,545
£40 - £60	33	610	988	1,598	1	43	0	43	653	988	1,641
£60 - £80	13	314	573	887	1	65	0	65	379	573	952
£80 - £100	5	116	305	421	1	83	0	83	199	305	504
£100 - £150	7	220	617	837	0	0	0	0	220	617	837
£150 - £200	1	83	117	200	0	0	0	0	83	117	200
Total	605	7,235	4,013	11,248	79	1,046	133	1,179	8,281	4,146	12,427

2014/2015

Exit package cost band £'000	Number of agreed departures (Non-Schools)	Cost of Exit Packages in each band (Non-Schools)			Number of agreed departures (Schools)	Cost of Exit Packages in each band (Schools)			Total Cost of Exit Packages in each band		
		Employee Costs £'000	Pension Costs £'000	Total Cost £'000		Employee Costs £'000	Pension Costs £'000	Total Cost £'000	Employee Costs £'000	Pension Costs £'000	Total Cost £'000
£0 - £20	87	565	332	897	43	294	29	323	859	361	1,220
£20 - £40	37	408	631	1,039	11	254	21	275	662	652	1,314
£40 - £60	9	31	397	428	0	0	0	0	31	397	428
£60 - £80	7	85	395	480	0	0	0	0	85	395	480
£80 - £100	3	141	138	279	0	0	0	0	141	138	279
£100 - £150	1	30	73	103	0	0	0	0	30	73	103
£200 - £250	1	74	152	226	0	0	0	0	74	152	226
Total	145	1,334	2,118	3,452	54	548	50	598	1,882	2,168	4,050

Note 43 – Pension Scheme Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

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

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contribution into the Teacher's Pension Scheme for teachers employed by the Council, the Council's own contributions equated to approximately 59.2% for 2014/2015.

In 2014/2015, the Council paid £6.689m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/2014 were £7.523m and 14.1%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £6.743m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

The Council is not liable to the scheme for any other entities obligations under the plan.

NHS Staff Pension Scheme

During 2013/2014, NHS staff transferred to the Council. These staff maintained their membership in the NHS Pension Scheme. The scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contribution into the NHS Pension Scheme for staff employed by the Council, the Council's own contributions equated to approximately 58.3% for 2014/2015.

In 2014/2015, the Council paid £0.087m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.0% of pensionable pay. The figures for 2013/2014 were £0.102m and 13.8%. There were no contributions remaining payable at the year end. The contributions due to be paid in the next financial year are estimated to be £0.122m.

Note 44 – Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

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

Discretionary Post-Retirement Benefits

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2013/2014 £m	**2014/2015 £m**	2013/2014 £m	**2014/2015 £m**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Service cost comprising:				
Current service cost	27.97	**20.07**	0.00	**0.00**
Past service costs	4.37	**2.24**	0.00	**0.00**
(Gain)/loss from settlements	(12.26)	**0.00**	0.00	**0.00**
Financing and Investment Income and Expenditure				
Net interest expense	25.10	**16.23**	2.00	**1.95**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	45.18	**38.54**	2.00	**1.95**
Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(22.57)	**69.84**	0.00	**0.00**
Actuarial gains and losses arising on changes in demographic assumptions	13.40	**0.00**	(1.57)	**0.00**
Actuarial gains and losses arising on changes in financial assumptions	92.39	**(131.17)**	2.36	**(2.69)**
Actuarial gains and losses arising from liability experience	129.02	**8.03**	(0.01)	**5.10**
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	257.42	**(14.76)**	2.78	**4.36**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the	13.42	**9.90**	(1.30)	**(1.39)**
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to the scheme	31.76	**28.64**	3.30	**3.34**
Retirement payments payable to pensioners	43.61	**39.66**	0.00	**0.00**

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2013/2014 £m	**2014/2015 £m**	2013/2014 £m	**2014/2015 £m**
Present value of the defined benefit obligation	1,274.29	**1,440.27**	48.12	**44.32**
Fair value of plan assets	882.79	**985.57**	0.00	**0.00**
Sub-total	(391.50)	**(454.70)**	(48.12)	**(44.32)**
Other movements in the liability (asset)	0.00	**0.00**	0.00	**0.00**
Net liability arising from defined benefit obligation	(391.50)	**(454.70)**	(48.12)	**(44.32)**

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2013/2014 £m	**2014/2015 £m**	2013/2014 £m	**2014/2015 £m**
Opening fair value of scheme assets	902.31	**882.79**	0.00	**0.00**
Interest income	39.12	**37.86**	0.00	**0.00**
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	(22.57)	**69.84**	0.00	**0.00**
The effect of changes in foreign exchange rates	0.00	**0.00**	0.00	**0.00**
Contributions from employer	31.76	**28.64**	**3.30**	**3.34**
Contributions from employees into the scheme	6.76	**6.10**	0.00	**0.00**
Benefits paid	(43.93)	**(39.66)**	(3.30)	**(3.34)**
Settlements	(30.66)	**0.00**	0.00	**0.00**
Closing balance at 31 March	882.79	**985.57**	0.00	**0.00**

Notes to the Accounts

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2013/2014 £m	**2014/2015 £m**	2013/2014 £m	**2014/2015 £m**
Opening balance at 1 April	1,492.63	**1,274.29**	50.20	**48.12**
Current service cost	27.97	**20.07**	0.00	**0.00**
Interest cost	64.22	**54.09**	2.00	**1.95**
Contributions by scheme participants	6.76	**6.10**	0.00	**0.00**
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	(13.40)	**0.00**	1.57	**0.00**
Actuarial gains/losses arising from changes in financial assumptions	(92.39)	**131.17**	(2.36)	**2.69**
Actuarial gains/losses arising from liability experience	(129.02)	**(8.03)**	0.01	**(5.10)**
Past service costs (including curtailments)	4.37	**2.24**	0.00	**0.00**
Liabilities assumed on entity combinations	0.00	**0.00**	0.00	**0.00**
Benefits paid	(43.93)	**(39.66)**	(3.30)	**(3.34)**
Liabilities extinguished on settlements	(42.92)	**0.00**	0.00	**0.00**
Closing balance at 31 March	1,274.29	**1,440.27**	48.12	**44.32**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets					
	2013/2014			**2014/2015**		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	**Total %**
Equities	58.1	8.7	66.8	**58.2**	**8.2**	**66.4**
Property	0	8.5	8.5	**0**	**9.5**	**9.5**
Government Bonds	3.5	0.0	3.5	**3.7**	**0.0**	**3.7**
Corporate Bonds	11.5	0.0	11.5	**11.7**	**0.0**	**11.7**
Cash	2.9	0.0	2.9	**2.4**	**0.0**	**2.4**
Other	5	1.8	6.8	**4.2**	**2.1**	**6.3**
Total assets	81.0	19.0	100.0	**80.2**	**19.8**	**100.0**

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefit liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council fund being based on the latest full valuation of the scheme as at 1 April 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2013/2014	**2014/2015**	2013/2014	**2014/2015**
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.0 years	**23.1 years**	23.0 years	**23.1 years**
Women	24.6 years	**24.7 years**	24.6 years	**24.7 years**
Longevity at 65 for future pensioners				
Men	25.0 years	**25.1 years**	n/a	**n/a**
Women	26.9 years	**27.0 years**	n/a	**n/a**
RPI	3.4%	**2.9%**	3.2%	**2.9%**
CPI	2.4%	**1.8%**	2.2%	**1.8%**
Rate of increase in salaries	3.9%	**3.3%**	n/a	**n/a**
Pension account revaluation rate	n/a	**1.8%**	n/a	**n/a**
Rate of increase in pensions	2.4%	**1.8%**	2.2%	**1.8%**
Rate for discounting scheme liabilities	4.3%	**3.2%**	4.2%	**3.1%**
Long-term expected rate of return on assets in the scheme	4.3%	**3.2%**	4.2%	**3.1%**

Under IAS19 the long-term expected rate of return on assets is assumed to be the same as the discount rate.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	39.42	39.45
Rate of increase in salaries (increase or decrease by 0.1%)	8.08	7.97
Rate of increase in pensions (increase or decrease by 0.1%)	19.83	19.54
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	26.57	27.07

The Council anticipates making £27.39m expected contributions to the scheme in 2015/2016.

The weighted average duration of the defined benefit obligation for scheme members is 17.6 years, 2014/2015 (18.6 years in 2013/2014).

Notes to the Accounts

Note 45 – Contingent Liabilities

The City Council, together with the other Tyne and Wear district councils, are guarantors to the Tyne and Wear Pension Fund in respect of employees of the North East Regional Assembly and the Association of North East Councils. Also in addition on 1st June 2011 the Council, in agreement with the other Tyne and Wear authorities, agreed to act as guarantors for the pension liabilities of the North East Regional Employers Organisation (NEREO), Disability North, the Percy Hedley Foundation and Tyne and Wear Enterprise Trust (ENTRUST) from 1st April 2011. The Councils involved have agreed with the Pension Fund administrators that if any of the above bodies should cease operating then any pension deficit would be repaid over a 10 year repayment period. The Council's share of the potential liabilities (based upon the last Actuarial Valuation) in the unlikely event that all of the bodies should fail would be in excess of approximately £1.1m in total.

The City Council acts as a guarantor for the No Limits Theatre Company to the Tyne and Wear Pension Fund in respect of pensions for transferring employees. The Council also acts as a guarantor for those employees that were employed originally by the Council but transferred to Gentoo, on the basis that basic pension only would be funded (no added years). This is a diminishing potential liability, however, as staff turnover occurs and transferred staff retire.

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

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

The Environment Agency has confirmed that the Council is one of a number of named organisations that is a potential contributor to the costs of remediation of contaminated land at Halliwell Banks in Sunderland. The cost of the remediation works cannot yet be accurately quantified and it is not possible to determine the level of the Council's exposure at this current time. Arrangements have been put in hand to instruct an independent third party to undertake a detailed investigation of the site, which is now in progress, in order to obtain a clearer understanding of the condition of the land. The position is being kept under regular review and it is considered prudent to continue to treat this as a contingent liability.

The Council has been made aware of its share (0.4022%) of the potential pensions fund liabilities in respect of Port of Sunderland staff that belong to the Pilots' National Pension Fund. The liability becomes effective from1st April 2015 and the amounts involved will be dependent upon the actuary's advice at that time. An indicative liability totalling approximately £0.800 million was provided, with redress to be spread annually over a projected 14 year period, until 2028. A further revaluation was expected in order to assess the most up to date costs involved for each Authority, but as yet the Council has not received any update from the PNPF.

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non guaranteed overtime (overtime which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). Although the ruling may have implications for the council it is presently unclear as to the potential extent of this in terms of both number of claims and amounts involved, although these are not considered to be significant in nature, at this stage. On this basis it is appropriate that this issue is recognised as a contingent liability until more information becomes available.

Note 46 – Contingent Assets

The Council has a number of outstanding VAT claims lodged with HM Revenue and Customs (HMRC) in relation to overpaid output tax and the payment of compound interest which have been refuted by HMRC. As the probability of a successful conclusion for recovery of these claims is based upon complex on-going litigation with HMRC the Council has reflected its claims as a contingent asset pending a final decision by the courts. The value of the claims (excluding the payment of compound interest) is £4.7m.

The Council entered into an agreement with Wainhomes (Yorkshire) Ltd and Persimmon Homes Ltd to make phased payment contributions to educational facilities at Easington Lane Primary School; a locally equipped play area; public open space and sports and recreation facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Murton Lane, Hetton-le-Hole, the timing of which is uncertain. The total value of the agreement is £1.253m.

The Council entered into an agreement with St Modwen Developments Ltd to make phased payment contributions to educational facilities. The monies will be paid to the Council upon phased sale of properties at the development of land at Lisburn Terrace / Pallion New Road, the timing of which is uncertain. The total value of the agreement is £0.345m and the Council received its first stage payment of £0.122m in May 2013 which effectively reduces the estimated amount outstanding to £0.223m.

The Council entered into an agreement with Persimmon Homes Ltd to make phased payment contributions to affordable offsite housing, ecology and a locally equipped play area at Gillas Lane, Houghton-le-Spring under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Gillas Lane, Houghton-le-Spring, the timing of which is uncertain. The total value of the agreement is £0.476m.

The Council entered into an agreement with Stirling Investment Properties LLP and Stirling Capital S.A.R.L. to make phased payment contributions to educational facilities and a locally equipped play area under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Castletown Way / Riverside Road, the timing of which is uncertain. The total value of the agreement is £0.324m.

The Council entered into an agreement with Durham Chapter and Croxdale Farms Limited to make phased payment contributions to local educational facilities; a locally equipped play area at Elemore View play area and cycleway facilities under Section 106 of the Town and County Planning Act 1990. The monies will be paid to the Council upon phased sale of properties at the development of land at Markle Grove, Hetton-le-Hole, the timing of which is uncertain. The approximate value of the agreement is £0.242m.

The Council also has a number of other smaller Section 106 Agreements in place that may generate contributions from the various developers involved, once certain trigger points in the phased developments occur. These developments are actively monitored by the Council during each financial year in order to safeguard the amounts due.

Note 47 - Nature and Extent of Risk Arising from Financial Instruments

The Council's management of treasury risks activity works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risks.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks, building societies and money market funds that are on the Council's Approved Lending List. The counterparty criteria and associated investment limits are set out in the table below, taking account of the credit ratings issued by all three credit rating agencies(Fitch, Moody's and Standard & Poor's):

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

In addition to the criteria identified above limits are also placed on the country in which the institution is resident, the sector of the institution and if companies are members of a group of companies then a limit is placed on the group. Full details of these limits can be found in the Council's Treasury Management Policy and Strategy

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. The Council expects full repayment on the due date of deposits placed with its counterparties

	Amount at 31 March 2015 £'000	Historical Experience of default %	Historical Experience adjusted for market conditions as at 31 March 2015 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2015 £'000	Estimated maximum exposure to default and uncollectability at 31 March 2014 £'000
Deposits with Banks and other financial institutions	206,252	0	0	0	0
Bonds and other securities	0	0	0	0	0
Customers	26,967	3.53	0	952	795
Financial Assets	**233,219**		**0**	**952**	**795**

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

The Council does not generally allow credit for customers, such that £26.967m of the £233.219m is beyond its due date for payment. The past due amount can be analysed by age as follows:

31 March 2014 £'000		**31 March 2015 £'000**
18,112	Less than 3 months	**25,674**
334	Three to six months	**311**
337	Six months to one year	**488**
265	More than one year	**494**
19,048		**26,967**

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen the Council has ready access to a facility to borrow from the Public Works Loan Board and from money markets. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity analysis of financial liabilities is as follows:

2014 £'000	Loans Oustanding	**31 March 2015 £'000**
40,734	Less than 1 year	**30,988**
1,306	Maturing in 1-2 years	**50**
9,150	Maturing in 2-5 years	**14,149**
19,251	Maturing in 5-10 years	**14,251**
5,107	Maturing in 10-20 years	**15,063**
5,018	Maturing in 20-30 years	**5,013**
27,000	Maturing in 30-40 years	**38,000**
67,500	Maturing in 40-50 years	**96,500**
35,201	Maturing in more than 50 years	**34,194**
210,267	**Total**	**248,208**

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

Market Risk

The Council is exposed to interest rate risk in different ways; the first being the uncertainty of interest paid / received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Statement.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Statement.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the MiRS.

- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk and these are set out in the Council's Annual Treasury Management Policy and Strategy Statement. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and this is updated and reviewed regularly during the year. This allows for any adverse changes to be considered and addressed where appropriate. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31st March 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

31 March 2014 £'000		**31 March 2015 £'000**
(471)	Increase in interest payable on variable rate borrowings	**(476)**
2,007	Increase in interest received on variable rate borrowings	**1,883**
1,536	**Net Impact on Income and Expenditure Account**	**1,407**
0	Decrease in fair value of 'available for sale' investment assets	**0**
0	**Impact on MiRS**	**0**
(288)	Decrease in fair value of fixed rate investment assets (No impact on Comprehensive I&E Statement or MiRS)	**(701)**
25,617	Decrease in fair value of fixed rate borrowing liabilities (No impact on Comprehensive I&E Statement or MiRS)	**54,814**

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £16,400,181 (2013/2014 £16,400,181) in Newcastle Airport which is not listed on the stock exchange and a £5,000,000 equity share in its Local Asset Backed Vehicle, Siglion. The Council is consequently exposed to any variation arising from the movement in the price of these shares which were re-valued in 2012/2013 as a result of a change in strategic partner for the Airport during the re-financing process, which provided a ‘market’ price on which to base the valuation of the shares held by the council.

The Council holds a small number of various gilts and unit trusts with a value at cost of £14,910 (2013/2014 £19,541) which are classified as 'available for sale', meaning that all movements in price, would, if considered material impact on the gains and losses recognised in the MiRS. The market value of these holdings as at 31st March 2015 was £145,361 in total (the value at 31st March 2014 was £147,618).

Foreign Exchange Risk

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

Notes to the Accounts

Note 48 – Heritage Assets: Five-Year Summary of Transactions

	2010/2011 £'000	2011/2012 £'000	2012/2013 £'000	2013/2014 £'000	**2014/2015 £'000**
Cost of Acquisitions of Heritage Assets					
Collections held by Tyne & Wear Museums	7	0	0	0	**0**
Statues, Monuments and Public Art	0	0	0	0	**0**
Other Historic Assets	0	0	0	0	**0**
Total Cost of Purchases	7	0	0	0	**0**
Value of Assets Aquired by Donation					
Collections held by Tyne & Wear Museums	0	0	0	0	**0**
Statues, Monuments and Public Art	0	0	0	0	**0**
Other Historic Assets	0	0	0	0	**0**
Total Donations	0	0	0	0	**0**
Proceeds from Disposal					
Collections held by Tyne & Wear Museums	0	0	0	0	**0**
Statues, Monuments and Public Art	0	0	0	0	**0**
Other Historic Assets	0	0	0	0	**0**
Total Proceeds	0	0	0	0	**0**
Carrying Value	10	0	0	(15)	**850**
Proceeds	0	0	0	0	**0**

Note 49 – Heritage Assets: Further Information on the Council's Holdings

Collections maintained by Tyne & Wear Museums
Sunderland City Council own a number of artefacts that are managed by Tyne & Wear Museums with a value in excess of £10,000.

Statues, Monuments and Public Art
The values of statues, monuments and public art where the value can be separately identified have been classified as heritage assets. In the future all capital expenditure in excess of £10,000 on such items will be classified as heritage assets.

Other Historic Assets
Other objects held by the Council with a value in excess of £10,000 that can be classified as historic assets. Items include, the book of remembrance, copy of the Lindisfarne gospels, miners' banners, etc.

Note 50 – Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet. At 31st March 2015 the Council was responsible for 42 of these funds, relating to People's Services, details of which are shown below.

	Balance at 01/04/2014 £'000	Additions during the year £'000	Income £'000	Expenditure £'000	**Balance at 31/03/2015 £'000**
People's Services Trust Funds	130	0	1	0	**131**

Collection Fund Account

Collection Fund Account for Year Ended 31 March 2015

2013/2014 Total £'000		Note	2014/2015 Council Tax £'000	2014/2015 NNDR £'000	2014/2015 Total £'000
	Income				
88,134	Council Tax Payers	1	89,435	0	89,435
90,697	Income from Business Ratepayers	2	0	90,145	90,145
178,831			89,435	90,145	179,580
	Expenditure				
	Apportionment of Previous Years' Surplus				
500	Sunderland City Council		500	0	500
31	Tyne and Wear Fire and Rescue Authority		31	0	31
35	Police and Crime Commissioner for Northumbria		36	0	36
566			567	0	567
	Precepts, Demands and Shares:				
116,940	Sunderland City Council		76,607	39,002	115,609
5,523	Tyne and Wear Fire and Rescue Authority		4,723	796	5,519
5,551	Police and Crime Commissioner for Northumbria		5,591	0	5,591
45	Central Government - Transitional Protection Payable		0	1,076	1,076
41,682	Central Government - Share		0	39,781	39,781
169,741			86,921	80,655	167,576
	Charges to Collection Fund				
720	Disregarded Amounts - Enterprize Zones		0	669	669
333	Cost of Collection - Business Rates		0	334	334
1,590	Write Offs	3	804	1,151	1,955
1,344	Provision for Bad Debts	3	85	23	108
7,765	Provision for Business Rate Appeals	4	0	3,579	3,579
11,752			889	5,756	6,645
(3,228)	**(Deficit) / Surplus for the Year**		**1,058**	**3,734**	**4,792**
2,648	Balance brought forward as at 1 April		2,782	(3,362)	(580)
(580)	**Fund Balance Carried Forward as at 31 March**		**3,840**	**372**	**4,212**
	Fund allocated to				
805	Sunderland City Council		3,384	182	3,566
117	Tyne and Wear Fire and Rescue Authority		209	4	213
179	Police and Crime Commissioner for Northumbria		247	0	247
(1,681)	Central Government		0	186	186
(580)			**3,840**	**372**	**4,212**

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

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

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

Collection Fund Account

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

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

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

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

Notes to the Collection Fund Account

Note 1 – Income from Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and dividing this by the Council Tax Base.

The basic amount of Council Tax for a Band D property, £1,345.73 for 2014/2015 (£1,345.73 for 2013/2014), is multiplied by the proportion specified for the particular band to give an individual amount due.

The Council Tax Base for 2014/2015 was 64,559 (64,094 in 2013/2014). The increase between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions.

The Tax Base for 2014/2015 was approved by Cabinet meeting 15 January 2014 and was calculated as follows:

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
(A)	191	5/9	106
A	77,718	6/9	51,812
B	17,136	7/9	13,328
C	15,917	8/9	14,148
D	8,095	1	8,095
E	2,916	11/9	3,565
F	1,011	13/9	1,460
G	612	15/9	1,019
H	19	18/9	38
Net effect of premiums and discounts			(27,695)
			65,876
Anticipated Collection Rate			98%
Tax Base for the Calculation of Council Tax			64,559

Note 2 – Income from Business Ratepayers

The Council collects National Non-Domestic Rates (NNDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

In 2013/2014, the administration of NNDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to a central pool, local authorities retain a proportion of the total collectable rates due; in the case of Sunderland the local share is 49%. The remainder is distributed to preceptors and in the case of Sunderland these are Central Government (50%) and the Tyne and Wear Fire and Rescue Service (1%).

The business rates share payable for 2014/2015 was estimated before the start of the financial year as £39.781m to Central Government, £0.796m to Tyne and Wear Fire and Rescue Authority and £39.002m to Sunderland Council. These sums have been paid in 2014/2015 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. In this respect Sunderland received a top up grant to the General Fund in 2014/2015 to the value of £35.274m.

The total income from business rates payers collected in 2014/2015 was £90.145m (£90.697m in 2013/2014). This sum includes £1.076m of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to Central Government to £40.857m.

In addition to the top up, a 'safety net' figure is calculated at 92.5% of the baseline amount which ensures that authorities are protected to this level of Business rates income. The Council does not qualify for a safety net payment for 2014/2015.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the VOA. As such, authorities are required to make a provision for amounts which will relate to the 2014/2015 financial year. The total provision charged to the Collection Fund for 2014/2015 has been calculated at £3.579m.

For 2014/2015, the total non-domestic rateable value at the year-end is £222.151m (£224.301m in 2013/2014). The national multipliers for 2014/2015 were 47.1p (46.2p for 2013/2014) for qualifying small businesses, and the standard multiplier being 48.2p (47.1p for 2013/2014) for all other businesses.

Note 3 – Council Tax/NNDR Bad Debt Provision

The Collection Fund provides for bad debts on arrears on the basis of prior years' experience, and a formulaic approach to outstanding debt levels.

Once all actions to recover outstanding debt have been exhausted, the Council will write off uncollectable debt in accordance with proper accounting practice. Most of these sums relate to bankruptcy, death and where all actions have failed to collect the debt over a period of years. It should be noted that the amounts written off were already included in the accounts as a provision for bad debts and as such have already been accounted for in a previous period.

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

2013/2014				2014/2015		
Council Tax £'000	NNDR £'000	Total £'000		Council Tax £'000	NNDR £'000	Total £'000
4,865	4,826	9,691	Balance as at 1 April	5,394	5,641	11,035
(611)	(979)	(1,590)	Write Offs	(804)	(1,151)	(1,955)
1,140	1,794	2,934	Contribution to provision	889	1,174	2,063
5,394	5,641	11,035	Balance as at 31 March	5,479	5,664	11,143
			Balance allocated to			
4,754	2,764	7,518	Sunderland City Council	4,829	2,775	7,604
0	2,821	2,821	Central Government	0	2,832	2,832
293	56	349	Tyne and Wear Fire and Rescue Authority	298	57	355
347	0	347	Police and Crime Commissioner for Northumbria	352	0	352
5,394	5,641	11,035		5,479	5,664	11,143

Notes to the Collection Fund Account

Note 4 – Business Rate Provision for Valuation Appeals

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) for amounts relating to the 2014/2015 financial year and any previous financial years. As part of the 2014 Autumn Statement, the Chancellor announced a number of Business Rates measures, including limiting the backdating of successful appeals to those made before 1 April 2015. The effect of these measures was a significant increase in appeals lodged during 2014/2015, and this is reflected in the increased provision held.

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

2013/2014 £'000		2014/2015 £'000
0	Balance as at 1 April	7,765
0	Use of provision	(3,862)
7,765	Contribution to provision	7,441
7,765	Balance as at 31 March	11,344
	Balance allocated to:	
3,805	Sunderland City Council	5,559
3,882	Central Government	5,672
78	Tyne and Wear Fire and Rescue Authority	113
7,765		11,344

Group Accounts Foreword

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

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

Sunderland Care & Support (Holding Company) Ltd

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

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

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

On the 1st January 2015 all the business and employees of Care and Support Sunderland Ltd were transferred into Sunderland Care and Support Ltd with the main reasons to allow a number of similar services supporting people with challenging behaviour to be grouped together, in addition there are opportunities for shared governance, management and support arrangements which will eradicate duplication and help deliver financial efficiencies.

The value of the contract for the period is £29.637m. The operating profit for the period, before tax, amounted to £0.689m for the two companies.

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

Care and Support Sunderland Ltd

Care and Support Sunderland Ltd commenced trading on the 7th October 2011 following Choices Care Ltd going into administration. The services delivered were residential and supported living schemes for people with Learning Disabilities, Autism and Challenging Behaviour. Sunderland City Council formed Care and Support Sunderland Ltd as a Local Authority Controlled Company (LATC), for the specific purpose of providing these services.

Care and Support Sunderland (Holding Company) was formed on 1st April 2013 and was owned 100% by Sunderland City Council with Care and Support Sunderland Ltd being fully owned by the Holding Company. Sunderland City Council had contracts with Care and Support Sunderland (Holding Company) Ltd for the provision of services. The holding company then subcontracted to Sunderland Care and Support Ltd to deliver the services.

The company had provided twenty three small residential and supported living schemes managed by the company, with a contract valued at £5.892m for the nine month period to 31st December 2014. The company made a loss before tax of £1.053m in the period.

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

The company had no assets.

It was agreed by the Board during the financial period to transfer the business, assets and employees to Sunderland Care and Support Ltd and wind up Care and Support Sunderland Ltd and Care and Support Sunderland (Holding Company) Ltd. The transfer took place on 1 January 2015 with all activity from both companies ceasing on 31 December 2014.

Sunderland Live Ltd

In April 2013 Sunderland Live Ltd was formed from an already well-established Sunderland City Council events team to deliver a vibrant events programme that supports the local economy and increases Sunderland's profile. During 2014/15, Sunderland Live Ltd has delivered a total of 35 events in the city compared with 18 events the previous year, including the flagship Sunderland International Airshow which is now held over 3 days in July, helping to create vibrancy and things to see, do and take part in for residents.
The primary objectives of Sunderland Live Ltd are to:

- maintain consistently high public satisfaction for the existing events programme; and
- increase the provision of events within Sunderland in line with PLACE marketing objectives;
- maintain the existing events programme whilst reducing the on-going cost to the council.

The Company looks to reduce this on-going cost through deriving increased income from business partnerships, sponsorship, hospitality and other potential income streams whilst realising efficiencies in the way that the programme is delivered. Where appropriate the Company also looks to exploit opportunities to trade with third parties and these opportunities will allow the business to exploit the knowledge and skills of the Events Team to generate increased revenues for the entity and further reduce costs.
The value of the contract for the period was £1.292m.

Siglion LLP

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

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

Group Accounts Foreword

The draft accounts for the group for the period 7th November 2014 to 31st March 2015, shows a net profit before taxation of £0.504m and indicates that no dividend is proposed. The overall current net worth of the group is £10.504m.

Preparation of Group Accounts

The group accounts have been prepared in accordance with the ‘Code of Practice on Local Authority Accounting in the United Kingdom 2014/2015’ (based on International Financial Reporting Standards (IFRS)) known more commonly as the Code. The Code constitutes ‘proper accounting practice’ under the terms of the Local Government Act 2003 and the Accounts and Audit Regulations 2011.
In preparing the group accounts all statutory main group statements have been incorporated, along with specific notes where balances are materially different from those within the Council’s accounts.

The financial statements required under the Code are detailed below:

1. Movement in Reserves Statement (MiRS)

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

2. Comprehensive Income and Expenditure Statement

This reports the net cost for the year of all group functions and demonstrates how that cost has been met from general government grants and income from local taxpayers.

3. Balance Sheet

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

4. Cash Flow Statement

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

5. Notes to the Accounts

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The (Surplus) or Deficit on the Provision of Service line shows the true economic cost of providing the group's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net (Increase) / Decrease before Transfers to / (from) earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the group. The tables below show the details for both 2013/2014 and 2015/2015 as required by the Code of Accounting Practice.

Group Movement in Reserves Statement

	Council						Subsidiaries	Group
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	**Unusable Reserves £'000**	**Council's share of group reserves £'000**	**Total Group Reserves £'000**
Balance at 31 March 2013 carried forward	16,934	132,165	8,647	7,506	**165,252**	**176,060**	**(900)**	**340,412**
<u>Movement in reserves during 2013/2014</u>								
Deficit on provision of services	(118,025)	0	0	0	**(118,025)**	**0**	**(15,630)**	**(133,655)**
Other Comprehensive Income & Expenditure	0	0	0	0	**0**	**245,875**	**(5,458)**	**240,417**
Total Comprehensive Income & Expenditure	**(118,025)**	**0**	**0**	**0**	**(118,025)**	**245,875**	**(21,088)**	**106,762**
Adjustments between Group Accounts and Council Accounts	(15,998)	0	0	0	**(15,998)**	**0**	**15,998**	**0**
Net (Increase) / Decrease before transfers	(134,023)	0	0	0	**(134,023)**	**245,875**	**(5,090)**	**106,762**
Adjustments between accounting basis & funding basis under regulations	150,382	0	1,584	(303)	**151,663**	**(151,663)**	**0**	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves	16,359	0	1,584	(303)	**17,640**	**94,212**	**(5,090)**	**106,762**
Transfers to / (from) Earmarked Reserves	(17,398)	17,398	0	0	**0**	**0**	**0**	**0**
(Increase) / Decrease in 2013/2014	(1,039)	17,398	1,584	(303)	**17,640**	**94,212**	**(5,090)**	**106,762**
Balance at 31 March 2014	**15,895**	**149,563**	**10,231**	**7,203**	**182,892**	**270,272**	**(5,990)**	**447,174**
<u>Movement in reserves during 2014/2015</u>								
Deficit on provision of services	(34,979)	0	0	0	**(34,979)**	**0**	**286**	**(34,693)**
Other Comprehensive Income & Expenditure	0	0	0	0	**0**	**(26,639)**	**(3,302)**	**(29,941)**
Total Comprehensive Income & Expenditure	**(34,979)**	**0**	**0**	**0**	**(34,979)**	**(26,639)**	**(3,016)**	**(64,634)**
Adjustments between accounting basis & funding basis under regulations	45,884	0	(2,203)	(1,931)	**41,750**	**(41,750)**	**0**	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves	10,905	0	(2,203)	(1,931)	**6,771**	**(68,389)**	**(3,016)**	**(64,634)**
Transfers to / (from) Earmarked Reserves	(9,570)	9,570	0	0	**0**	**0**	**0**	**0**
(Increase) / Decrease in 2014/2015	1,335	9,570	(2,203)	(1,931)	**6,771**	**(68,389)**	**(3,016)**	**(64,634)**
Balance at 31 March 2015	**17,230**	**159,133**	**8,028**	**5,272**	**189,663**	**201,883**	**(9,006)**	**382,540**

Group Comprehensive Income and Expenditure Statement

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

This statement includes an adjustment between the group accounts and the single entity accounts of £32.195m (£15.998m in 2013/2014). This figure represents the purchase and sale of services between all group members.

Group Comprehensive Income and Expenditure Statement

2013/2014					2014/2015		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
9,815	7,317	2,498	Central services to the public		9,354	6,504	2,850
30,634	10,033	20,601	Cultural and related services		27,446	8,761	18,685
29,822	8,006	21,816	Environmental and regulatory services		27,477	7,940	19,537
31,311	10,006	21,305	Planning services		26,931	11,694	15,237
196,861	166,163	30,698	Education services		180,254	157,788	22,466
40,058	4,818	35,240	Children's social care		44,152	2,840	41,312
32,004	11,833	20,171	Highways and transport services		34,058	13,574	20,484
130,491	125,012	5,479	Other housing services		128,128	124,203	3,925
132,178	45,208	86,970	Adult social care		132,493	60,108	72,385
20,208	20,776	(568)	Public Health		21,659	21,413	246
17,623	13,052	4,571	Corporate and democratic core		21,267	11,084	10,183
5,007	0	5,007	Non distributed costs		2,893	0	2,893
7,192	0	7,192	Exceptional item - severance costs		1,917	0	1,917
11,065	0	11,065	Exceptional item - equal pay settlement/provision		4,521	0	4,521
22,000	0	22,000	Exceptional item - property revaluation loss		0	0	0
(12,260)	0	(12,260)	Exceptional item - IAS19 settlement adjustment		0	0	0
704,009	422,224	281,785	**Cost of Services**		662,550	425,909	236,641
95,850	0	95,850	Other operating expenditure		43,366	0	43,366
45,960	5,171	40,789	Financing and investment income and expenditure	11	33,795	5,285	28,510
0	284,789	(284,789)	Taxation and non-specific grant income and expenditure		(22)	273,802	(273,824)
845,819	712,184	133,635	**(Surplus) or Deficit on Provision of Services**		739,689	704,996	34,693
20	0	20	Tax expenses of subsidiaries		0	0	0
845,839	712,184	133,655	**Group (Surplus) / Deficit**		739,689	704,996	34,693
			Items that will not be reclassified to (surplus)/deficit on Provision of Services				
		(33,222)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				(24,262)
		(207,562)	Re-measurements of the defined benefit liability				54,203
		(240,784)					29,941
			Items that may be reclassified to (surplus)/deficit on Provision of Services				
		367	(Surplus) or deficit on revaluation of available for sale financial assets				0
		(240,417)	**Other Comprehensive Income and Expenditure**				29,941
		(106,762)	**Total Comprehensive Income and Expenditure**				64,634

Group Comprehensive Income and Expenditure Statement

Reconciliation of the Single Entity Comprehensive Income and Expenditure Statement to the Group Comprehensive Income and Expenditure Statement

This table shows how the group entities have contributed to the overall (surplus) / deficit shown in the group income and expenditure account.

2013/2014 £'000		2014/2015 £'000
(111,852)	(Surplus) / deficit on the Council's single entity Income and Expenditure Account	61,618
	Add (surplus) / deficit attributable to subsidiaries:	
4,629	Sunderland Care and Support Ltd	4,222
284	Care and Support Sunderland Ltd	(1,184)
177	Sunderland Live Ltd	230
	Add (surplus) / deficit attributable to joint venture:	
0	Siglion LLP	(252)
(106,762)	**Total**	64,634

Group Balance Sheet

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

Group Balance Sheet

31st March 2014 £'000		Notes	31st March 2015 £'000
892,125	Property, Plant and Equipment		942,592
11,342	Heritage Assets		12,192
60,607	Investment Property		61,409
2,051	Intangible Assets		2,010
16,420	Long Term Investments		16,415
	Investments in Associates		5,252
39,574	Long Term Debtors		57,258
1,022,119	**Long Term Assets**		1,097,128
90,619	Short Term Investments		180,919
807	Inventories		678
47,570	Short Term Debtors	6	45,367
1,732	Assets Held for Sale		3,027
71,397	Cash and Cash Equivalents (In-hand & bank)	2	28,386
212,125	**Current Assets**		258,377
(11,853)	Cash and Cash Equivalents (overdrawn)	2	(21,101)
(40,734)	Short Term Borrowing		(30,988)
(49,704)	Short Term Creditors	7	(63,581)
(24,798)	Provisions		(21,119)
(5,206)	Grant Receipts in Advance - Capital		(10,817)
(16)	Corporation Tax Liability		0
(132,311)	**Current Liabilities**		(147,606)
(169,533)	Long Term Borrowing		(218,220)
(444,839)	Defined Benefit Pension Scheme Liability	8 / 12	(508,733)
(35,461)	Other Long Term Liabilities		(92,841)
(4,926)	Provisions		(5,565)
(654,759)	**Long Term Liabilities**		(825,359)
447,174	**Net Assets**		382,540
15,895	General Fund		17,230
149,563	Earmarked General Fund Reserves		159,133
10,231	Capital Receipts Reserve		8,028
7,203	Capital Grants Unapplied		5,272
0	Profit and Loss - Investments in Associates		252
(4,629)	Profit and Loss - Sunderland Care and Support Ltd		(8,851)
(1,184)	Profit and Loss - Care and Support Sunderland Ltd		0
(177)	Profit and Loss - Sunderland Live Ltd		(407)
176,902	**Usable Reserves**		180,657
217,658	Revaluation Reserve		217,888
479,965	Capital Adjustment Account		443,960
(1,004)	Financial Instrument Adjustment Account		(1,130)
(439,620)	Pensions Reserve		(499,020)
570	Deferred Capital Receipts Reserve		24,026
805	Collection Fund Adjustment Account		3,566
(4,135)	Accumulated Absence Account		(3,440)
16,033	Available for Sale Financial Instruments Reserve		16,033
270,272	**Unusable Reserves**		201,883
447,174	**Total Reserves**		382,540

Group Cash Flow Statement

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

2013/2014 £'000		Notes	2014/2015 £'000
133,655	Net (surplus) or deficit on the provision of services		34,693
(170,757)	Adjust net (surplus) or deficit on the provision of services for non cash movement		(86,013)
24,562	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		27,527
(12,540)	Net cash flows from operating activities		(23,793)
(33,586)	Investing activities	4	115,882
10,479	Financing activities	5	(39,830)
(35,647)	**Net (increase) or decrease in cash and cash equivalents**		52,259
23,897	Cash and cash equivalents at the beginning of the reporting period		59,544
59,544	**Cash and cash equivalents at the end of the reporting period**	2	7,285

Notes to the Group Financial Statements

Note 1 – Accounting Policies

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

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

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

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

  It should be noted that the Financial Statements for Care and Support Sunderland Ltd, Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with FRS17, Accounting for Retirement Benefits, however, the financial position for these companies would not be significantly different under IAS19.

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

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

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

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

- **Accounting Standards**
  The accounts for the subsidiary companies have been prepared in accordance with UKGAAP, which is the overall body of regulation applicable to company accounts.
  - UKGAAP does not require an accrual to be made in subsidiary accounts for employee benefits although this is required under IFRS. The value of accrued benefits in subsidiaries would not be material to the group accounts.
  - Operating leases held by subsidiaries would also be classified as operating leases under IFRS.

Notes to the Group Financial Statements

Note 2 – Group Cash and Cash Equivalents

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

2013/2014 £'000		2014/2015 £'000
71,397	Cash and Cash Equivalents (in hand & bank)	28,386
(11,853)	Cash and Cash Equivalents (overdrawn)	(21,101)
59,544	**Total Cash and Cash Equivalents**	7,285

Note 3 – Group Cash Flow Statement – Operating Activities

The net cash flows for operating activities include the following items in respect of interest transactions according to the requirements of the code:

2013/2014 £'000		2014/2015 £'000
4,593	Interest received	3,837
(9,888)	Interest paid	(11,813)
433	Dividends received	0
(4,862)		(7,976)

Note 4 – Group Cash Flow Statement – Investing Activities

2013/2014 £'000		2014/2015 £'000
40,632	Purchase of property, plant and equipment, investment property and intangible assets	52,502
90,000	Purchase of short-term and long-term investments	180,000
0	Other payments for investing activities	484
(2,246)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(638)
(145,000)	Proceeds from short-term and long-term investments	(90,000)
(16,972)	Other receipts from investing activities	(26,466)
(33,586)	**Net cash flows from investing activities**	115,882

Note 5 – Group Cash Flow Statement – Financing Activities

2013/2014 £'000		2014/2015 £'000
0	Cash receipts of short and long-term borrowing	(50,049)
(1,149)	Other receipts from financing activities	(5,689)
1,234	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,562
6,440	Repayments of short and long term borrowing	11,346
3,954	Other payments for financing activities	0
10,479	**Net cash flows from financing activities**	(39,830)

Note 6 – Group Short Term Debtors

2013/2014 £'000		2014/2015 £'000
16,007	Central government bodies	6,905
240	Other local authorities	1,620
1,515	NHS bodies	2,031
29,808	Other entities and individuals	34,811
47,570	**Total**	45,367

Notes to the Group Financial Statements

Note 7 – Group Short Term Creditors

2013/2014		2014/2015
£'000		£'000
(11,243)	Central government bodies	(14,484)
(3,760)	Other local authorities	(6,804)
(2,486)	NHS bodies	(2,324)
(32,215)	Other entities and individuals	(39,969)
(49,704)	**Total**	(63,581)

Note 8 – Group Reserves

Pensions Reserve

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

It should be noted that the Financial Statements for Care and Support Sunderland Ltd, Sunderland Care and Support Ltd and Sunderland Live Ltd have been prepared in accordance with FRS17, Accounting for Retirement Benefits, however, the financial position for these companies would not be significantly different under IAS19.

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

2013/2014		2014/2015				
Total Group		Council	CSSL	SCAS	SLIV	Total Group
£'000		£'000	£'000	£'000	£'000	£'000
(640,704)	**Balance at 1 April**	(439,620)	(327)	(4,661)	(231)	(444,839)
207,562	Remeasurement of the net defined benefit liability/(asset)	(50,890)	(22)	(3,190)	(101)	(54,203)
(49,215)	Items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(40,490)	(432)	(4,190)	(174)	(45,286)
36,279	Employer's pensions contributions and direct payments to pensioners payable in the year	31,980	383	2,640	116	35,119
1,239	Less deferred tax offset against liability	0	0	0	78	78
0	Less adjustment for disposals	0	398	0	0	398
(444,839)	**Balance at 31 March**	(499,020)	0	(9,401)	(312)	(508,733)

Share Capital Reserve

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

Note 9 – Group Nature and Extent of Risks Arising from Financial Instruments

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

Note 10 – Group Deferred Taxation

The provision for deferred taxation consists of the tax effect of a combination of timing differences and pension liabilities. The movement in deferred taxation provision during the year was:

2013/2014		2014/2015
£'000		£'000
0	**Provision brought forward**	1,334
0	Adjustment in respect of previous year	0
1,334	Profit and Loss account movement arising during the year	0
1,334	**Provision to carry forward**	1,334

Note 11 – Group Financing and Investment Income and Expenditure

2013/2014 £'000		2014/2015 £'000
9,888	Interest payable and similar charges	11,813
27,100	Net interest on the net defined benefit liability (asset)	20,033
(4,410)	Interest receivable and similar income	(3,837)
(578)	Surplus on Trading Undertakings	(646)
22	Deficit on Trading Undertakings	0
8,316	Income and expenditure in relation to investment properties and changes in their fair value	(802)
0	Impairment of investment in susbidiaries	1,949
40,338	**Total**	28,510

Note 12 – Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.
The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

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

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

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

Transactions Relating to Post-employment Benefits

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

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

Glossary of Terms

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

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

Accounting policies do not include estimation techniques.

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

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

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

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

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

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

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

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

Capital Charge
The charge to the services for the use of non-current assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Glossary of Terms

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

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

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

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

Capital Receipts
Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

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

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

Investment Property
Heritage Assets

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

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

Collection Fund
The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

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

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

Glossary of Terms

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

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

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

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

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

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

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

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:
- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

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

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

Glossary of Terms

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

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

Direct Service Organisation (DSO)
The term is used to cover both Direct Labour Organisations (DLOs) established under the Local Government, Planning and Land Act 1980 and DSOs established under the Local Government Act 1988.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible non-current asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Glossary of Terms

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

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

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

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

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

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

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

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

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

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

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

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

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

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

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

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

Investments (Non-Pensions Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment

for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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

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

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

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

Operating Leases – are all leases other than a finance lease

Lender Option Borrower Option Loans (LOBO)
A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

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

Liquid Resources

Glossary of Terms

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

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

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

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

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

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

Net Current Replacement Cost
The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable Value
The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

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

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

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

Post Balance Sheet Events

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

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

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

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

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

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

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

Private Finance Initiatives (PFI)
PFIs are methods of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

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

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

Public Works Loan Board (PWLB)

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

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

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

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

These lists are not intended to be comprehensive.

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

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

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

This list is not intended to be comprehensive.

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

Renewals Accounting
Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual

expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

Research and Development
Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

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

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

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

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

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

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

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities

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

SeRCOP
The CIPFA Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). SeRCOP applies to all Local Authorities from the 1 April 2012 for the preparation of budgets, performance indicators and Statement of Accounts. The aim of SeRCOP is to establish proper practice with regard to consistent financial reporting for services.

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

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

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

Stock / Inventories
Comprises the following categories:

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

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

Supported Capital Expenditure
Government provides support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

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

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

Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to services.

Unsupported Borrowing

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

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

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

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

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

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

Sunderland City Council

Item No. 9

AUDIT AND GOVERNANCE COMMITTEE **25 September 2015**

REVIEW OF ARRANGEMENTS FOR SECURING VALUE FOR MONEY

Report of the Director of Finance

1. Purpose of Report

1.1 To enable the Committee to consider and comment upon the external auditors' Review of Arrangements for securing Value for Money which covers the financial year 2014/2015 and which forms the basis of the external auditors Value for Money Conclusion included within the Audited Statement of Accounts 2014/2015, (Independent Auditor's Report) which appeared under Item 8 on today's Agenda.

1.2 The report will be presented by Gavin Barker, the Authority's Senior Engagement Manager.

1.3 The report is a new initiative with the aim of providing both members and officers of the Council with much more detail on the information, factors and data that they draw upon in assessing the Value for Money Conclusion they issue to the Council.

1.4 It also gives members the opportunity to question the auditor about the measures and data and the conclusions detailed in their report.

2. Recommendations

2.1 Members are asked to note the attached report.

Sunderland City Council

Review of arrangements for securing value for money

September 2015

Contents

01 Executive Summary

Background

Section 5 of the Audit Commission Act 1998 gives us a statutory duty to confirm that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources. The Code of Audit Practice 2010 requires us to adopt a risk-based approach to this work, focussing on criteria set annually by the Audit Commission. The Audit Commission issued guidance in October 2014 that defined sector specific risk areas for 2014/15. The criteria for councils are:

- proper arrangements in place for securing financial resilience; and
- proper arrangements for challenging how they secure economy, efficiency and effectiveness.

We refer to our assessment as the Value For Money Conclusion (VFM Conclusion).

The Audit Commission closed on 31 March 2015, but the requirements in relation to the 2014/15 VFM Conclusion are unchanged. In future, guidance is being maintained by the National Audit Office, and auditor compliance with the guidance is monitored by Public Sector Audit Appointments Ltd.

Approach

We meet regularly with key officers to keep our risk awareness up to date. We discuss the challenges the Council faces in delivering and maintaining services with significantly reduced funding and the progress of plans to meet these challenges.

We used the Audit Commission's guidance to carry out a risk assessment and we also reviewed the Audit Commission's VFM Profile and Financial Ratios Tool to benchmark Sunderland City Council against other metropolitan authorities. The data in the Tool is based on 2013/14 revenue outturn forms. We also compared your Medium Term Financial Plan (MTFP) with those of the single-tier authorities we audit to provide a comparison of the levels of savings which still need to be identified.

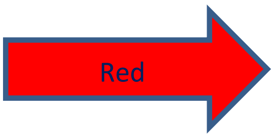
In setting the 2015/16 Budget the Section 151 Officer undertook a self-assessment of the adequacy of the Council's budget estimates and reserves and we have taken this into account. We also considered the Council's Corporate Plan Performance and Progress Report for 2013/14, and the Corporate Plan Performance and Progress Report for the first six months of 2014/15.

In carrying out our initial risk assessment of your arrangements we have used a red / amber / green (RAG) rating with the following definitions that underpin our audit risk assessment.

Adequate arrangements identified. Indicators compare favourably with other authorities.	Green

Arrangements are mostly adequate but there are some risks or weaknesses, with remedial action in place. Indicators compare unfavourably with other authorities, but can be explained.

Arrangements are generally inadequate or have a high risk of not succeeding. Indicators compare unfavourably with other authorities, without adequate explanations.



Conclusion

The Council has a strong track record of delivering savings and keeping within budget. The Council also has a reputation for strong leadership and innovation. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m while implementing its Community Leadership Programme and its Business Transformation Programme. Measures taken have included:

- significant changes in the way the Council provides services including new models of service delivery, for example, establishing Sunderland Care and Support Ltd, and closer working with partners, for example, with Sunderland Clinical Commissioning Group (CCG) through the Better Care Fund;
- investment in regeneration including the establishment of Siglion LLP, a local asset backed vehicle, as a joint venture with the private sector to accelerate investment in the City; and,
- other investment in infrastructure including: the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre.

The future looks even more challenging. Government has not yet clarified how much funding levels will reduce but the outlook for the Council is that resources available will not be sufficient to pay for the services it provides. The Council forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be a further £149m. The Council shows an understanding of what these challenges will mean:

> *"The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.*
>
> *The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will be through a programme of activity based around the council's Community Leadership approach. The Council's role will increasingly shift from delivering services to enabling individuals, communities and other organisations in the public, private and voluntary sectors to work together to address the needs of the city and to encourage people to be more self-supporting."*
>
> *Source: Explanatory Foreword, Sunderland City Council Financial Statements 2014/15*

This report reflects our assessment as at mid-September 2015. We will update our findings and conclusions on an ongoing basis until we report on 30 September 2015. We are required to report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

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

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

We have identified much good practice in the Council’s overall corporate arrangements. However, the Ofsted assessment of children’s safeguarding services as ‘inadequate’ provides evidence of a significant service failure. We note that corporate management had identified that there were significant issues that needed to be addressed in relation to the Council’s children’s services, had already taken action and planned further improvement measures. This provides some evidence of the Council’s corporate arrangements operating effectively in terms of identifying risks and seeking to address them. However, progress with the actions to date has not yet led to the improved outcomes that are needed.

The Ofsted report, although acknowledging some of the measures that have been taken, concluded that they have not yet improved practice or outcomes for young children. The issues raised by Ofsted focus on “widespread, systematic poor practice” in the management of social work for children, which has left significant numbers of cases that have not been fully assessed or progressed, issues over the stability of the workforce and high caseloads, and issues over partnership working, performance management and quality assurance and oversight. Ofsted describe this as “a corporate failure by senior leaders and management that leaves children and young people unsafe.”

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

The precise wording of our VFM conclusion will be incorporated into our Audit Completion Report for the 2014/15 audit.

The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children’s Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children’s Services in Sunderland to work with the Council to advise on improvements in children’s services and to advise ministers on the improvements that are achieved.

Detailed findings

We applied the RAG ratings to the five categories of characteristics of proper arrangements as set out in the Audit Commission guidance and ten financial indicators and the results are summarised below:

Characteristics of proper arrangements:

These audit risk assessments are based on our evaluation of the arrangements put in place by the Council.

- Financial Governance
- Financial Planning
- Financial Control
- Prioritising Resources
- Improving efficiency and productivity
  - Assessment is red in respect of Children's Services, as reflected in the Ofsted judgement of 'inadequate' (summarised in the paragraphs above)

Key financial indicators:

These audit risk assessments draw on data comparisons and represent a selection of possible financial indicators. As with any data comparison, there can be anomalies due to the comparability or otherwise of the data, and there can be differences between the characteristics of councils that are not accounted for in the data comparison.

- Working Capital Ratio
- Long-term Borrowing to Long-term Assets
- Usable non-school reserves : gross spend
- School balances : Dedicated School Grant
- MTFP Funding Gap : 2015/16 Net Budget
- Council Tax Collection Rate
- NNDR Collection Rate
- Net Cost per Head
- Back office costs : service costs
- Running Costs : gross expenditure

02 Background and context

National Context

The Government's 2010 Spending Review, covering the period from 1 April 2011 to 31 March 2015, has led to significant reductions in public spending. In its 2014 report: Financial Sustainability of Local Authorities, the National Audit Office reflected on the 26% reduction (excluding funding for schools and benefit claimants) in the local government departmental spending limit and the further 1% reduction in 2014/15 and the 10% reduction for 2015/16. Changes in the funding formula have resulted in much greater cuts in metropolitan areas like Sunderland than in more affluent, rural areas.

Subsequent spending reviews, financial settlements and budget declarations indicate that austerity is likely to continue for several years. Following the recent election, the Government intends to remove revenue support grant entirely by 2020/21 and is committed to the need for further cuts in public spending. These funding reductions come at a time when demographic changes are increasing demand for services, especially social care.

We have found councils have generally responded well to this challenge and made adequate arrangements to ensure financial resilience, economy, efficiency and effectiveness. However, all single-tier councils are making tough budget decisions and finding it increasingly difficult to protect front-line services. In this context the risk of auditors giving an unsafe conclusion on arrangements to secure value for money is significantly increased.

Local context

Sunderland City Council has already delivered savings of £171m between 2010/11 and 2014/15, which represents 68% of the 2014/15 net budget requirement. The savings were required to balance the budget in light of a combination of government funding reductions and unavoidable cost pressures. To date, the Council has delivered savings through efficiencies targeted at the back office rather than front-line services, and through seeking to transform services by doing things differently. The Council has been relatively successful so far, but it is increasingly difficult to identify savings from its already diminished budgets without impacting directly on the services provided. It is clear that increasingly difficult decisions lie ahead.

The Council is planning that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be in the region of a further £149m.

Sunderland faces challenges of relative deprivation, and the Council has identified issues of concern:

- health outcomes are poor;
- migration out of the city continues to be an issue, and the city is not attracting high income groups;
- big industry is creating jobs but there are not enough small business start-ups;
- the skills of the working population do not match the needs of industry and business; and,
- the city centre is not functioning as the economic motor of the city and city centre footfall is in decline.

The Council has taken and continues to take robust action, together with its public sector and private sector partners, to address all of these issues of concern. However, whilst Sunderland is not alone in facing significant challenges maintaining services in the face of further funding cuts and rising demand, the scale of the challenge is immense.

The Council recognises that it can not continue as it has before. In particular, the future will include significant change including:

- new and innovative models of service delivery;
- commissioning services rather than directly providing them;
- making services more self financing and sustainable;
- managing demand and reducing reliance on the public sector;
- working more closely with partners and the voluntary sector; and
- building community capacity and resilience.

The rest of this report, assesses the risks associated with this challenge in respect of:

- financial resilience; and
- economy, efficiency and effectiveness.

03 Financial resilience

Characteristics of proper arrangements

The financial resilience criterion has three aspects:

- financial governance;
- financial planning; and
- financial control.

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Council's arrangements:

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
Financial Governance		
The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position	The leadership team are very aware of the changing financial management challenges. They have made significant savings over the last few years, and continue to make savings. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m. The Council is not complacent about its financial position and has identified that significant savings of £39.8million are required for 2015/16, and the Council is aware that the future outlook is one of further government funding reductions and at this stage the Council are looking at potential reductions of £149m over the next five years. There is a recognition that future changes will have a significant impact including: • new and innovative models of service delivery; • commissioning services rather than directly providing them; • making services more self financing and sustainable;	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	• managing demand and reducing reliance on the public sector; • working more closely with partners and the voluntary sector; and • building community capacity and resilience.	
The chief financial officer is a key member of the leadership team (in accordance with the CIPFA Statement), being actively involved in all business decisions, and promoting and delivering good financial management. If the organisation's arrangements do not comply with the CIPFA Statement, this is disclosed in the AGS with an explanation of how the arrangements deliver the same impact.	The Director of Finance is the Council's chief financial officer. The Director of Finance is a key member of the leadership team, is very experienced and is supported by a strong finance team. The Director of Finance is proactively involved in all key business decisions and in delivering good financial management.	●
The leadership team fosters an environment where there is good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position. The leadership team considers the financial skills required for different tiers of management and staff throughout the organisation actively develop financial literacy and skills	The leadership team does promote good financial management. This is demonstrated in the financial results in recent years, where the Council has consistently delivered a financial outturn within the overall budget set. In 2014/15, there was an underspend of £0.6m against the original budget. Budget robustness reports are produced and sensitivity analysis to demonstrate the variable nature of the assumptions made in the budgets to the Cabinet and the Council. The significant savings made to date by the Council show there is a good understanding throughout the organisation of the financial position.	●
The leadership team provides constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit-for-purpose. Members scrutinise and challenge financial performance effectively, holding officers to account.	The leadership team bring forward proposals with a clear rationale and reasoning, considering all the relevant risks and issues with proposals, including financial consequences of proposals. Members do scrutinise and challenge performance, holding officers to account.	●

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	Quarterly budget monitoring reports are presented to the Cabinet.	
The organisation has an objective, knowledgeable and effective audit committee. It provides effective challenge across the organisation and assurance on the arrangements for risk management, maintaining effective internal control, and reporting on financial and other performance	We attend all Audit and Governance Committee meetings and our view is that it does provide an effective challenge. The Council has an independent chair and a second independent member on this committee. Over recent years, the Council has developed an innovative assurance framework, drawing together assurance from across the organisation. Risk management arrangements and Internal Audit are challenging and effective. There are strong examples of the Audit and Governance Committee providing challenge and receiving updates on progress to address issues that have been identified; for example, in relation to ICT and in relation to children's safeguarding.	
Financial Planning		
Medium-term financial planning and annual budgeting reflects the organisation's strategic objectives and priorities for the year, and over the longer term. The organisation has reviewed and updated its longer-term strategy and MTFP in light of the current economic climate. This review includes, for example: the impact of changes in priorities, inflation, funding, changing demand for some services; the implications of self-financing the HRA and greater local control over business rates; the impact of the local council tax support scheme on council's tax collection rates; and the impact of other legislative and policy changes.	The Council is not complacent about its financial position and has identified that significant savings of £39.8million are required for 2015/16, and the Council is aware that the future outlook is one of further government funding reductions and at this stage the Council is looking at potential reductions of £149m over the next five years. The revenue budget is based on a full appraisal of growth, savings and efficiencies. It is also based on reasonable assumptions, and is supported by a risk assessment. The Council does not have its own housing stock.	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	The MTFP is reviewed annually and all relevant factors are taken into account. The budget is drafted in November and finalised in February/March following consultation. It covers similar issues and time horizon as the MTFP rather than focusing at the year ahead in isolation. There is allowance for growth in priority areas where appropriate.	
The organisation understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges to ensure it achieves VFM value for money.	The Council understands it is reliant on the funding from central Government. The Council has reviewed its fees and charges. It seeks to maximise value for money, and has increased fees and charges as a consequence. Our advisory review identified that the Council was effective at maximising potential income from fees and charges. Income is one of the factors taken into account in the MTFP and budget setting. The Council has explored increased fees and charges as an alternative to reducing costs where this has been possible.	
Financial and corporate planning processes are integrated, link to risk management arrangements, and incorporate strategic planning for other resources including the capital programme and workforce planning. The organisation's treasury management arrangements ensure it has sufficient cash to meet its needs - achieving a balance between security, liquidity and yield.	Financial and corporate planning processes are integrated and no significant weaknesses have materialised from inconsistent plans and strategies. Risk management arrangements are sound, and the Council maintains a strong capital programme. Workforce planning has been effective, and the implications of a pay and grading review have been taken into account in future budgeting. The Council has good arrangements for treasury management and this is regularly monitored and reported. The Treasury Management Strategy considers the balance between security, liquidity and yield..	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
The organisation uses financial modelling to assess likely impacts on financial plans and required savings for different scenarios, and to help ensure short-term fixes are not achieved at the expense of long-term sustainability.	The Council clearly takes a longer term view in its financial planning. The Council's MTFP is helping it to manage the difficult economic climate and the cuts in Government funding. The Council has focused on delivering savings that reduce the overall budget requirement and deliver year on year savings. As future financial settlements are uncertain, financial modelling is a key element of the MTFP. Financial modelling and whole-life costing are evident in the MTFP and Budget documents. The March 2015 budget considers the impact until 2019/20 and does not rely on short term fixes such as asset sales.	
The organisation models key expenditure drivers (for example population changes and demand for services), sources of income (for example income and government grant forecasts), revenue consequences of capital and resource requirements and balances. The organisation uses different planning assumptions (for example sensitivity analysis and scenario planning using realistic best, worst and most likely cases) and considers the impact on financial plans.	The Council's MTFP is helping it to manage the difficult economic climate and the cuts in Government funding. As future financial settlements are uncertain, financial modelling is a key element of the MTFS. The Council uses sensitivity analysis where appropriate. The MTFP describes numerous assumptions and includes sensitivity analysis. The worst case scenario is assumed so work identifying savings can begin early and the Council does not have to find further savings at short notice.	
The organisation operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces. If the organisation is not at its target level	The Council maintains a reasonable General Fund Balance at £7.57m. However, careful financial management has enabled it to build up a very strong level of earmarked reserves, although these are set aside for specific plans and projects. The earmarked reserves do	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
for balances, there is planned action in place to achieve this, taking account of any associated risks to the council's financial position and delivery of its priorities.	enable the Council to manage its financial position more effectively over the medium term. We used the VFM profiles. These showed earmarked reserves to be high compared to similar authorities. The Director of Finance annually assesses the level of reserves and prepares a statement for full Council on their adequacy.	
The organisation gives due regard to its ability to deliver its statutory responsibilities when considering its short-, medium- and long-term financial plans.	The Council views its statutory responsibilities as being at the heart of what it does, and has not compromised these in its financial planning. The leadership team is confident that the current savings plans meet statutory responsibilities. The legality of all proposals is considered by the Monitoring Officer and the Council has been cautious at avoiding schemes where implementation involves risk of non-compliance.	
Financial Control		
Financial monitoring and forecasting is fit-for-purpose and accruals based, helping to ensure a clear link between the budget, in-year forecasts and year-end position. The organisation analyses and extrapolates relevant trends and considers their impact on the projected final out-turn. Forecasts are subject to risk and sensitivity analysis and management takes timely action to address any budget pressures, for example by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.	The Council has managed its overall financial position well. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m. The Council is not complacent about its financial position and has identified that significant savings of £39.8million are required for 2015/16, and the Council is aware that the future outlook is one of further government funding reductions and at this stage the Council are looking at potential reductions of £149m over the next five years. The Council monitors its revenue and capital budgets closely during the year. Corrective action is taken when necessary.	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	Budget monitoring and forecasting is adequate with quarterly reports to Cabinet showing projected outturn, which is typically fairly accurate. Variances are reported and remedial action has been taken to deal with forecast overspends.	
The organisation has a good recent record of operating within its budget with no significant overspends.	The Council has managed its overall financial position well. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m. There have been no significant underspends in recent years, all of which have been years in which significant savings have been made. Vacancies are tightly managed and other measures taken to deliver additional savings that more than offset overspending, which tends to be mainly due to rising demand in services such as Adult Social Care.	
The organisation's cash flow management arrangements ensure it has access to the required amount of cash at the right time, while achieving VFM value for money. These include actively managing investments and cashflows, banking arrangements, money market and capital market transactions, and the effective management of risks associated with these activities.	The Council has good arrangements for treasury management and this is regularly monitored and reported. Cash flow is managed effectively. The Council has specialist advisors and also benefits from strong in-house skills and experience in this area.	
The organisation keeps under consideration the security, liquidity and yield of investments in line with the CIPFA The Chartered Institute of Public Finance and Accountancy Code on Treasury Management. In particular organisations consider current market	The Treasury Management Strategy aims for prudent and effective management with an appropriate balance focused on security of funds, liquidity and yield. The strategy is regularly monitored and there is evidence of compliance.	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
conditions to manage actively counterparty and interest rate risks in line with their approved Treasury Management strategy.		
The organisation sets and monitors challenging targets for the collection of material categories of income and arrears based on age profile of debt. Where targets are not being met, the organisation takes appropriate corrective action during the year to achieve the targets.	The Council monitors income collection in key areas. The VFM profiles considered performance on key elements of income collection and no significant issues were arising. Targets are set annually for council tax and NNDR collection rates and performance is regularly monitored. Compared with other metropolitan authorities the council tax and NNDR collection rates are both above average.	
The organisation monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.	The Council does proactively monitor itself against the performance of others, although this is increasingly difficult as comparative data becomes scarcer. We undertook a VFM Profiles exercise and the Council compares reasonably well in terms of overall value for money.	

Financial indicators

The charts below show how Sunderland City Council compares with other authorities using 10 financial health indicators. Nine of the indicators have been published by the Audit Commission within their Financial Ratios and VFM Profile tools and compare Sunderland City Council with all other metropolitan authorities. The other indicator (number 5 below) has been calculated by Mazars through analysis of the medium term financial plans of a range of other single tier authorities. This is a forward looking indicator, whereas the Audit Commission indicators use 2013/14 data.

Working Capital Ratio

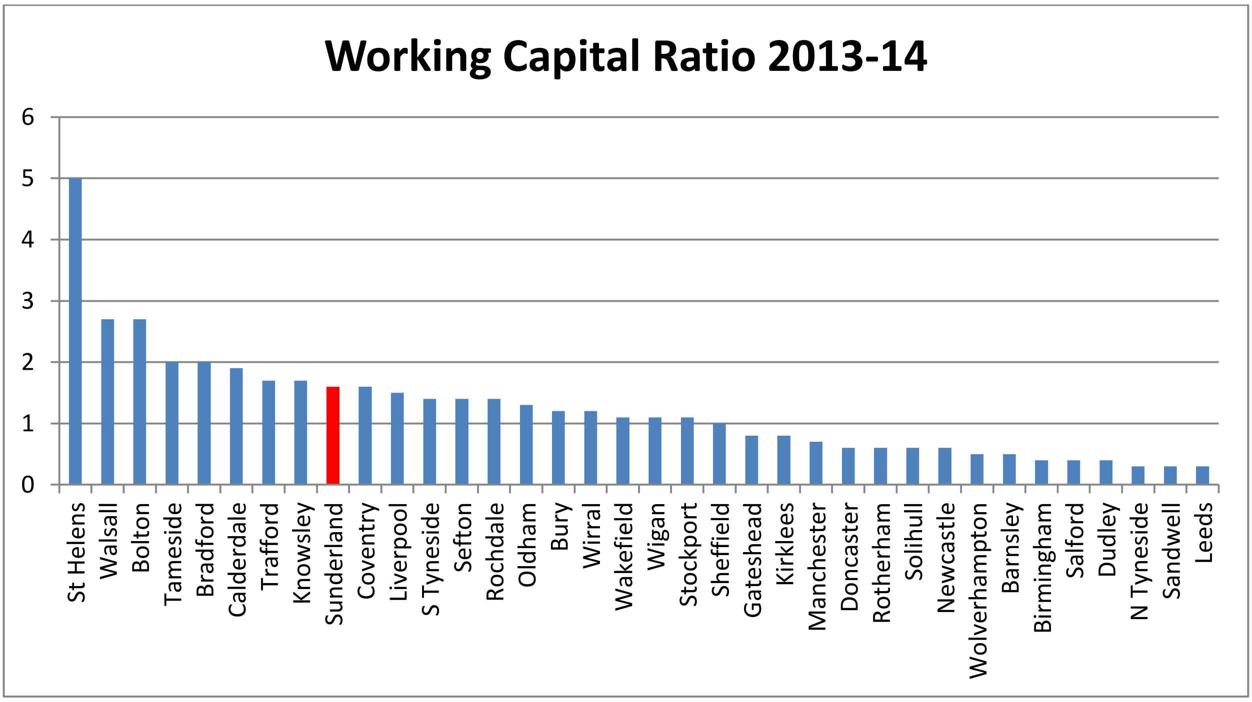
RAG rating

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities – i.e. those liabilities to be met over the next twelve month period. A ratio of less than one – i.e. current liabilities exceed current assets – indicates potential liquidity problems. It should be noted that a very high working capital ratio isn't always good. It could indicate that an authority is not effectively investing its excess cash.

Findings

The Council's 2013/14 working capital ratio is 1.6 compared with an average of 1.2.



Ratio of long term borrowing to long term assets

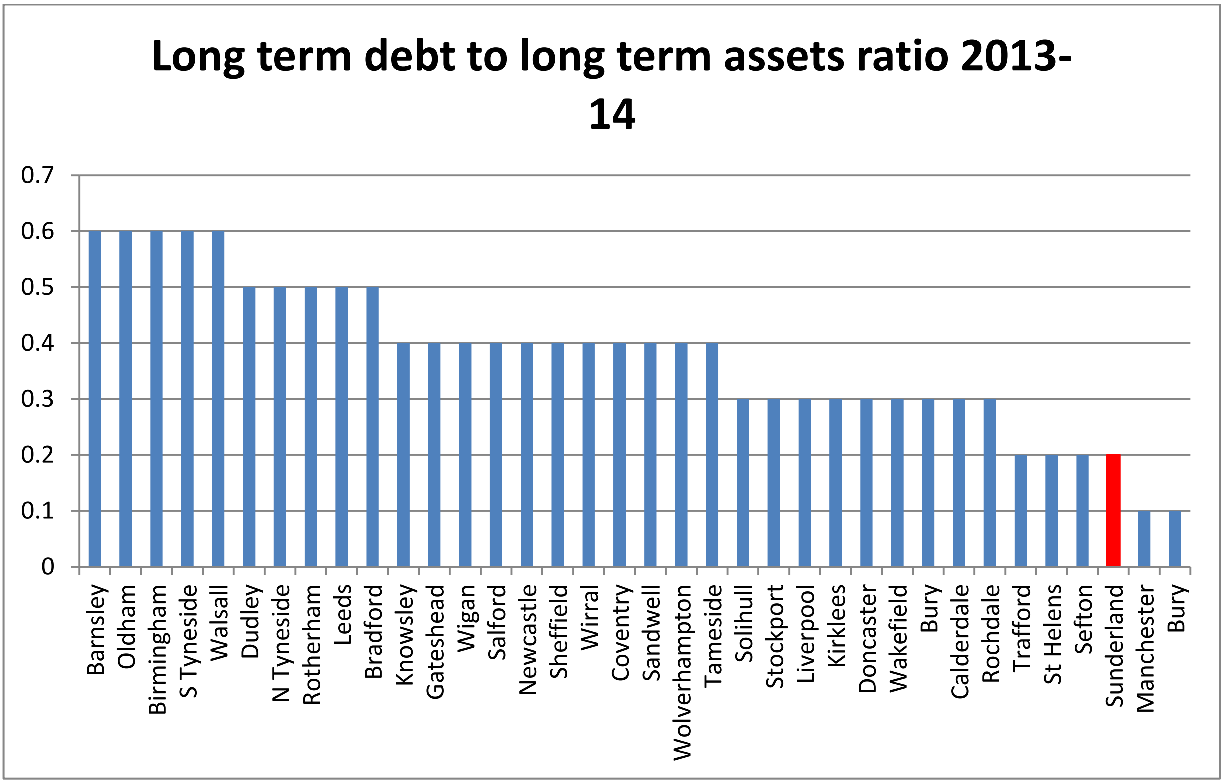
RAG rating

Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council's 2013/14 long term borrowing to long term assets ratio is 0.2 compared to an average of 0.4, The ratio is below 1, meaning that Sunderland City Council has enough long term assets to cover its long term liabilities.



Usable non-school reserves to gross expenditure

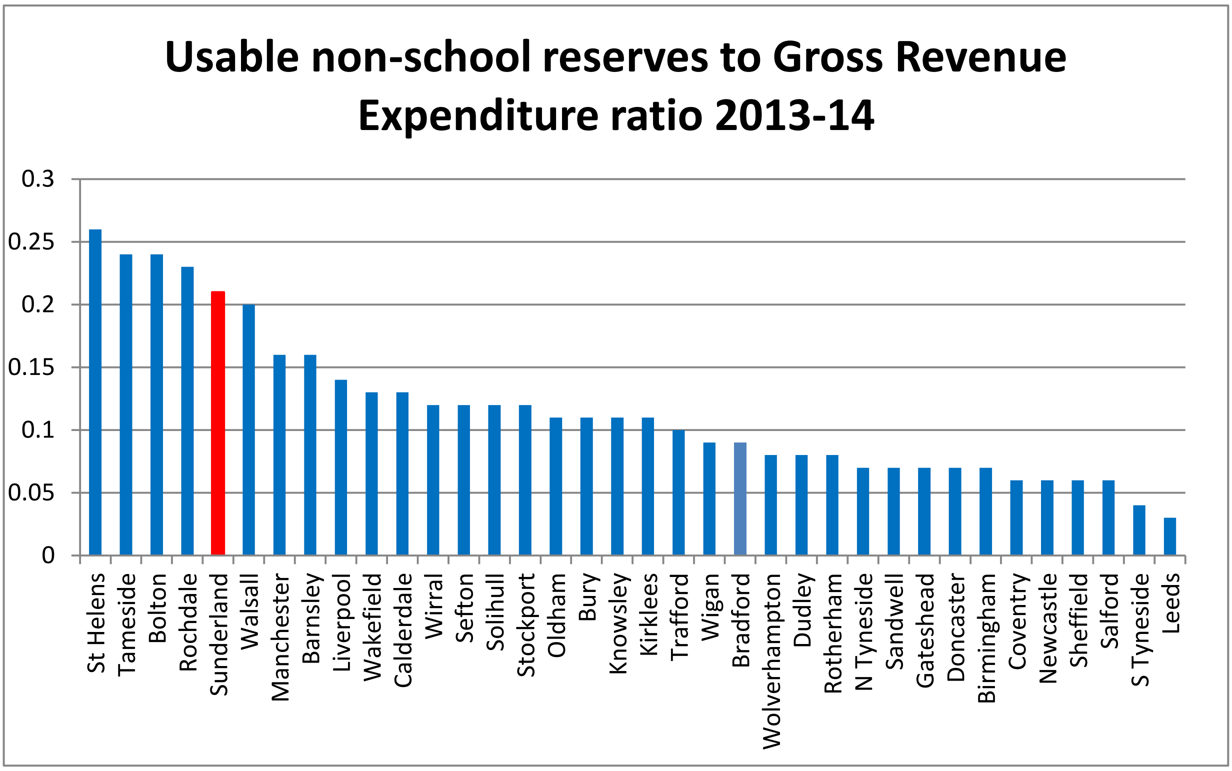
RAG rating

Definition

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure, including those earmarked for specific purposes. A higher ratio indicates the Council has a greater ability to fund unexpected pressures from available reserves.

Findings

The Council has non-school reserves equivalent to 21% of gross expenditure compared to an average of 11%. This relatively high level of reserves, although largely committed for specific purposes, does provide some flexibility in helping to manage the financial challenges ahead.



School Balances to Dedicated Schools Grant

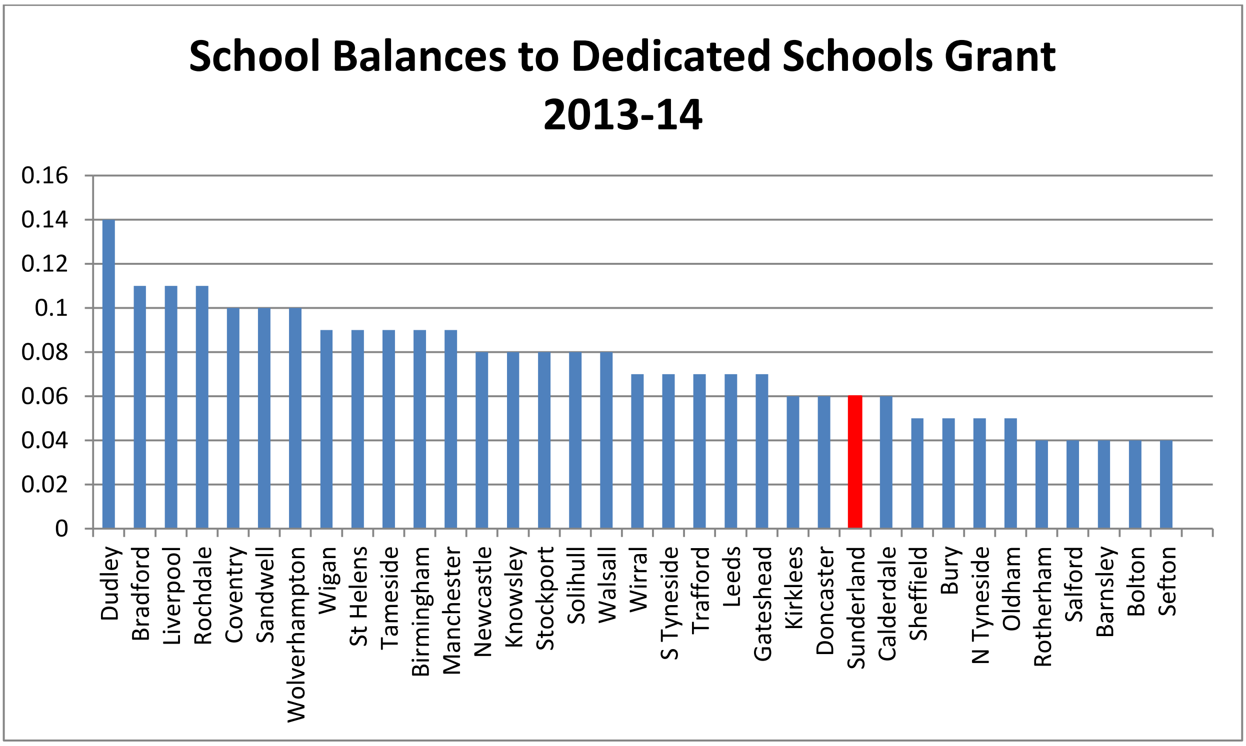
RAG rating

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example, a ratio of 0.05 means that 5% of the total DSG allocation remained unspent at the end of the year.

Findings

The ratio of the Council's 2013/14 school balances to DSG is 0.06, compared to an average of 0.07, making it neither unusually high or unusually low.



MTFP Funding gap (2015 to 2018) to 2015-16 Net Budget

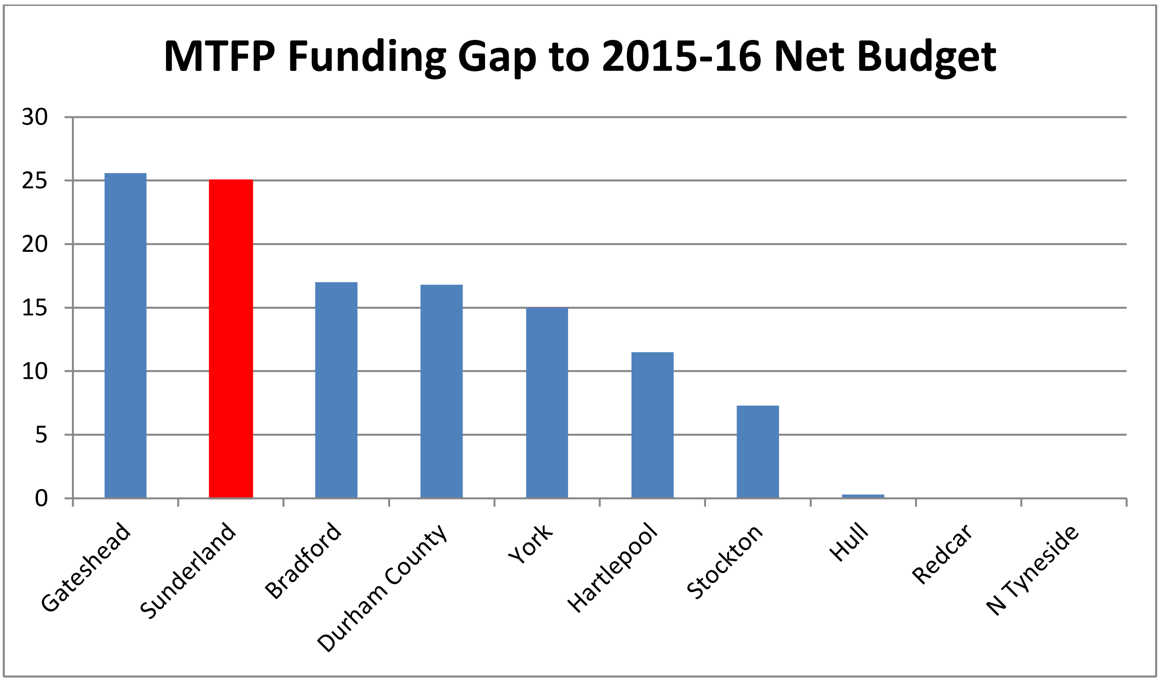
RAG rating

Definition

This ratio shows the shortfall in budgeted resources against budgeted expenditure over the next 3 years identified in council's medium term financial plans. Budgeted expenditure already reflects approved savings schemes. As not all medium term financial plans are published the comparison is against single tier authorities that we audit rather than all metropolitan councils. All councils in our sample balanced 2015/16 budgets. The larger the gap, the greater the further savings required.

Findings

The level of additional savings required as a proportion of the net budget is 25% compared to an average of 12%, and perhaps reflects some of the particular pressures on metropolitan district councils. The Council faces a tougher challenge to balance the budget over the next 3 years than most of our clients. The Council's strong track record at delivering savings, its ambitious future plans and its programme and project management arrangements aim to mitigate this risk.



Council Tax Collection Rate

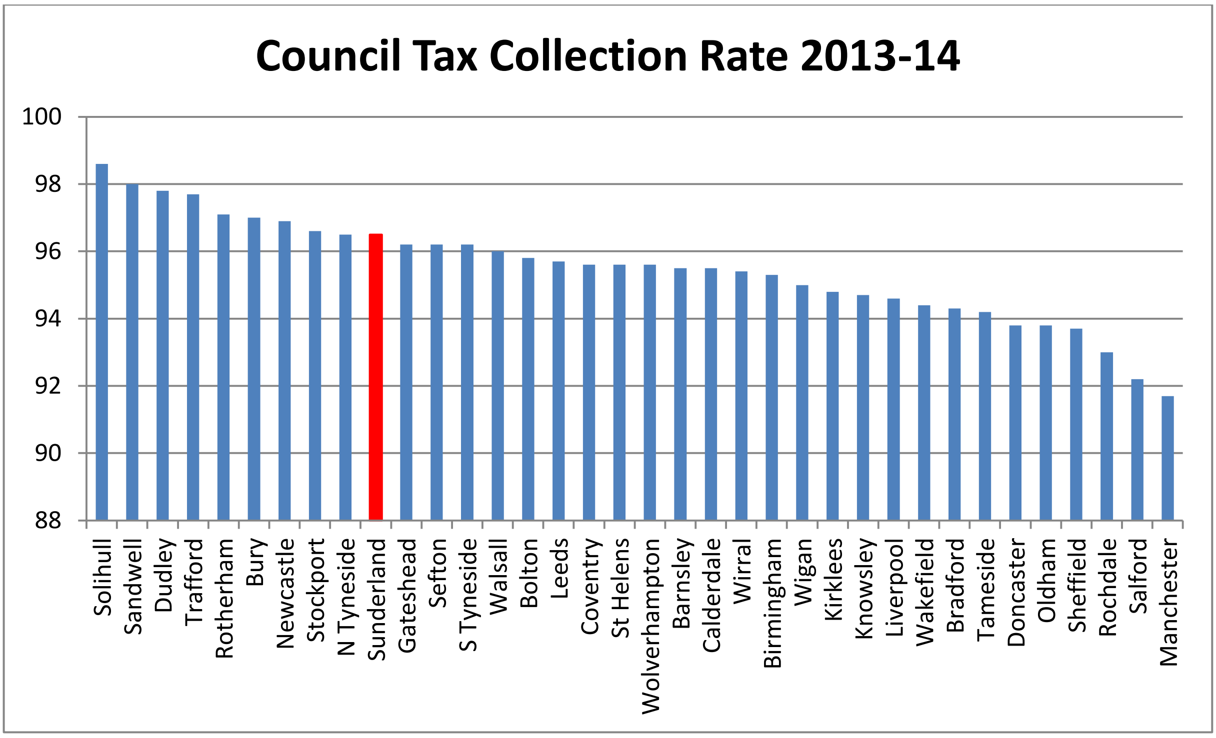
RAG rating

Definition

This shows the proportion of council tax collected within 2013/14, an indicator of council's cash flow and debt collection.

Findings

The Council's 2013/14 council tax collection rate is 96.5% which is above the average of 95.5%.



NNDR Collection Rate

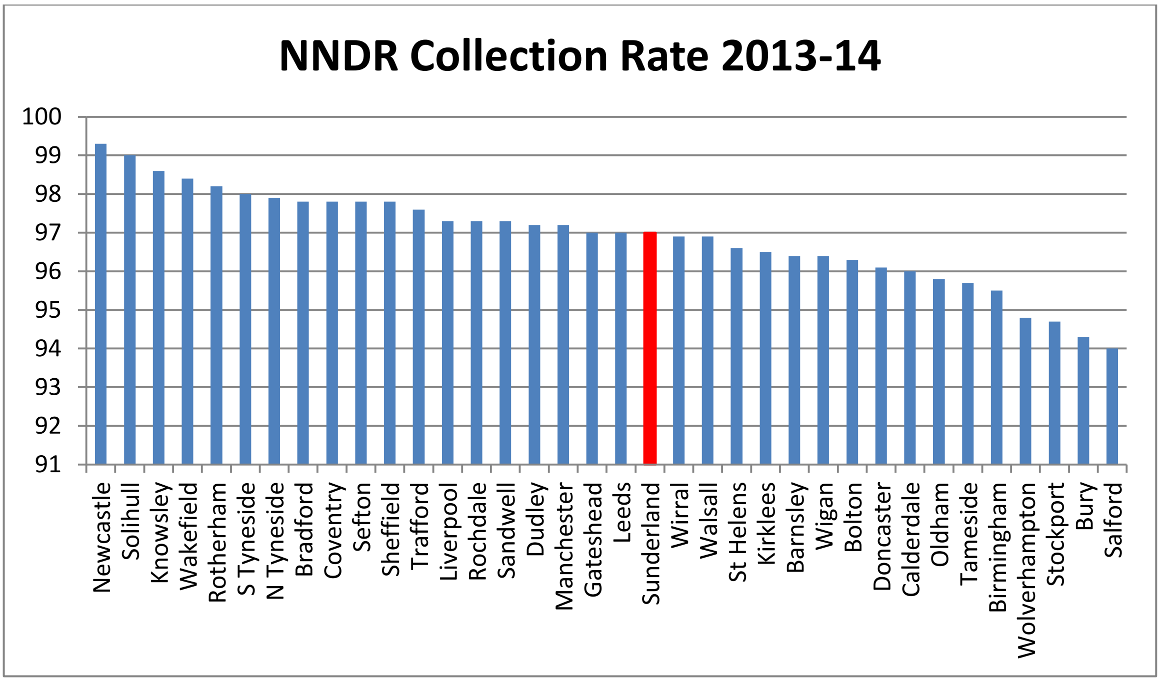
RAG rating

Definition

This shows the proportion of National Non-Domestic Rates collected within 2013/14, another indicator of council's cash flow and debt collection arrangements.

Findings

The Council collected 97.0% of NNDR due in 2013/14, which is just above the average of 96.9%.



Net Cost per Head of Population

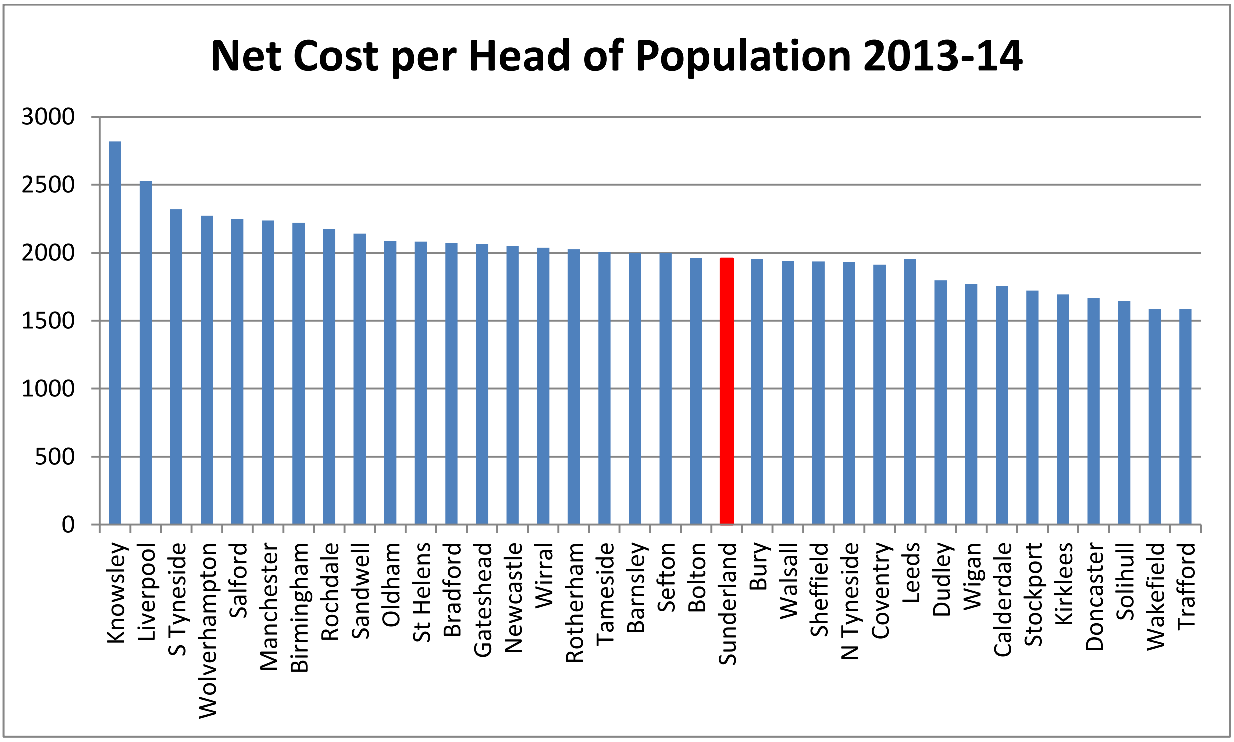
RAG rating

Definition

The net expenditure per head of population is primarily a value for money indicator, but it is also indicative of financial resilience as a lower cost per head ratio indicates a council's historic ability to control costs.

Findings

The Council's net cost per head is £1,957, which is below the average of £2,001.



Back Office Costs to Total Service Expenditure

RAG rating

Definition

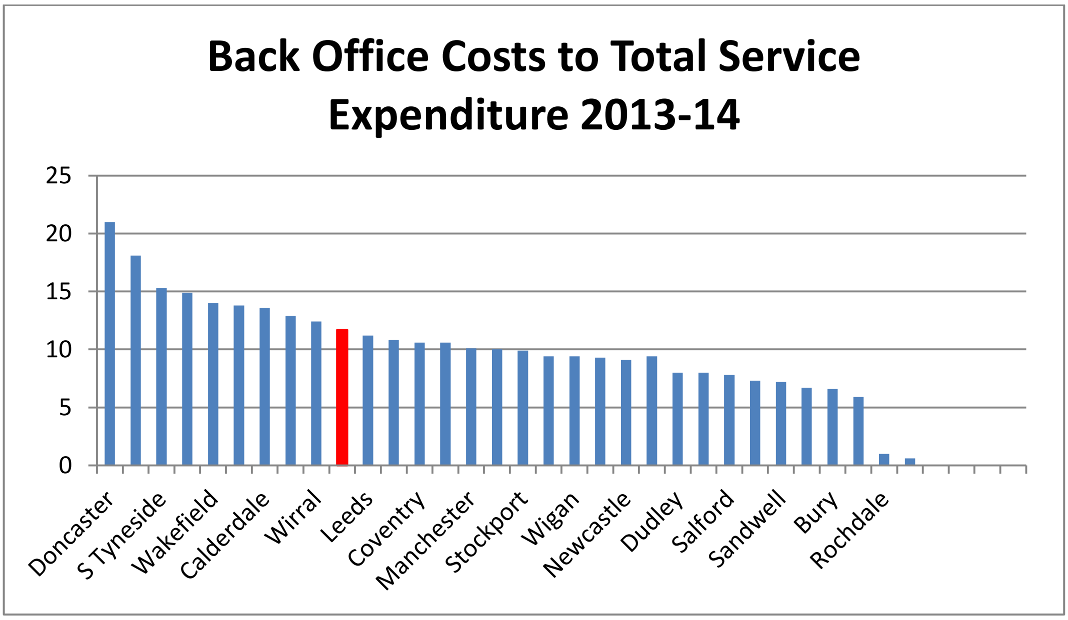
Back office costs support front-line services and are a source of potential savings that may not impact on service users. Councils with a low ratio of back office to service costs have potentially been most successful at targeting savings, an indicator of financial resilience and value for money. However, such councils may find it harder to make the further savings required than councils that still have relatively high back office costs. It should be noted that this measure is particularly difficult to measure accurately and there can be anomalies in the data arising in part from the extent of centralisation/devolution of support arrangements. In particular, where services are more devolved, it is less likely that back office costs will be identified as fully as where they are centralised.

Findings

The Council's back office costs represent 11.7% of service expenditure, compared to an average of 9%.

Officers have looked into this indicator in more detail and have highlighted two specific factors at Sunderland City Council; first, the Council has a relatively centralised back office and has included its transformation programme and community leadership programme costs of £1.7m under this definition; these are costs which are being specifically incurred to help bring about the changes which will ultimately change the way the Council operates and reduce overall costs including its back office. Second, as part of its measures to take control of back office costs and ultimately reduce them, the Council centralised its administration function, bringing under this definition £7.5m of costs which are more likely to be devolved to a greater degree in at least some if not most other authorities. Officers have argued that taking account of these factors, would put Sunderland much closer to the average cost on this measure, at 9.8%. These explanations adequately explain the position on this indicator.

We also note that the Council does have plans to further reduce back office costs over the medium term. As the Council implements the measures highlighted elsewhere in this report, for example, moving from direct delivery of services to commissioning, one consequence of this will be a further reduction in the back office infrastructure.



Running Costs as a Proportion of Total Expenditure

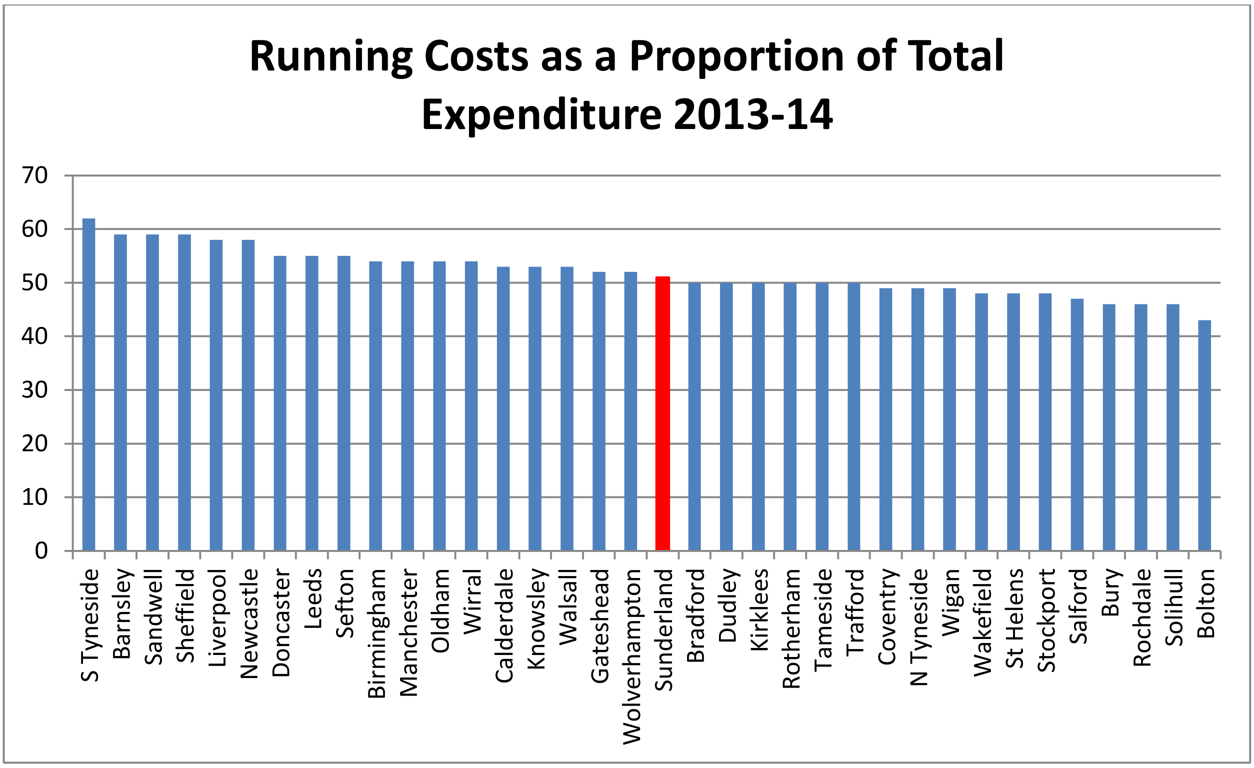
RAG rating

Definition

Running costs include premises, transport, supplies and services and third party payments. A low ratio of running costs to total expenditure may indicate successful targeting of savings to limit impact on front-line services, although a level too low may indicate less scope to continue making such savings or a reluctance to explore alternatives to in-house delivery of services.

Findings

The Council spends 51% on running costs, compared to an average of 52% so the ratio is neither unusually high nor low.



Section 151 Officer's Assessment

The Local Government Act 2003 requires the Council's Section 151 Officer (your Director of Finance) to report annually on:

- the robustness of estimates used in setting the budget; and,
- the adequacy of proposed reserves.

This self-assessment informs our assessment of financial resilience. The Director of Finance reported to Council on 4 March 2015 that:

> *"The Revenue Budget is considered robust and the level of reserves considered to be adequate for 2015/2016 after an assessment of the financial risks and future plans of the Council have been taken into account. The underlying level of General Fund Balances at £7.570m to the end of 2015/2016 are in accordance with the existing policy and are considered prudent and robust given the overall level of reserves."*

The Revenue Budget 2015/16 considered:

- current overall position 2015/2016 to 2019/2020;
- final position February 2015;
- spending pressures and commitments;
- overall position / meeting the budget gap;
- proposals to meet funding gap;
- medium term financial position;
- outcome of budget consultation;
- equality and the budget proposals;
- balances and reserves; and,
- detailed revenue budget.

These are appropriate factors to consider in budget setting and have been clearly reported. The analysis set out in this report underpins the Director of Finance's overall assessment on the robustness of estimates and adequacy of reserves.

04 Securing Economy, Efficiency and Effectiveness

Characteristics of proper arrangements

The economy, efficiency and effectiveness criterion has two aspects:

- prioritising resources; and
- improving efficiency and productivity.

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Council's arrangements:

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
Prioritising Resources		
The organisation has in place strong leadership and the capacity to deliver the scale of the spending reductions required of it. It is reviewing its strategic priorities and the cost-effectiveness of its activities. It is adopting a strategic approach to identifying cost reductions and challenging spending and investment decisions. It is taking a rational view of its priorities and of the short, medium and longer-term opportunities for savings.	The leadership team does have a good grasp of the issues and is taking the action needed to secure the financial position. In recent years, the Council has made significant transformational changes to deliver challenging savings targets, but it has also sought to maintain and improve service delivery. The Council continues to deliver an ambitious programme which has included: • securing a City Deal to help deliver the new Wear Crossing and pursue the plans to develop a new advanced manufacturing site near Nissan; • progressing the physical and economic regeneration of the City , for example, with infrastructure work on the old Vaux site and in the City Centre, and by entering into a local asset backed vehicle (LABV) with private sector partners to accelerate economic regeneration more widely;	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	• implementing alternative models of service delivery, including establishing two new local authority trading companies, Sunderland Live Ltd and Sunderland Care and Support Ltd; • exploring and delivering transformation in a range of services including leisure and libraries; and, • working with its partners to establish a Combined Authority so that economic growth, skills and transformation improvement can be delivered on a regional basis. The challenge for the future is ensuring that the well established track record of delivering results can be continued.	
Where appropriate, there is input from or consultation with a wide range of local people. This includes those who use or are likely to use services provided by the Council, and those appearing to the Council to have an interest in any area within which the Council carries out functions. These people include front-line staff, local residents, the voluntary and community sector and representatives from small business to identify local priorities for spending.	The Council carry out consultations with the public and with the staff.	
There is a willingness to challenge the existing approach to managing the organisation and delivering its services, including consideration of whether delivery of these services is best through in-house, outsourced or shared service arrangements.	In recent years, the Council has made significant transformational changes to deliver challenging savings targets, but it has also sought to maintain and improve service delivery. The Council has already: • created two new local authority trading companies, Sunderland Live Ltd and Sunderland Care and Support Ltd;	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	• set up Siglion LLP as a joint venture with the private sector to accelerate economic development in the city; and, • entered into a leisure joint venture to secure the future of leisure services and ensure that they are more financially sustainable. The Council has explored alternative models of service delivery, and favours some form of mutual model involving an element of employee ownership. The challenge now is to clarify the preferred model and take this forward.	
The organisation bases decisions on cost reductions and prioritising resources on robust information on needs and on the costs it incurs in delivering its services and activities, including back-office functions, and the drivers that influence or change these costs. Options appraisal and scenario analysis or similar techniques, are used effectively to evaluate proposals for, and the impact of, spending reductions, setting out risks, external factors and whole-life costs or benefits. The organisation is able to justify any areas of spending which are higher than at comparable bodies.	The Council takes a structured approach to cost reductions and prioritising resources, looking at options and delivering change on a business case approach. There is no sign that the Council is going to rest on its achievements to date and has ambitious plans for the future.	●
The organisation uses cost and performance information to assess the impact of spending decisions and monitor the delivery of savings plans, for example to ensure spending cuts are not having a damaging impact on service quality and performance in priority areas.	The Council monitors key performance information and continues to add to these as it sees fit. The Council seeks to measure outcomes as well as inputs, and is determined to improve services with fewer resources. Quarterly budget monitoring reports are presented to the Cabinet. The Council's Corporate Plan Performance and Progress Report for 2013/14, and the Corporate Plan Performance and Progress Report for the first six months of 2014/15 were	●

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	reported to Scrutiny Committee on 11 September 2014 and 12 February 2015 respectively.	
The resources at the disposal of relevant partnerships are clearly understood, and the organisation considers the impact of proposed cost reductions in one area on other internal services and departments, and on external bodies. The organisation is actively managing the potential impact of resource changes and reductions on its ability to continue to operate effectively, for example, where there are losses of key staff.	The Council works well in partnership with others, although it recognises there is scope for improvement in some areas. A key partnership going forward is the partnership with Sunderland CCG to deliver the Better Care Fund. The Council and the CCG have pooled the entire budget in these areas rather than the element required by Government. There will need to be an increasing emphasis on partnerships in future as the Council seeks to provide less direct services itself and build community capacity and resilience, which will include more being provided from partners in the public, private and voluntary sectors.	
A good track record exists of identifying and challenging areas of high spending, and of effective action to deliver cost reductions. There are proven arrangements in place to monitor the implementation and impact of action to reduce spending.	The Council has a good track record. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m. The Council is not complacent about its financial position and has identified that significant savings of £39.8million are required for 2015/16, and the Council is aware that the future outlook is one of further government funding reductions and at this stage the Council are looking at potential reductions of £149m over the next five years. The Council has managed its financial position well. Budget setting and close monitoring ensured delivery of spending within budget. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m. The capital outturn for 2014/15 was £71.5m, with a programme of £133.2m	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	for 2015/16. The earmarked reserves set aside for specific plans and projects aim to help the Council to deliver its priorities in the coming years. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves can not be used to sustain services and the underlying budget reductions identified will need to be delivered.	
Improving efficiency and productivity		
The organisation has access to good quality and timely comparative information on costs and performance, which it uses to evaluate options and plans for efficiency savings. The organisation has a record of producing and using robust information and data on unit, transaction and whole-life costs.	The Cabinet receive quarterly updates on the financial position. Performance is also regularly monitored. Any new proposals are based on an evaluation of the business case.	Green
Costs and productivity of key services are consistent with or better than other organisations providing similar levels and standards of services, allowing for relevant local factors and priorities. The organisation makes use of comparative and benchmarking information to increase self-awareness and improve efficiency and productivity. It is working with partners, other service providers and external sources of support to improve its processes, costs and outcomes. There is evidence of improved productivity in recent years, for example, through a gradual reduction in unit costs and increased service levels.	Based on our analysis of VFM Profiles, the Council compares well in terms of overall value for money. Sunderland City Council make use of comparative and benchmarking information where possible. Significant savings have already been made, and service performance generally maintained or improved, although this is becoming increasingly difficult. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through	Green Red

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	the Sunderland Safeguarding Children Board, were inadequate. Based on this assessment, the RAG rating in relation to children's services is red. The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.	
The organisation considers alternative and innovative approaches to delivering services to achieve efficiencies while keeping services at a level that will satisfy local people. It also considers the potential to manage the demand for services, and is seeking and evaluating new ways of delivering services and of improving efficiency, for example: • use of business process re-engineering techniques, to improve processes and structures; • use of shared services; • increased use of collaborative procurement; • rationalisation of asset use; or • working in partnership with bodies in other sectors, including the voluntary sector.	In recent years, the Council has made significant transformational changes to deliver challenging savings targets, but it has also sought to maintain and improve service delivery. The Council continues to deliver an ambitious programme which has included: • securing a City Deal to help deliver the new Wear Crossing and pursue the plans to develop a new advanced manufacturing site near Nissan; • progressing the physical and economic regeneration of the City , for example, with infrastructure work on the old Vaux site and in the City Centre, and by entering into a local asset backed vehicle (LABV) with private sector partners to accelerate economic regeneration more widely; • implementing alternative models of service delivery, including establishing two new local authority trading companies, Sunderland Live Ltd and	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	Sunderland Care and Support Ltd; • exploring and delivering transformation in a range of services including leisure and libraries; and • working with its partners to establish a Combined Authority so that economic growth, skills and transformation improvement can be delivered on a regional basis. The challenge for the future is ensuring that the well established track record of delivering results can be continued. However, there is still work to do in all areas, and the Council recognises this. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate. Based on this assessment, the RAG rating in relation to children's services is red. The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
The organisation has a robust approach to evaluating options for making efficiencies, including considering the short, medium and long-term impact, and is ensuring input from front-line staff. There are strong monitoring arrangements to ensure planned efficiencies are achieved, and to understand the impact on services and on performance.	Saving plans and performance are monitored quarterly. Where appropriate option appraisals are used. Staff surveys are carried out which have been positive. The Council is forward looking and is continuing to seek out saving opportunities through its various transformation programmes.	Green
	In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate. Based on this assessment, the RAG rating in relation to children's services is red. The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.	Red
The organisation is setting itself challenging targets, and is working with others to achieve its priorities. Achievement of priorities is monitored and the risk and impact on the organisation's financial position of non-achievement is actively managed.	The Council's Corporate Plan Performance and Progress Report for 2013/14, and the Corporate Plan Performance and Progress Report for the first six months of 2014/15 were reported to Scrutiny Committee on 11 September 2014 and 12 February 2015	Green

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	respectively. The Council is currently developing its next Corporate Plan which is expected to be rolled out over the summer and autumn 2015. In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate. Based on this assessment, the RAG rating in relation to children's services is red. The Council is addressing the issues raised in the Ofsted inspection, and have appointed an Interim Director for Children's Services with experience of leading improvement in other authorities. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements in children's services and to advise ministers on the improvements that are achieved.	

Performance Indicators

We considered the Council's Corporate Plan Performance and Progress Report for 2013/14, and the Corporate Plan Performance and Progress Report for the first six months of 2014/15 which were reported to Scrutiny Committee on 11 September 2014 and 12 February 2015 respectively.

These reports are structured around the priorities of People, Place and Economy and against the 12 outcomes identified in the Council's Corporate Plan 2012/13 to 2014/15.

People

- 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

Place

- An attractive, modern city where people choose to live
- 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

Economy

- A new kind of University City
- A national hub of the low carbon economy
- A prosperous and well-connected waterfront city centre
- An inclusive economy for all ages

The reports use a mixture of data and narrative to describe the Council's progress.

The reports show a mixed picture of performance, but demonstrate a clarity of focus on the key issues the Council faces and close monitoring of these, even where the challenges are significant and long term actions will be needed.

Sunderland faces challenges of relative deprivation, and the Council has identified key issues of ongoing concern:

- health outcomes are poor;
- migration out of the city continues to be an issue, and the city is not attracting high income groups;
- big industry is creating jobs but there are not enough small business start-ups;
- the skills of the working population do not match the needs of industry and business; and,
- the city centre is not functioning as the economic motor of the city and city centre footfall is in decline.

Following the abolition of the national indicator set, benchmarking performance with other metropolitan councils is more difficult. The Audit Commission's VFM Profile provides some comparison in areas such as financial and service performance.

As part of our work, we shared a detailed pack of the VFM profile data with officers, including a highlights report drawing out the key themes from the data. The comparisons were against other councils in the CIPFA's nearest neighbours grouping, a group of authorities with relatively similar characteristics to Sunderland.

Some headlines from this analysis were:

- total net spend per head has reduced by 9% since last year, and is the sixth lowest of the sixteen councils in the comparator group;
- it highlights that council tax requirement as a percentage of total spend is in the lowest third, and therefore that the Council is relatively more dependent on central government funding;
- earmarked reserves at Sunderland City Council in comparison to its nearest neighbours grouping, are above the average and the largest of the group;
- income from sales, fees and charges as a percentage of total spend are in the highest 5%; and,
- the area of highest relative spend per head of population is environmental services (in the highest third); the area of lowest relative spend per head of population is children and young people services 0 – 17 years (in the lowest third); and most other services are around average spend per head of population.