

Sunderland City Council

Review of arrangements for securing value for money

September 2015



Contents

01 Executive Summary	3
02 Background and context	7
03 Financial resilience	9
04 Securing Economy, Efficiency and Effectiveness	28

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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.

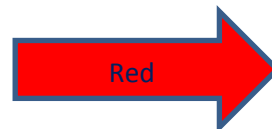
Adequate arrangements identified. Indicators compare favourably with other authorities.



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	<p>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.</p> <p>The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m.</p> <p>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.</p> <p>There is a recognition that future changes will have a significant impact including:</p> <ul style="list-style-type: none"> • 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
	<ul style="list-style-type: none"> 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.	<p>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.</p> <p>The Director of Finance is proactively involved in all key business decisions and in delivering good financial management.</p>	
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	<p>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.</p> <p>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.</p>	
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.	<p>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.</p> <p>Members do scrutinise and challenge performance, holding officers to account.</p>	



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	<p>We attend all Audit and Governance Committee meetings and our view is that it does provide an effective challenge.</p> <p>The Council has an independent chair and a second independent member on this committee.</p> <p>Over recent years, the Council has developed an innovative assurance framework, drawing together assurance from across the organisation.</p> <p>Risk management arrangements and Internal Audit are challenging and effective.</p> <p>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.</p>	
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.	<p>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.</p> <p>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.</p> <p>The Council does not have its own housing stock.</p>	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	<p>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.</p>	
<p>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.</p>	<p>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.</p> <p>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.</p>	
<p>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.</p>	<p>Financial and corporate planning processes are integrated and no significant weaknesses have materialised from inconsistent plans and strategies.</p> <p>Risk management arrangements are sound, and the Council maintains a strong capital programme.</p> <p>Workforce planning has been effective, and the implications of a pay and grading review have been taken into account in future budgeting.</p> <p>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..</p>	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
<p>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.</p>	<p>The Council clearly takes a longer term view in its financial planning.</p> <p>The Council's MTFP is helping it to manage the difficult economic climate and the cuts in Government funding.</p> <p>The Council has focused on delivering savings that reduce the overall budget requirement and deliver year on year savings.</p> <p>As future financial settlements are uncertain, financial modelling is a key element of the MTFP.</p> <p>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.</p>	
<p>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.</p>	<p>The Council's MTFP is helping it to manage the difficult economic climate and the cuts in Government funding.</p> <p>As future financial settlements are uncertain, financial modelling is a key element of the MTFP.</p> <p>The Council uses sensitivity analysis where appropriate.</p> <p>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.</p>	
<p>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</p>	<p>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</p>	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
<p>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.</p>	<p>enable the Council to manage its financial position more effectively over the medium term.</p> <p>We used the VFM profiles. These showed earmarked reserves to be high compared to similar authorities.</p> <p>The Director of Finance annually assesses the level of reserves and prepares a statement for full Council on their adequacy.</p>	
<p>The organisation gives due regard to its ability to deliver its statutory responsibilities when considering its short-, medium- and long-term financial plans.</p>	<p>The Council views its statutory responsibilities as being at the heart of what it does, and has not compromised these in its financial planning.</p> <p>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.</p>	
Financial Control		
<p>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.</p>	<p>The Council has managed its overall financial position well.</p> <p>The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m.</p> <p>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.</p> <p>The Council monitors its revenue and capital budgets closely during the year. Corrective action is taken when necessary.</p>	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	<p>Budget monitoring and forecasting is adequate with quarterly reports to Cabinet showing projected outturn, which is typically fairly accurate.</p> <p>Variances are reported and remedial action has been taken to deal with forecast overspends.</p>	
<p>The organisation has a good recent record of operating within its budget with no significant overspends.</p>	<p>The Council has managed its overall financial position well.</p> <p>The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m.</p> <p>There have been no significant underspends in recent years, all of which have been years in which significant savings have been made.</p> <p>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.</p>	
<p>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.</p>	<p>The Council has good arrangements for treasury management and this is regularly monitored and reported. Cash flow is managed effectively.</p> <p>The Council has specialist advisors and also benefits from strong in-house skills and experience in this area.</p>	
<p>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</p>	<p>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.</p>	

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.	<p>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.</p> <p>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.</p>	
The organisation monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.	<p>The Council does proactively monitor itself against the performance of others, although this is increasingly difficult as comparative data becomes scarcer.</p> <p>We undertook a VFM Profiles exercise and the Council compares reasonably well in terms of overall value for money.</p>	

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

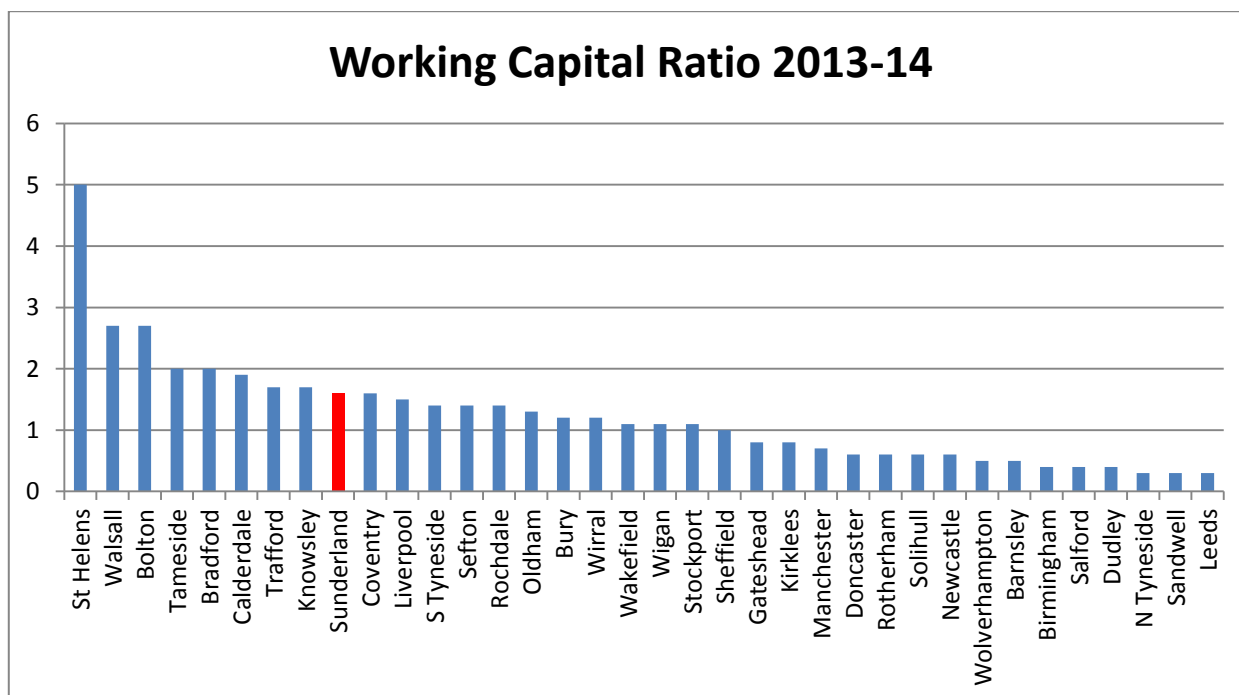
RAG rating ●

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

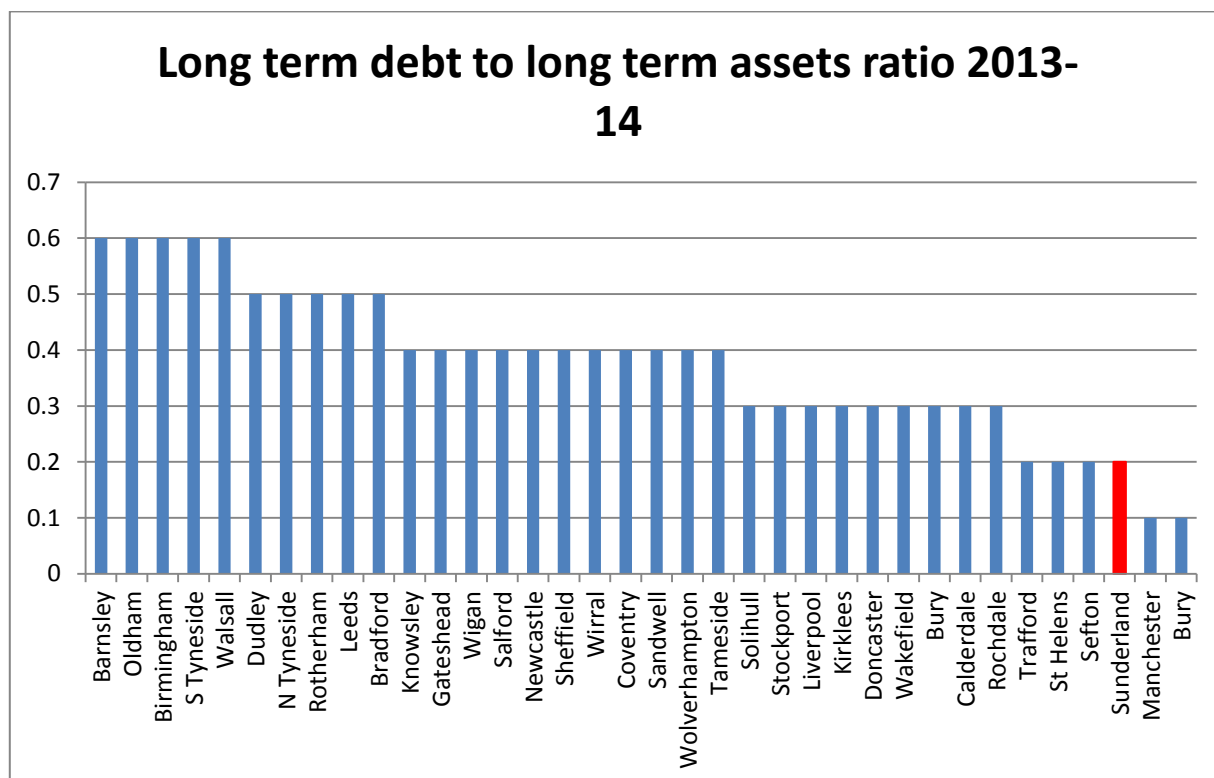
RAG rating ●

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

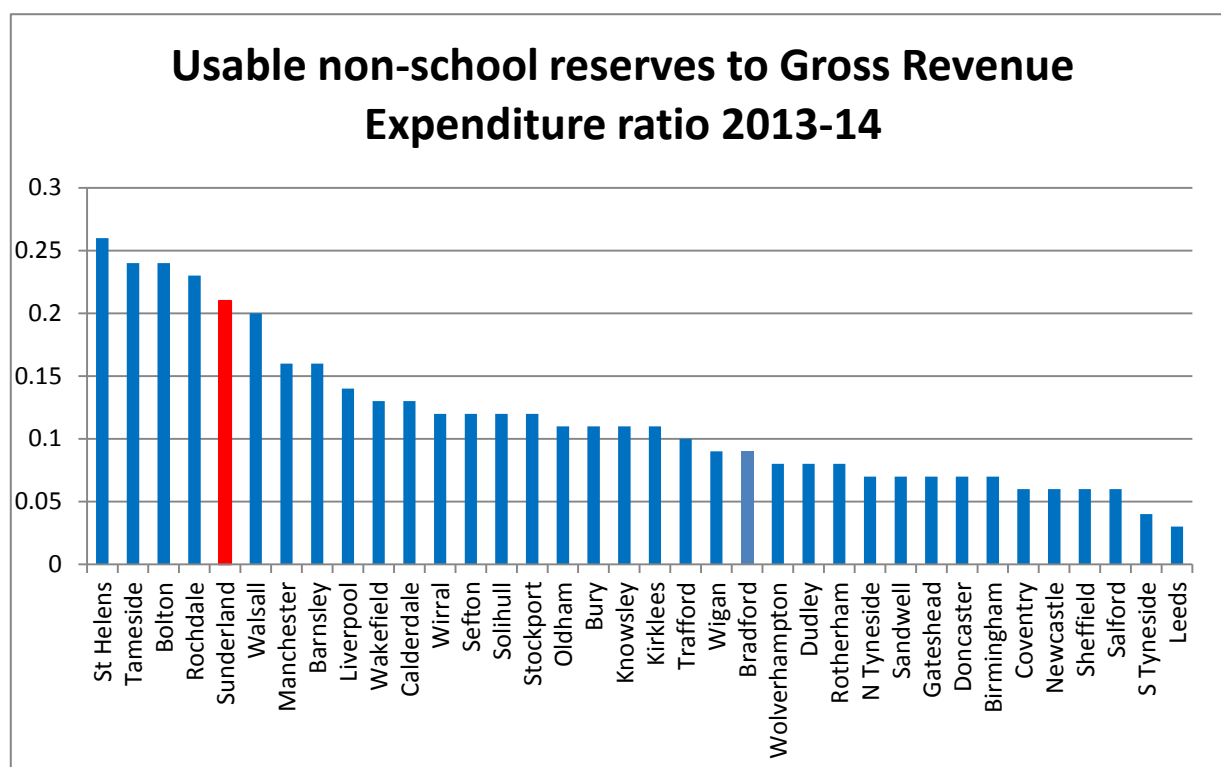
RAG rating ●

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

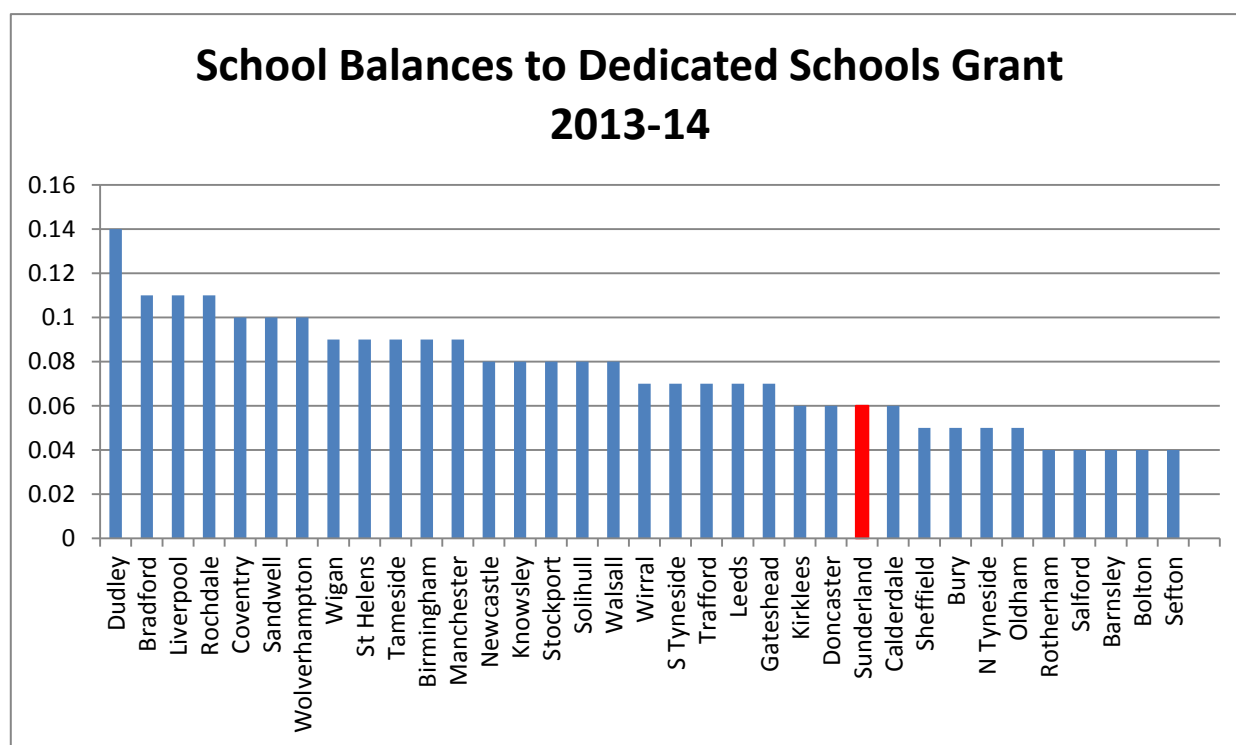
RAG rating ●

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

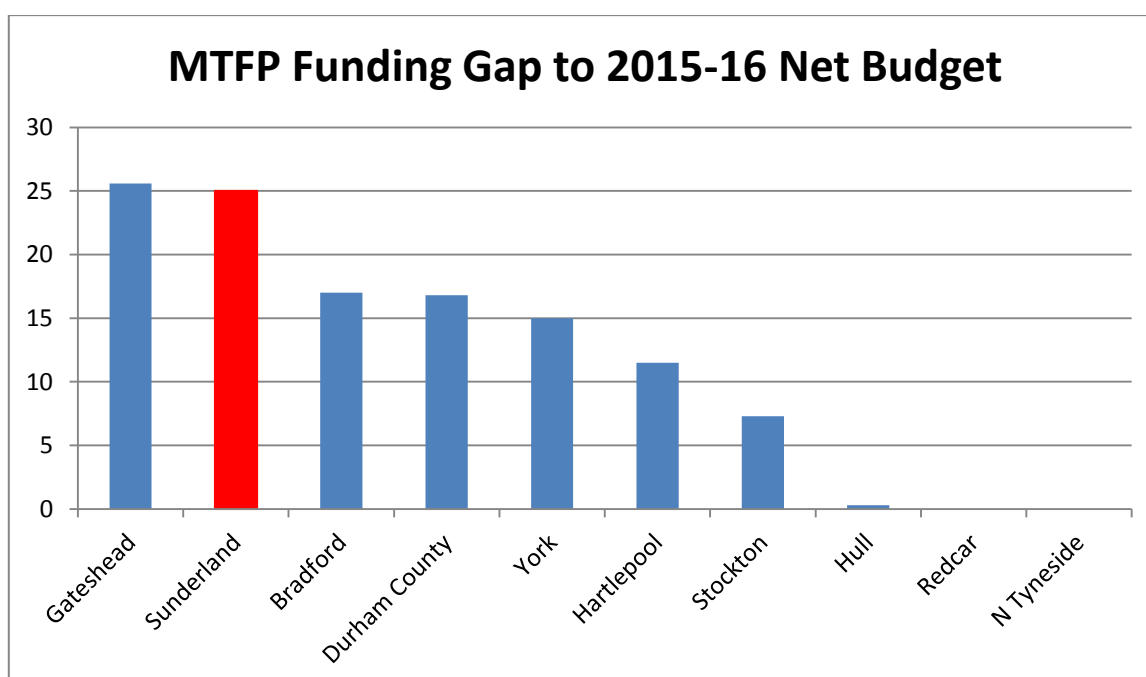
RAG rating ●

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

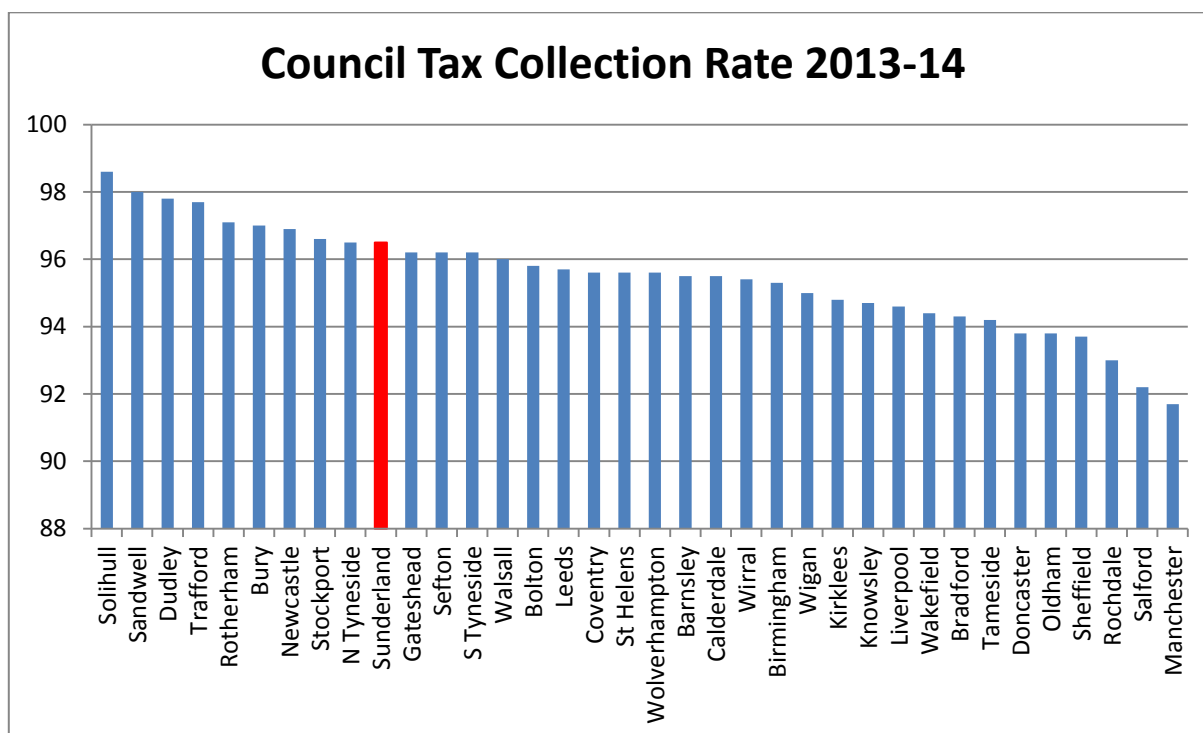
RAG rating ●

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

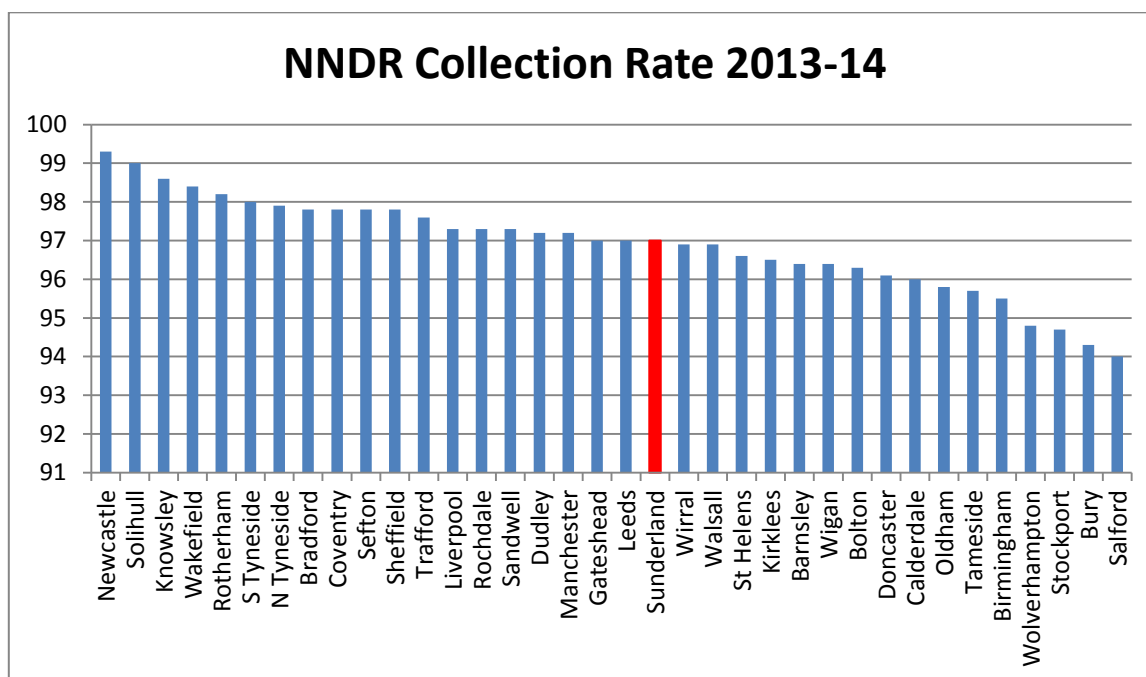
RAG rating ●

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

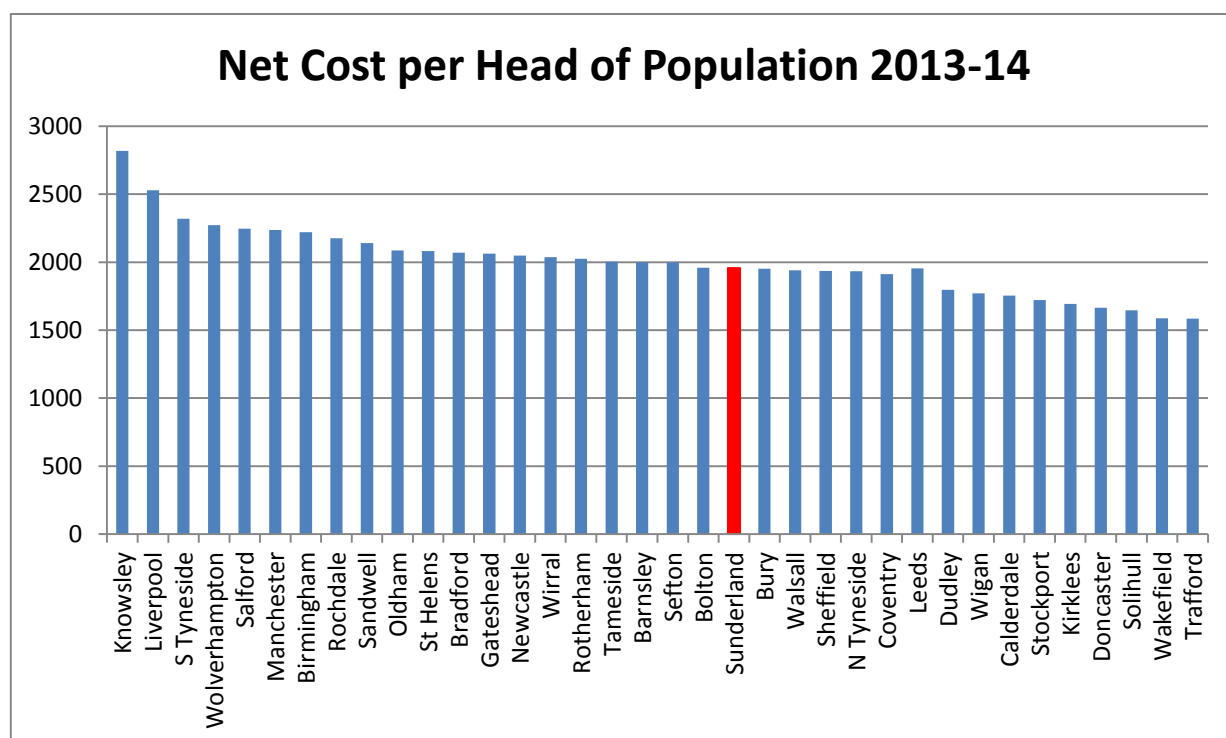
RAG rating ●

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

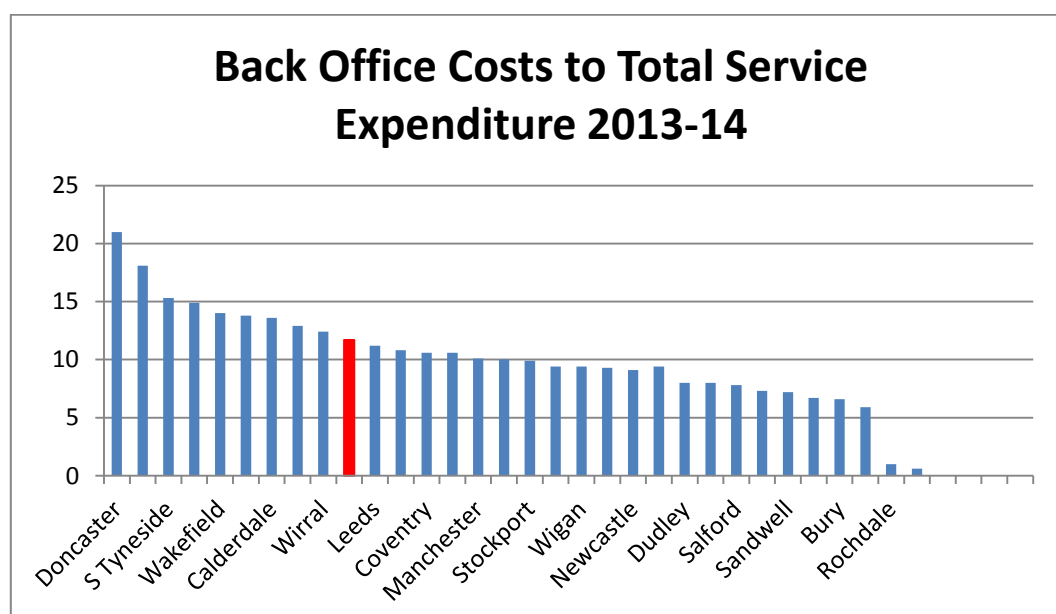
Back office costs support front-line services and are a source of potential savings that may not impact on service users. Councils with a low ratio of back office to service costs have potentially been most successful at targeting savings, an indicator of financial resilience and value for money. However, 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

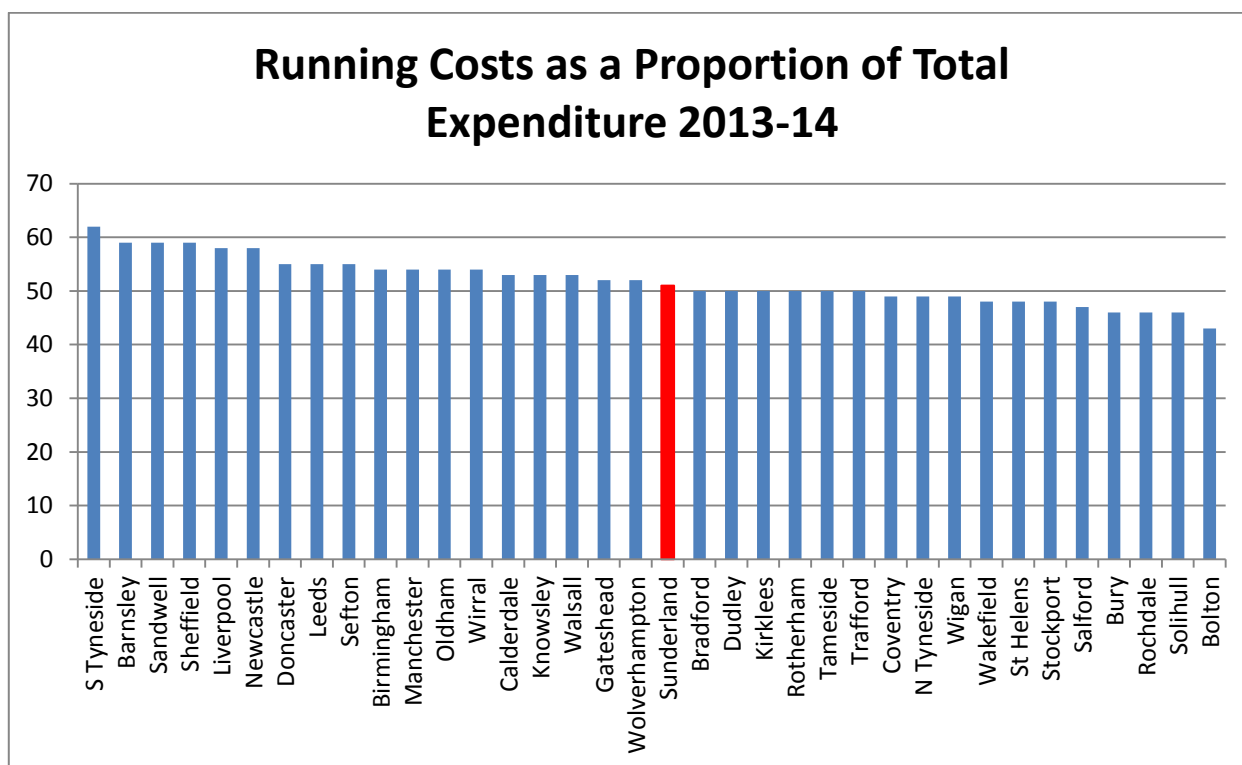


Definition

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		
<p>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.</p>	<p>The leadership team does have a good grasp of the issues and is taking the action needed to secure the financial position.</p> <p>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.</p> <p>The Council continues to deliver an ambitious programme which has included:</p> <ul style="list-style-type: none"> • 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
	<ul style="list-style-type: none"> • 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. <p>The challenge for the future is ensuring that the well established track record of delivering results can be continued.</p>	
<p>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.</p>	<p>The Council carry out consultations with the public and with the staff.</p>	
<p>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.</p>	<p>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.</p> <p>The Council has already:</p> <ul style="list-style-type: none"> • 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
	<ul style="list-style-type: none"> • 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. <p>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.</p>	
<p>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.</p>	<p>The Council takes a structured approach to cost reductions and prioritising resources, looking at options and delivering change on a business case approach.</p> <p>There is no sign that the Council is going to rest on its achievements to date and has ambitious plans for the future.</p>	
<p>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.</p>	<p>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.</p> <p>Quarterly budget monitoring reports are presented to the Cabinet.</p> <p>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</p>	

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.	
<p>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.</p>	<p>The Council works well in partnership with others, although it recognises there is scope for improvement in some areas.</p> <p>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.</p> <p>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.</p>	
<p>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.</p>	<p>The Council has a good track record.</p> <p>Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m.</p> <p>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.</p> <p>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.</p> <p>The capital outturn for 2014/15 was £71.5m, with a programme of £133.2m</p>	

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	<p>the Sunderland Safeguarding Children Board, were inadequate. Based on this assessment, the RAG rating in relation to children's services is red.</p> <p>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.</p>	
<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>The Council continues to deliver an ambitious programme which has included:</p> <ul style="list-style-type: none"> • 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 	

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	<p>Sunderland Care and Support Ltd;</p> <ul style="list-style-type: none"> • 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. <p>The challenge for the future is ensuring that the well established track record of delivering results can be continued.</p> <p>However, there is still work to do in all areas, and the Council recognises this.</p> <p>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.</p> <p>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.</p>	

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<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p></p> <p></p>
<p>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.</p>	<p>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</p>	<p></p>

Typical characteristics of proper arrangements	Our assessment of the arrangements at Sunderland City Council	RAG rating
	<p>respectively.</p> <p>The Council is currently developing its next Corporate Plan which is expected to be rolled out over the summer and autumn 2015.</p> <p>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.</p> <p>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.</p>	

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.