Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held on Friday 3 February 2023 at 1.30pm in Committee Room 1, City Hall, Plater Way, Sunderland, SR1 3AA

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1.	**Receipt of Declarations of Interest (if any)**	
2.	**Apologies**	
3.	**Minutes of the Meeting of the Committee held on Friday 4 November 2022** (Copy attached.)	1
4.	**Risk and Assurance Map Update 2022/2023** Report of the Assistant Director of Assurance and Property Services (copy attached).	9
5.	**Risk and Assurance Map - Consultation for 2023/2024** Report of the Assistant Director of Assurance and Property Services (copy attached).	35
6.	**Treasury Management Third Quarterly Review 2022/2023** Report of the Director of Finance (copy attached).	37

For further information and assistance, please contact by Teams or Email:
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7.	**Treasury Management Policy and Strategy 2023/2024 including Prudential Indicators for 2023/2024 to 2026/2027**	53
	Report of the Director of Finance (copy attached).	
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ELAINE WAUGH
Assistant Director of Law and Governance

City Hall
Sunderland

26 January 2023

Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 4 November 2022

Present:

Mr G N Cook in the Chair

Councillors P Gibson, Stewart and P Wood together with Mr M Knowles.

In Attendance:

Paul Wilson (Assistant Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Kelly Brown (Audit Manager), Cameron Waddell (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Nicholson and Trueman.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 22 July 2022 be confirmed as a correct record.

Risk and Assurance Map 2022/2023

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The Assistant Director of Assurance and Property Services directed Members to the Risk and Assurance Map and in doing so reminded the Committee that the Map and the Strategic and Corporate Risk Profiles had been agreed in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

There were updates to the mitigating actions within the Strategic Risk Profile, one was in relation to R06 'Unable to maximise the opportunities created by the Smart City Infrastructure' which had been updated regarding a funding bid for city centre shuttles. The mitigating action for R13 'Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment' had been updated to reflect current needs.

There had been some changes to the Corporate Risk Areas as follows: -

- The risk score for R02 'Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans' had been reduced from 8 (Amber) to 4 (Green) due to regular communications regarding the Council's priorities to employees and regular contact with Partners.

- The risk score for R40'The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive)' has reduced from 8 (Amber) to 4 (Green) due to the significant amount of work undertaken by ICT during and since the pandemic, to provide an effective ICT service to the Council.

- The assurance rating from the Business Continuity and Emergency Planning Lead in relation to R45 'Lack of awareness of content of business continuity plans' had changed from Amber to Green. This had resulted in the overall assurance rating for Business Continuity moving from Amber to Green which had been reflected in the Risk and Assurance Map.

Internal Audit opinions shown on the Risk and Assurance Map remained positive and the Assistant Director of Assurance and Property Services provided an update in relation to the eight significant risk recommendations made over three audits in the 2021/2022 Internal Audit Plan. These were summarised as: -

- Corporate Business Continuity Arrangements
  This audit focussed specifically on the ability of the Council's business critical services to function in the event of a failure in the ICT provision. Two significant risk recommendations were made to improve the business continuity planning process in relation to identifying actions that would be taken by business critical services should ICT not be available for a significant length of time. Work had been undertaken with all of the business critical services to identify additional

actions to be taken and to be documented in business continuity plans.

- Cyber Security – Vulnerability Management
  Following an external review by the National Cyber Security Centre and Department of Levelling Up, Housing and Communities a report and cyber treatment plan were issued to and agreed by the Council in January 2022. The report and cyber treatment plan made a number of high priority recommendations and funding had been made available to implement the plan. The Internal Audit report made three significant risk recommendations in relation to implement the cyber treatment plan and the update of policies and procedures as a result of this. Action had been taken in relation to all of the significant risk recommendations and they were expected to be completed by the agreed implementation date. In addition, quarterly updates were being provided to the Department of Levelling Up, Housing and Communities.

- IT Disaster Recovery
  The cyber treatment plan mentioned in the point above also made recommendations with regard to IT Disaster Recovery. Internal Audit made three significant risk recommendations in relation to these issues which were agreed and were being progressed. Positive progress was being made regarding all of the significant recommendations and plans were in place to complete them.

Performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Councillor Stewart referred to the Strategic Risk Profile action for ‘More and Better Jobs’ and suggested that, given the Bank of England’s predictions for a recession, the energy crisis and Covid having less of an impact, the risk description may be revised.

The Assistant Director of Assurance and Property Services stated that those comments would be taken on board for the next review of the Strategic Risk Profile. It was difficult to summarise the cause as there were a large number of contributory factors.

10. RESOLVED that the report be noted.

Audited Statement of Accounts 2021/2022

The Assistant Director of Finance submitted a report providing Members with the Letters of Assurance required by the External Auditor as part of the final accounts process and presenting the Letter of Representation for 2021/2022. The Committee also received the Audit Completion Report from Mazars LLP providing their opinion on both the Council’s Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money). The audited Statement of Accounts for 2021/2022 was presented for approval by the Committee.

The Chief Accountant highlighted that the statutory audit deadlines had been extended for 2020/2021 and 2021/2022 and the Council had published its draft accounts on 18 July 2022. The audit process was still going but it was expected that this would be completed by the end of November.

The Chief Accountant stated that it was expected that the outcome of the audit would be unqualified and that it would be concluded that the Council had proper arrangements in place to secure economy, efficiency and effectives in its use of resources. The Chief Accountant thanked the local authority teams and the team at Mazars for their contribution to the completion of the work.

The Committee were informed that the auditors had identified a small number of misstatements and one area had been highlighted as resulting in material adjustments to the Accounts. This was the Net Defined Benefit Liability (Pensions) with amendments being required as the result of an updated assets assessment recently provided by the Actuary which reported an improved fund position. These misstatements did not impact on the outturn position reported to Cabinet in June 2022.

The report highlighted significant items of audit work which were still to be finalised which included a national audit issue in relation to infrastructure assets, the valuation of Property, Plant and Equipment and the receipt of the required assurance from the Tyne and Wear Pension Fund auditors on the 2021/2022 Pension Fund accounts.

Cameron Waddell was in attendance from Mazars to present the Audit Completion Report and he confirmed that the auditors were a long way through the testing process with some areas of work still to be completed. The majority of significant risk work was complete, as was the pensions element, and it was anticipated that assurance on this would be received by the end of the month.

Cameron advised that Mazars would issue their Auditor's Annual Report in due course in relation to Value for Money but currently there were no identified weaknesses or required recommendations and it was highly unlikely that any would be identified between now and the end of the audit. Cameron also highlighted that, in the same way as in 2021, the Whole of Government Accounts could not be concluded until instructions were issued.

It had previously been highlighted to the Committee that infrastructure balances held by highway authorities was outstanding issue at a national level which was being given ongoing consideration but as yet there had been no firm decisions on the matter. Cameron indicated that there were two possible solutions to the problem, either to rewrite the accounting Code of Practice or for the Secretary of State to issue a statutory override.

The underlying issue was longstanding and related to record keeping and the values of infrastructure assets not being amended when there had been refurbishment or repair. Mr Knowles asked if this meant that assets were overstated and Cameron said that it was possible, but it may also transpire that some assets had been undervalued or had not been included at all.

The Chair thanked the Chief Accountant and his team and colleagues at Mazars for their work and commended them on their efficiency in relation to the production of the Financial Statements.

Having considered the report, the Committee: -

11. RESOLVED that: -

(i) the contents of the Letter of Assurance from those charged with governance (Appendix A) and the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix B) be noted;

(ii) the contents of the Letter of Representation (Appendix C) be noted;

(iii) the contents of the Audit Completion Report (Appendix D) provided by Mazars LLP be noted;

(iv) the revised Audited Statement of Accounts for the financial year ended 31 March 2022 (Appendix E) be approved; and

(v) it be agreed that, should any amendments to the Statement of Accounts be required after the meeting of the Audit and Governance Committee, these be agreed by the Assistant Director of Finance in conjunction with the Chair. Members of the Audit and Governance Committee would be notified of any agreed changes.

Treasury Management Second Quarterly Review 2022/2023

The Assistant Director of Finance submitted a report presenting the Treasury Management performance to date for the second quarter of 2022/2023 and setting out the Lending List Criteria, Approved Lending List and Risk Management Review of Treasury Management.

The Chief Accountant highlighted that since Members last received an update in July 2022, there had been significant turbulence in the economy with the CPI reaching 10.1% and the Bank of England interest rates rising to 3.0%.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates had continued to be volatile, however in line with discussions with the Council's treasury advisors, the Council had taken out £50 million of new borrowing during August to support the financing of the Capital Programme. The interest rate of 2.79% for a 48-year term was considered opportune at the time and would benefit the revenue budget over the longer term when compared with the current equivalent long-term rate of 4.27%,

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 1.88% compared with a benchmark of 1.22%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. 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.

It was currently forecast that the Bank of England Base Rate would peak at 5.00% in March 2023 and then gradually fall back to 2.50% by the end of the forecast timeframe in September 2025. It was expected that PWLB rates would have a gradual upward movement with a peak at 4.90% in March 2023 before returning to 3.3% in March 2025. The Chancellor's Statement taking place on 17 November 2022 would also have an impact on the financial markets

The Chief Accountant directed the Committee to paragraph 3.2, Appendix A which summarised the investment position at the end of September 2022 and noted that the rate of 1.23% achieved in February was very good at the time, however 5.1% had been achieved just seven months later in September 2022. The scale of movement was unprecedented and would generate a return to the Council's revenue budget.

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 Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Mr Knowles observed that the market volatility led to a lot of risks but he was pleased to receive assurance that the investments made had been good. Councillor Wood noted that current rates of inflation were making managing finances more difficult.

The Assistant Director of Finance commented that the Council was waiting for the Statement on 17 November and then the Local Government Financial Settlement; both of these would be critical to understand the position for the Council for the next financial year. There were challenges and the Council did have some general and earmarked reserves but a lot would hinge on the settlement which was unlikely to be uplifted in line with inflation.

Councillor Stewart noted that a number of investments were due to mature before the end of December and he presumed that a better return would be achieved on this money going forward. The Assistant Director of Finance acknowledged that this was the plus side of the current situation.

Consideration having been given to the report, it was: -

12. RESOLVED that: -

(i) the Treasury Management performance during Quarter 1 of 2022/2023 (Appendix A) be noted; and

(ii) 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 be noted.

Other Business – Public Sector Audit Appointments

The Assistant Director of Finance reported that the procurement exercise conducted by Public Sector Audit Appointments (PSAA) for auditors for 2023/2024 to 2027/2028 had been concluded and Mazars had been proposed as the Council's auditors for the next five financial years.

Cameron stated that Mazars were pleased to be continuing their relationship with Sunderland City Council and the Financial Reporting Council had recently issued a report on the quality of Mazars' work which would provide assurance to the Committee about the standards they could expect.

13. RESOLVED that the update be noted.

(Signed) G N COOK
Chair

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE 3 February 2023

RISK AND ASSURANCE MAP UPDATE – 2022/23

Report of the Assistant Director of Assurance and Property Services

1. Purpose of Report

1.1 To enable the Audit and Governance Committee to consider:

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

1.2 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 and consider the report.

3. Background/Introduction

3.1 In April 2022 the Committee agreed the Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2022/23. Both the Strategic and Corporate Risk Profiles have been updated as well as the Risk and Assurance Map following consultation with Chief Officers and relevant key officers. The 'X's in the assurance columns show where assurance is expected to be received from in the current financial year.

4. Risk and Assurance Map

4.1 The Risk and Assurance Map at Appendix 1 has been updated to reflect any changes to both the Strategic and Corporate Risk Profiles and these are described in more detail in paragraphs 4.2 and 4.3 below.

<u>Strategic Risk Areas</u>

4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile, attached at Appendix 2. All changes to the Strategic Risk Profile are shown in red text for ease of reference. The main updates are as follows:

- The risk description for R011 has been updated to be broader than Covid-19 and now reads '*Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.*'

- Due to a number of pieces of Internal Audit work the level of assurance provided by Internal Audit has changed as follows:

  - *"Access to equitable opportunities and life chances"* – assurance level from Internal Audit is new and is Amber. This has not changed the overall assurance level of Green due to the results of the OFSTED review of Together for Children Ltd.

  - *"People enjoying independent lives"* – assurance level has moved from Green to Amber due to an audit of Assistive Technologies. This has changed the overall assurance level to Amber.

  - *"Partnership working"* – assurance level from Internal Audit is new and is Amber.

  Recommendations have been made and follow-up will take place as appropriate.

<u>Corporate Risk Areas</u>

4.3 The middle section of the Map shows the cumulative risk assessments and the assurance levels relating to the risks identified in the Corporate Risk Profile, attached at Appendix 3. The changes to the Corporate Risk Profile are as follows:

- Additional current controls have been added to the risks relating to Health and Safety due to new activity being undertaken by the Health and Safety Team. The changes are shown in red text in risks R036 to R039.

- In relation to R41 '*ICT infrastructure is not resilient to disasters'*, an additional cause has been added '*Lack of 24/7 ICT support in the event of an incident.*' This was identified during a recent exercise and work is ongoing to address the situation.

- Due to a number of pieces of internal audit work the level of assurance provided by Internal Audit has changed as follows:

  - Strategic Planning – assurance level changed from Green to Amber due an audit of Partnership Arrangements. This has not changed the overall assurance rating of Green.

  - Service Delivery Arrangements – assurance level changed from Amber to Green due to audit work in relation to Planning and

Development Control and Highways Work Programme.

- Partnership/Integrated Working – new assurance level from Internal Audit which is Amber. This has moved the overall assurance level from Green to Amber.

- Health and Safety – assurance rating has changed from Amber to Green due to follow up work that has confirmed all agreed actions from a previous audit have been implemented. This has not changed the overall assurance rating of Amber due to the opinion of the Health and Safety Team on the overall arrangements in the Council.

Recommendations have been made and follow-up will take place as appropriate.

<u>Council Owned Companies</u>

4.4 The bottom section of the Map shows the Assurance position in relation to Companies that are wholly owned by the Council and are part of the group for the financial statements. There have been no changes to the Risk and Assurance Map in relation to Council Owned Companies.

<u>Assurance from Internal Audit</u>

4.5 The audits to be carried out this year and the detailed results of completed Internal Audit work is shown at Appendix 4, with the summary outcomes shown on the Map. Changes to assurance levels are set out in paragraphs 4.2 and 4.3 above.

4.6 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the Strategic and Corporate Risk Areas and Council Owned Companies. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time.

4.7 The original plan for the Council included 67 audits. The Internal Audit team has been carrying a vacancy which it has not been able to fill and an external public sector auditing company has been engaged to provide some additional resources. However, it will still not be possible to complete all of the planned audits and some audits are no longer applicable, as follows:

- One maintained school has converted to an academy.
- Three grant certifications are now no longer required.
- Two audits have been deferred into 2023/24, Delivery of Port Business Plan and Corporate Asset Management Strategy and Compliance.

It is therefore expected that 91% of the original audit plan will be completed. In addition, one unplanned school audit and 19 unplanned grant certifications have been undertaken.

4.8 Whilst completing the Internal Audit Plan for 2021/22 there were 8 significant risk recommendations made over three audits in relation to Corporate Business Continuity Arrangements, Cyber Security – Vulnerability Management and IT Disaster Recovery. An update with regard to their implementation was provided at the last Committee. Internal Audit are currently undertaking follow-up work to verify that the recommendations have been implemented, although the service has confirmed that a significant amount of work has been undertaken.

Assurance from Risk and Assurance Team

4.9 There is one post which has responsibility for undertaking risk and assurance activity. The post is currently vacant and recruitment exercises have not resulted in the post being filled. Risk and assurance activity is therefore currently limited to updating the Strategic and Corporate Risk Profiles and proving high level risk advice as requested. It is hoped that the post will be filled within the coming months.

Assurance from others within the Council

4.10 Assurance provided from others within the Council is shown in the Risk and Assurance Map. The only change is assurance from ICT in relation to Cyber Security which has changed from Amber to Green due to recent activity in this area.

Assurance from Management

4.11 Arrangements are in place to obtain assurance from senior managers for all service areas within the Council through an annual governance questionnaire which is currently being collated for 2022/23.

Assurance from External Sources

4.12 The Map includes assurance from relevant external sources.

Overall

4.13 The overall assurance levels are either green or amber. The Risk and Assurance Map, Strategic and Corporate Risk Profiles were recently considered by Chief Officers.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5. All KPIs are on target.

6. Conclusion

6.1 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

7. Recommendation

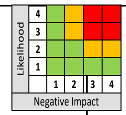
7.1 The Audit and Governance Committee are asked to note and consider the report.

Appendix 1

Risk and Assurance Map – 2022/23

Strategic and Corporate Risk Areas	Current Risk Score	Cumulative Assurance Position	1st Line Management Assurance	2nd Line Other Internal Assurance Activity: Law & Governance	Finance	Programmes & Projects	Performance	DPO	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance	3rd Line: Internal Audit	External Assurance
Strategic Risk Areas															
Dynamic Smart City															
More and better jobs													X		
More and better housing													X	X	
More local people with better qualifications and skills													X		
A stronger City Centre with more businesses, housing and cultural opportunities													X		
A lower carbon City with greater digital connectivity for all													X	X	
Healthy Smart City															
Access to equitable opportunities and life chances													X		X
Reduced health inequalities enabling more people living healthier longer lives													X	X	
People enjoying independent lives													X	X	
Cleaner and more attractive City and neighbourhoods													X		
A City with great transport and travel links													X		
Vibrant Smart City															
More residents participating in their communities													X		
More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities													X		
More people feeling safe in their homes and neighbourhoods													X		
More resilient people													X		
Enabling															
Finance													X		X
Partnership Working													X	X	
Corporate Risk Areas															
Strategic Planning							X							X	
Commissioning			X											X	
Service Delivery Arrangements			X											X	
Partnership/Integrated Working			X											X	
Procurement													X	X	
Relationship/Contract Management															
Legality			X	X									X	X	
Risk Management													X	X	
Corporate Performance Management							X							X	
Financial Management			X		X									X	X
Income Collection														X	X
Capital Programme Management					X								X		
People Management			X							X	X		X	X	
Health and Safety			X								X			X	
ICT Infrastructure									X						
Cyber Security									X					X	
Information Governance/Security			X					X						X	
Business Continuity Management			X									X			
Programme and Project Management			X			X							X	X	
Asset Management											X			X	
Anti-Fraud and Corruption			X											X	
Council Owned Companies															
Sunderland Care and Support Ltd.					X									X	
Together for Children Sunderland Ltd.					X							X		X	X
Siglion LLP					X									X	

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



Appendix 2

STRATEGIC RISK PROFILE 2022/23

1 = Unlikely
2 = Possible
3 = Likely
4 = Almost Certain

1 = Minor
2 = Moderate
3 = Significant
4 = Critical

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Current Score (Feb 2023) Impact	Likelihood	Rating		Target score Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Overall Assurance	Assurance: 1st Line Management Assurance	2nd Line Risk and Assurance	3rd Line Internal Audit	External Assurance
DYNAMIC SMART	More and better jobs.	**R01**	Unable to attract commercial / manufacturing interest to our development sites.	Developments in other areas of the country may be more attractive to Investors. Uncertainty arising from a range of economic factors leading to greater caution by Investors. Firms may review their plans due reduced turnover and increased home working.	Delay in regenerating the City and delivering the City Plan. Inability to grow Business Rate Income.	City Plan. City Board. IAMP LLP Board.	4	2	8		4	1	4	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the City to achieve targets and outcomes. Sunderland has been chosen as the base of Nissan 36Zero, a flagship Electric Vehicle (EV) Hub that will create a world-first EV manufacturing ecosystem. Comprised of three interconnected initiatives, Nissan EV36Zero brings together electric vehicles, renewable energy and battery production. The projects represent 6,500 jobs at Nissan and its UK suppliers, including more than 900 new Nissan jobs and 750 new jobs at a second Envision-AESC Gigafactory	Executive Director of City Development					
	More and better jobs.	**R02**	The city, its residents and businesses do not emerge from the Covid-19 pandemic and economic challenges in a strong and competitive position.	Reduction in footfall due to the cost of living crisis. Other interacting factors contributing to commodity, logistical issues, including driver shortages and Inflation	Adverse economic impact on local businesses. Delay in regenerating the City and delivering the City Plan.	City Plan. City Board. University Enterprise Zone	4	3	12		4	2	8	Reassess support that is available to different sectors and communicate widely. Encourage entrepreneurship utilising the business incubators to support business establishment, growth and job creation. Lobby Government for additional support nationally for self-employed. Delivery planning to take into account, potential shortages and delays. Sunderland continues to facilitate development in these challenging times	Executive Director of City Development					
	More and better housing.	**R03**	Unable to meet the aspirations set out in the Local Plan to generate a variety of property types and tenures that meet the needs and aspirations of families and individuals	Traditionally a difficult market to incentivise. High number of empty properties. High % of homes in low Council Tax bands. Limited Green space to attract continued development	Outward migration continues.	Housing Strategy. City Plan. City Board.	4	2	8		4	2	8	Incentivise the market to progress key housing sites including, Riverside Sunderland, existing Civic Centre site, Northern Spire Park, Washington Meadows and Potters Hill (South Sunderland Growth Area). Whilst new homes continue to be built in the City, future developments may be restricted by the limited green space and increased cost of developing on brownfield sites. Options available to the council include opening up more green space or supporting developments on brownfield sites.	Executive Director of City Development					
	More local people with better qualifications and skills.	**R04**	The qualifications and skills which Sunderland's residents have may not match the needs of industry in the City.	Employer entry level qualification requirements not clearly understood. Schools are performance / league table driven with very little scope to tailor curriculum or follow vocational routes. High attainment at Primary School falls off at Secondary Level. City has comparatively fewer residents with degrees.	Sunderland residents are less able to access all of the employment opportunities that are created in the City and on average earn less than non-resident Sunderland workers.	City Plan. City Board	4	3	12		4	2	8	Facilitate collaborative working between employers, education/skills providers and students. The North East Automotive Alliance (NEAA), is an industry-led cluster group, which supports, the economic sustainable growth and competitiveness of the sector. Its role includes cohesive workforce planning, helping to forecast future skills demand and informing providers so that they can make relevant courses available. Skills Strategy to form part of the Local Industrial Strategy with a heavy digital bias. Developing a City Skills Board including University and College Proposed North East devolution deal announced. The Council will continue to focus on tackling the barriers for those least able to access employment through initiatives such as Community Local Led Development (the scheme has now been extended to June 2023 Sunderland City Council, Education Partnership North East and MOBIE have secured funding from the Government's Levelling Up Fund (LUF) to develop a Housing Innovation and Construction Skills Academy (HICSA) - a ground-breaking facility that will educate, train and upskill the people of Sunderland to create innovative factory-built new homes, the first of which will be assembled at Riverside Sunderland. The Sunderland Education, Training & Employability Online Directory has been developed in partnership with Together for Children, Sunderland Information point and local partners. An easy to use on-line resource bringing together local providers and organisations that offer a wide variety of education, training and employability courses to the people of Sunderland. It will support those who are planning their career, wanting to gain new qualifications or improve their employability skills.	Executive Director of City Development / Director of Children's Services					
	A stronger City Centre with more businesses, housing and cultural opportunities.	**R05**	Sunderland City Centre fails to drive transformational economic growth.	Declining retail, economic and service functions due to cost of living crisis. Independent traders struggling. Peripheral but accessible employment locations – e.g. Doxford Business Park. Fragile viability of the City Centre.	Delay in regenerating the City and delivering the City Plan. Continued decline of the City Centre. Migration out of the City continues.	City Plan. City Board. Riverside Sunderland Development.	4	3	12		4	2	8	Progress the Riverside Sunderland development which aims to double the residential population and increase the number of jobs by 50% by 2030 Support development of the central business district, which will increase footfall and act as a showcase to attract further investment. There are 12 game-changing projects set out in the recently published Riverside Sunderland 2024, comprising Vaux Neighbourhood & Expo Sunderland, Sunderland New Wear Crossing, The Stables, Housing Innovation & Construction Skills Academy, Maker & Faber, St Mary's Boulevard, Sunderland Eye Hospital, Keel Square Hotel, The Yard, Culture House, Farringdon Row South, Galley's Gill. The projects comprise phase 2 of Riverside Sunderland and are due to be completed by 2024	Executive Director of City Development					

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Overall Assurance	Management Assurance	Risk and Assurance	Internal Audit	External Assurance
	A lower carbon city with greater digital connectivity for all.	**R06**	Unable to maximise the opportunities created by the Smart City Infrastructure.	Unable to agree an appropriate solution. Unable to attract funding to develop the required infrastructure.	Businesses and residents are not attracted to the City. Unable to access faster speeds and more reliable connectivity than existing 3G and 4G networks.	City Plan. Contract with City Fibre. Virgin Media upgrades. Pilot secured for healthier homes. Logistic Pilot at Nissan and Vantec. Partnership with Digital Catapult.	3	2	6		3	2	6	Sunderland City Council has awarded a 20-year strategic partnership to BAI Communications to design, build and operate next generation digital infrastructure including a private 5G small cell network. Project areas include; • Manufacturing and logistics. • Intelligent traffic mapping and air quality • Education, including digital skills. • Social Care. • Smart buildings Council continues to work with BAI Communications to progress the Delivery Plan. SAFC and Sunderland University have signed contracts for infrastructure services and discussions continue with the Hospital Trust, the College and Property Developers. Winner of the Social Impact Award at the Small Cells Awards May 22. Expression of interest submitted for the UKSPF Investment Plan development to support digital inclusion activities. Through to second round of bidding for a £5.5m CCAV bid for autonomous city centre shuttles.	Assistant Director of Smart Cities and Enabling Services					
	A lower carbon city with greater digital connectivity for all.	**R07**	Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040 .	Measures are not in place to meet the aspirations of the Council and City to become carbon neutral. Limited business take-up of low carbon initiatives	Fail to reduce greenhouse gas emissions and make related financial savings.	Carbon Management Plan. City Plan.	4	4	16		3	2	6	Implement the Low Carbon Framework and Delivery plan to reduce individual carbon footprints, improve energy efficiency of existing homes and buildings, develop low carbon and active transport modes, develop renewable energy generation / storage grow the city's green economy, reduce the volume of all consumption and waste, increase opportunities to reuse materials and recycle waste. Sunderland's Low Carbon framework sets an ambition for the Council becoming carbon neutral by 2030 and the City to become carbon neutral by 2040. Carbon Action Plan is being refreshed. However inflation and financial pressures may slow the take up of carbon reduction initiatives	Executive Director of City Development					
	Access to equitable opportunities and life chances.	**R08**	The Council is not able to fulfil its statutory responsibility for Children and Young People and also ensure families are supported to respond to challenges and achieve the best possible outcomes for their children	Children and young people, if not protected, are at risk of harm or exploitation by others. Families are in need of support to respond to challenges and achieve the best possible outcomes for their children	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk and harm or exploitation by others.	TfC contract monitoring arrangements. City Plan. Outstanding Ofsted outcome	4	1	4		4	1	4	Ofsted Report August 21 "Leaders and managers are confident, ambitious and influential in changing the lives of local children, young people and their families including cared for children and care experienced young people." "A new and vibrant culture is now widespread across children's services in Sunderland. This successful approach has resulted in children's voices and influence being central to assessments, planning and interventions. Staff across the council and the multi-agency partnerships are hugely focused on seeking to identify vulnerabilities and needs, providing support for children and families before problems escalate.	Director of Children Services					
	Access to equitable opportunities and life chances.	**R09**	Families are not sufficiently resilient and resourceful to respond to challenges and achieve the best possible outcomes for their children.	Families unable to support children at home with educational progress. Families do not have financial stability due to the cost of living crisis. Parents do not have emotional stability to support their families.	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk from harm or exploitation by others.	TfC City Plan. Outstanding Ofsted outcome	4	2	8		4	1	4	Monitor commissioning arrangements and outcomes, including the priority areas of Safeguarding, the development of life skills and support for families, which enhance access to the same opportunities and life chances. Joint work between TfC and SCC on MTFP to ensure joined up financial planning	Director of Children Services					
	Reduced health inequalities enabling more people to live healthier longer lives.	**R10**	Unable to improve the historically poor Health outcomes in Sunderland and reduce Health inequalities.	Adverse impact of Covid 19 and the cost of living crisis on health inequalities. The Sunderland Joint Strategic Needs Assessment identified high level health challenges for Sunderland including: Long term health problems- excessive alcohol, smoking, poor diet and low levels of physical activity. Poor mental health and wellbeing. Increased health risks of people with a physical or learning disability.	Life expectancy and healthy life expectancy are below the national average. Ill health continues to present an unsustainable burden on the health and care system and wider City economy.	Joint Strategic Needs Assessment. Health & Wellbeing Board. H&WB Priority Working Groups City Plan. Altogether Better Alliance	4	4	16		4	2	8	Healthy City Plan agreed to address the major issues identified in the Joint Strategic Needs Assessment The Health & Wellbeing Board oversees the Delivery Plan and Workstreams including, Best Start in life, Young people aged 11-19, Smoke free Sunderland, Addressing alcohol harms, Healthy economy, Mental health and wellbeing, Ageing well. There is also a Covid -19 health inequalities workstream to address the health inequalities amplified during the pandemic. Council has prioritised its ways of working in developing an approach to tackling inequalities. The creation of a new Health, Housing & Communities Directorate, provides greater scope to address long term health issues in the community.	Executive Director of Health, Housing & Communities					
	Reduced health inequalities enabling more people to live healthier longer lives.	**R11**	Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.	Complexities in controlling the spread of the virus / variants. Individuals do not adhere to guidance. Fewer people are having their seasonal boosters	Adverse impact on peoples health, both short and long term (including council employees). People are asked to self isolate.	Sunderland Health Protection Board Sunderland Outbreak Control Board	4	3	12		4	1	4	Mitigation will be based on the COVID-19 Control Plan. Continued rollout and development of the vaccination process.	Executive Director of Health, Housing & Communities					
	Reduced health inequalities enabling more people to live healthier longer lives.	**R12**	The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership, covering the North east and Cumbria may reduce the resources available in Sunderland for Health and Social Care	Under new proposals NHS and local authorities will be given a duty to collaborate with each other under a statutory Integrated Care Systems (ICSs). These will include an ICS Health and Care Partnership, bringing together the NHS, local government and partners,	A regional ICS Health and Care Partnership, covering the North east and Cumbria, may prioritise areas outside of Sunderland	Health & Wellbeing Board.	3	3	9		3	2	6	Local partners to work together to promote Sunderland interests at a regional level. Assistant Director of Integrated Commissioning jointly appointed (CCG) to develop Sunderland Based Place Arrangements. National changes to the NHS may be delayed and this may impact on local arrangements. Integrated Care System now live. High level Place Based arrangements have been agreed, with work on-going to develop the supporting requirements.	Executive Director of Health, Housing & Communities					

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HEALTHY SMART	People enjoying independent lives.	**R13**	Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment.	Increase in the level of long term conditions, including increasing proportions of people with multiple long term conditions. Potential market failure in the supply chain. Difficulties in keeping supply and demand in equilibrium. Work force issues. Increased requests to support the NHS around hospital discharges.	Care options for adults do not meet the needs of individuals or result in increased costs to the Council.	Health & Wellbeing Board. City Plan.	4	2	8		4	1	4	Deliver better integrated care through promotion and support for self-care. Implementing a multi agency neighbourhood mangement approach to better co-ordinate health and care services. Reviewing approach to services in peoples homes to remodel what home care, reablement and telecare services need to be for future demand, Continue to expand the use of technology enabled care solutions to support peoples independance. The greater reach and capacity of new connectivity being developed through our joint venture with BAI Communications will enable existing deployment of assistive technologies for vulnerable people to scale significantly. The Sunderland Voluntary Sector Alliance has been launched to build on the outstanding contribution made by the city's voluntary and community sector in supporting communities during the pandemic. It will improve support for the sector and expand their role, working with partner organisations across the city to meet the city's strategic needs. Using local intelligence with our Partners, through the Ageing Well Delivery Board. We have identified key areas of targeted work that will contribute to reducing falls, and the impact of falls, on our residents. New falls strategy for the City is in development. Continue to work with the Association of Directors of Adult Social Services (ADASS) on market sustainability for social care including DHSC Fair Cost of Care exercise. Arrangements in place through ADASS to manage the Social Care Reform Agenda. Put in place new multi agency Front Door service to more effectively triage customers to get the help they need more quickly and in a co-ordinated way.	Director of Adult Services & SCAS Chief Operating Officer					
	Cleaner and more attractive City and neighbourhoods.	**R14**	Council resources and the input of residents are not fully optimised to tackle environmental issues in neighbourhoods.	The level of services delivered by the council does not always meet customer expectations. Recycling bins are often contaminated. Increased fly tipping.	Fail to achieve cleaner and greener streets across the City. Recycling rates are not increased.	City Plan.	4	2	8		4	1	4	Environmental issues are a concern to residents and are therefore included in the Neighbourhood Improvement Plans. CLEAN and GREEN promotion introduced supported by the Sunderland Echo encouraging volunteers to tackle local environmental issues. Implement a Waste Management Strategy to tackle environmental issues. A new Enforcement Delivery model has been introduced with a greater focus on Environmental issues. To encourage communities to take greater responsibility for their environment, we are issuing sanctions where appropriate following enforcement investigations.	Director of Environmental Services					
	A City with great transport and travel links.	**R15**	The City cannot meet the challenge to develop an active and green transport system in response to Covid19 and other economic pressures.	Enhanced electric infrastructure required. Limited pedestrian and cycling routes. Winter maintenance programme may be impacted by the availability of resources (grit and drivers)	Fail to change the use of cars as the primary source of travel. Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6		3	1	3	Review the Transport Movement Plan for Sunderland to reflect new opportunities. Plans have been agreed to revamp Sunderland's Central Train Station, beginning with the demolition of the current south entrance. SSTC3 link road from Northern Spire to City Centre opened November 2021 High Level Footbridge design in development A submission has been made to the Levelling Up Fund LUF for a multi million pound investment in green travel across the city	Executive Director of City Development					
VIBRANT SMART	More residents participating in their communities.	**R17**	Pathways are not in place to encourage / support more residents to participate in making their neighbourhoods more desirable.	Residents are not fully aware of opportunities to participate in their neighbourhoods.	Neighbourhoods become less attractive. Outward migration continues.	City Plan. Vibrancy Board.	3	2	6		3	2	6	Implement Neighbourhood Plans, which incorporate input from residents. Develop and implement a Volunteers Strategy. Strategy completed and Volunteer Sunderland website launched. Community Support Workers are now in post supporting the Sunderland Voluntary Sector Alliance and external funding has been secured to grow its capacity across the city.	Executive Director of Health, Housing & Communities					
	More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities.	**R18**	Sunderland may not be recognised as a cultural destination of choice.	The developing cultural offer is not fully understood. Limited number of City centre hotels.	City's cultural offer does not contribute fully to the City being an attractive and vibrant place to invest, work, learn, live and visit. Adverse impact of Covid restrictions.	City Plan. Vibrancy Board.	3	2	6		3	1	3	Develop a wider Vibrancy Partnership to promote new events and increase cultural activity. Vibrancy Board set up. Board to develop a Delivery Plan to promote Sunderland as a cultural destination of choice. Tourism offer and City Brand being reviewed. Sunderland continues to promote its tourist attractions to take advantage in the upsurge in "staycations" A Tourism recovery plan is in place to promote and sustain the return of visitors and participation of residents in cultural events, programmes and activities. A new Cultural Strategy is in development to address the Council's Cultural priorities and the Cities Cultural priorities. A cultural regeneration team has been established to take forward the Council's priorities	Executive Director of City Development					
	More people feeling safe in their homes and neighbourhoods.	**R19**	Reduced trust in public protection.	Significant local crime events. Vulnerable residents are exploited by organised crime syndicates. Community Engagement has indicated that fear of crime is an issue although crime statistics are low. Young People's survey Nov 19 indicated that Knife crime and Hate crime are issues of concern.	Localised community tensions. Vulnerable individuals have their lives controlled by criminal organisations.	Safer Sunderland Partnership. City Plan.	4	2	8		4	1	4	Support Partners to improve community safety and maintain high levels of feelings of safety for all. Criminal activity to be disrupted through increased Policing and other Agency intervention and enforcement activity. Promote Sunderland more positively as a City that welcomes all, with neighbourhoods that are attractive, safe, inclusive and cohesive. Targeted engagement to be undertaken with communities to establish the cause of concerns and actions that can be taken to reduce the level of concern. Sunderland Domestic Abuse Safe Accommodation Strategy agreed	Executive Director of City Development					
	More people feeling safe in their homes and neighbourhoods.	**R20**	Council fails to provide support for victims of domestic abuse as required by the Domestic Abuse Act 2021.	New legislation imposing duties on the Council to provide accommodation-based support for victims of domestic abuse	Individuals / Families continue to suffer from the adverse impacts of domestic abuse	Domestic Abuse Act 2021 Health & Wellbeing Board	4	2	8		4	1	4	Domestic Abuse Local Partnership Board, developing a strategy for the provision of accommodation-based support. Cabinet approved the Sunderland Domestic Abuse Safe Accommodation Strategy, which aims to improve the lives of victims, survivors and their children describing how safe accommodation and support for domestic abuse victims-survivors will be provided over the next three years. Currently obtaining views from residents and survivors to develop a wider strategy to protect people from Domestic Abuse (not just the provision of accommodation as required by Statute)	Executive Director of Health, Housing & Communities					

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Overall Assurance	Management Assurance	Risk and Assurance	Internal Audit	External Assurance
	More resilient people.	**R21**	Opportunities are not taken to enable families and individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms and progress their ambitions.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity. Impacts of Covid 19 and the cost of living crisis have reduced the value of income.	Increase in the number of families falling into deabt and requiring welfare support. Increase in the number of children being able to achieve at school.	Sunderland Foodbank. City Plan.	4	4	16		4	1	4	Sunderland City Council, in partnership with the voluntary and community enterprise sector has; Published our Statement of Intent for fuel energy measures to address fuel poverty/energy efficiency in privately owned homes. An Internal Task Group has been established to review how further support can be provided, working with Partners and the Voluntary Sector In response to the cost of living crisis	Executive Director of Health, Housing & Communities					
ENABLING	Finance.	**R22**	Aspirations to develop the City Plan may be restricted by financial pressures.	Uncertainty as to the level of Governmnet funding to be provided (1 year settlement only) and timing and impact of the Fair Funding Review. Progressive reduction in Government funding since 2010. Cessation of European Funding with UK Shared Prosperity Fund only confirmed December 2022 up until March 2025. Changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Inability / delay in addressing Sunderland's challenges / priorities. Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Medium Term Financial Plan (MTFP). Budget Plan. City Plan.	4	3	12		4	1	4	The 2022/23 budget and MTFP was approved by Council in March 2022. At the same time, the update to the City Plan ensured a joined up strategy and financial view for the council. In year budget monitoring is tracking delivery of the budget in light of significant inflationary pressures (contractual, pay, utilities etc). Budget for 2023/24 currently being developed and to be considered by Council 22nd February 2023. Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position – the Let's Talk approach is being used with residents, supplemented with the usual engagement with Trades Unions, Schools Forum and business community. Lobbying of Government around funding for local authorities undertaken jointly through ANEC, SIGOMA etc.	Director of Finance					
	Partnership Working.	**R23**	Objectives and priorities of Council and other Partner(s) may conflict or are not aligned to deliver the priorities in the City Plan.	Reducing resources may lead to partners concentrating on their own priorities at the expense of City priorities. Lack of understanding by each partner as to the contribution they can play to the delivery of the City Plan. Lack of partnership performance monitoring. Not all Partnership Boards across the City are aligned and may not have a full understanding of the varying priorities and delivery objectives.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8		4	2	8	Partners represented on the City Board to support delivery of the City Plan. Partners to identify projects that support delivery of the City Plan.	Assistant Director of Strategy and Corporate Affairs					

CORPORATE RISK PROFILE

Appendix 3

Risk Likelihood	Risk Impact
1 = Unlikely	1 = Minor
2 = Possible	2 = Moderate
3 = Likely	3 = Significant
4 = Almost Certain	4 = Critical

Likelihood				
4				
3				
2				
1				
	1	2	3	4
	Negative Impact			

						Current Score (February 2023)						Target Score			Assurance	1st Line	2nd Line		3rd Line	
ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R01	Strategic Planning	The priorities set out in the City Plan do not address the needs of the City as whole.	Corporate planning process does not adequately reflect the views of the community. Various sections of the community are not engaged. The Council does not understand the impact of external factors on the community.	Fail to contribute to the welfare and future prosperity of our communities.	COG. JLT. City Plan. Strategic Risk Profile. Corporate Service Plan Template	4	1	4	City Plan driven by required outcomes and commissioning activity.	Director of Corporate Affairs	Risk and Assurance Team Internal Audit Governance questionnaire	4	1	4	Strategic Planning	X	Performance	X	X	
R02		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans.	Lack of timetable re corporate / service planning Lack of communication of plans	Lack of delivery of plans by those partners/services responsible	COG. JLT. City Plan. Strategic Risk Profile. Corporate Service Plan Template	4	1	4	Communication of the City Plan continues across the Council and Partners. Service planning process to ensure that service plans reflect delivery of the City Plan.	All Assistant Directors/Directors	Risk and Assurance Team Internal Audit	4	1	4			Performance	X	X	
R03	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	Community engagement arrangements. Intelligence Service. Performance Management Framework.	4	2	8	Identify intelligence required and potential sources to inform decisions. Develop engagement plans to gather the required information. Analyse the information and use the results to inform the commissioning decisions.	All Assistant Directors/Directors	Governance questionnaire Internal Audit Corporate Performance Management	4	1	4	Commissioning	X				X
R04		Most appropriate and cost effective commissioning option to meet identified needs and achieve commissioning priorities and outcomes is not chosen.	Failure to identify and evaluate relevant possible commissioning options of delivering services taking into account the resources available. Failure to build or shape capacity in 'market' and cooperative working e.g. partnerships to enable effective service options not in place to help achieve commissioning priorities and outcomes Inadequate options appraisal process Lack of resource or expertise Lack of Provider/Supplier capacity due to the impact of external factors.	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	City Plan. Service Plans. Strategic Risk Register	4	2	8	Options appraisal undertaken on service design following assessment of customer needs. Appropriate procedure followed to commission the preferred option, e.g. procurement, service re-design.	All Assistant Directors/Directors	Cabinet reports Internal Audit	4	1	4				X		X
R05		Commissioning assessment process is not undertaken on a timely or regular basis.	Inadequate resources. Insufficient forward planning for contracted services.	Changes in needs of community are not identified promptly. Inappropriate use of limited resources. Community's real needs are not met. Existing arrangements/contracts extended where it may not be the optimal solution	Service Plans.	4	2	8	Review of performance to ensure service delivery model is delivering outcomes. Commissioning Cycle to include planned review date either linked to outcome or contract timescales.	All Assistant Directors/Directors	Internal Audit	3	1	3				X		
R06	Service Delivery Arrangements	Service Plans do not include actions to achieve the City Plan priorities	Service plans are not driven by the City Plan	Fail to meet the needs of the City	Service Planning Process aligned to City Plan. Performance Management Framework.	4	2	8	Service Planning process is driven by the City Plan. Service Planning Process is communicated to all Assistant Directors.	All Assistant Directors/Directors	Internal Audit Corporate Performance Management	3	2	6	Service Delivery Arrangements		Performance		X	X
R07		The level of services delivered by the council does not meet customer needs and/or expectations.	Lack of understanding of the priorities Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues Lack of capacity due to increased demand as a result of external factors	Required outcomes for customers not achieved. Reputational damage. Wasted resources.	Service Planning Process. Performance management arrangements. Transformation Programme. Strategic Risk Profile	4	3	12	Performance in relation to the delivery of outcomes is regularly monitored.	All Assistant Directors/Directors	Corporate Performance Management Internal Audit Governance questionnaire	4	1	4		X		X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R08		Performance targets are not set or do not clearly identify the acceptable levels of service delivery performance.	Lack of understanding of how to measure acceptable performance.	Unable to understand if performance levels are acceptable.	Corporate performance management process.	3	2	6	Targets should be set for all performance measures (where appropriate to do so) to clarify acceptable levels of performance.	All Assistant Directors/Directors	Governance questionnaire Corporate Performance management Internal Audit	3	1	3		X	Performance	X	X	
R09		Management fail to take prompt effective action in response to unacceptable performance results reported or fails to follow up to ensure remedial action is effective.	Lack of time to consider performance. Performance information not accurate, timely or understood. Management not held to account for performance. Lack of resource or control to make necessary changes.	No or delay in action taken to improve service which may have major impact on customers. Poor reputation for Council.	Corporate Performance management. Performance Clinics.	3	2	6	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance.	All Assistant Directors/Directors	Corporate Performance management arrangements Internal Audit Governance questionnaire	3	1	3		X	Performance		X	
R10		Services fail to monitor their financial resources to ensure effective delivery of planned services.	Lack of time spent on budget monitoring. Lack of understanding of the service's financial position. Lack of complete or timely financial information.	Services not effectively delivered due to lack of resources.	Budget managers guidance. Financial Resources support.	4	1	4	Managers continue to engage with Financial Resources to understand the financial performance of their services areas	All Assistant Directors/Directors	Financial Resources Internal Audit Governance questionnaire	4	1	4			Performance			
R11		Services do not meet the needs of the City as key risks are not identified or appropriately managed.	Potential barriers to the delivery of services are not identified or assessed.	Services not effectively delivered. Waste of resources.	Service Planning process.	3	3	9	Services should continue to identify risks to service delivery during the service planning process and consider appropriate mitigating actions.	All Assistant Directors/Directors	Risk and Assurance Internal Audit Governance questionnaire	3	1	3			Performance			
R12	Partnership / Integrated Working	Objectives and priorities of Council and other partner(s) conflict/are not aligned to deliver the priorities of the City.	Reducing resources forces partners to concentrate on their own priorities at the expense of partnership priorities. Lack of communication of plans between partners. Lack of partnership performance monitoring. Increased demand on limited resources due to the impact of external factors	Unable to achieve City priorities and support communities.	City Plan. Partnership Boards. Partnership Framework.	4	2	8	Continue engagement with partners regarding activity being undertakn to contribute to the delivery of the City Plan	All Assistant Directors/Directors	Internal Audit	4	1	4	Partnership / Integrated Working				X	
R13		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing).	Lack of formal comprehensive written partnership agreement.	Delay in delivery of plans and outcomes for community. Lack of delivery of priorities.	Partnership Framework.	4	2	8	All Assistant Directors should be reminded of the requirements of the partnership Code of Practice. Partnership agreement in place with each partner setting out the expectations of each party and the required reporting arrangements.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	4	1	4		X			X	
R14	Procurement	The product or service procured does not deliver the intended outcomes.	Poor specification. Lack of understanding of what is needed by commissioner. Poor communication between commissioner and procurement. Limited capacity of providers/suppliers due to external factors. Inadequate evaluation process	Fail to obtain value for money. Objectives/outcomes are not achieved. Most appropriate commissioning options are not obtained.	Procurement Procedure Rules.	3	1	3	The Council's procurement procedures continue to be followed and good procurement practice is undertaken	All Assistant Directors/Directors	Internal Audit Risk and Assurance	3	1	3	Procurement			X	X	
R15		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training. Lack of knowledge of legal/Council requirements. Failure to adhere to requirements (deliberate, e.g. corruption or accidental).	Legal/financial penalties. Challenge, delays in award of contracts. Loss of reputation.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	2	1	2	Communication with COG / Assistant Directors regarding failure to comply with Procurement Procedure Rules. Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Internal Audit	2	1	2				X	X	
R16		Value for money not obtained.	Lack of competition. Corruption. Inappropriate specification. Poor procurement planning.	Poor quality of goods/services and customer service. Pay higher prices - waste of scarce resources.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	3	2	6	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	All Assistant Directors/Directors	Internal Audit	3	1	3					X	
R17	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes.	Lack of clear contract/specification provisions in place to allow effective management of the contract. Lack of appreciation of importance of contract management during the procurement process. Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award. Lack of contract management activity following contract award	Fail to obtain value for money, i.e. pay too much or poor service obtained. Objectives are not achieved. Excessive resources used on dispute resolution.	Contract management framework. Corporate Procurement support to officers.	4	2	8	Contract management arrangements should be in place for all key contracts entered into by the Council.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	4	1	4	Relationship / Contract Management	X	Performance	X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R18	Legality	Council fails to act within its statutory powers.	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers. Decision makers have lack of access to legal expertise. Lack of awareness of officers as to their legal responsibilities. Changes in law are not recognised and implemented.	Council's actions are found to be ultra vires. Financial penalties. Legal challenge. Loss of reputation. Delay in delivery of outcomes.	Constitution and Procedure Rules.	3	1	3	Ongoing review of key decisions by Law and Governance. Officers continue to be aware of changes in legislation that impact on their services.	Assistant Director of Law and Governance All Assistant Directors/Directors	Law and Governance Governance questionnaire Internal Audit	3	1	3	Legality	X	Law and Governance	X	X	
R19	Risk Management	Failure to identify and manage the major risks and opportunities to delivering priorities and plans.	Risk Management process is not aligned with delivering priorities. Senior Management/Members do not monitor the management of key risks to the Council. Risk appetite of the Council is not identified and communicated.	Priorities are not achieved. Loss of reputation. Potential financial penalties.	Risk Management Policy and Strategy. Integrated Assurance Framework. Strategic Risk Profile	3	2	6	The Council's strategic and corporate risks are identified, assessed and managed through COG and the Audit and Governance Committee. Risk Management Policy and Strategy to be reviewed.	Assistant Director of Assurance and Property Services	Risk and Assurance Team Audit and Governance Committee Governance questionnaire	3	1	3	Risk Management	X		X	X	
R20	Corporate Performance Management	Performance reporting fails to give a full and accurate picture of the progress in achieving strategic priorities and outcomes.	Performance reporting does not address all priority issues. Performance indicators are inappropriate. Performance targets not set to aid evaluation of performance. Performance data reported is inaccurate, out of date, difficult to understand or incomplete. Performance reporting not timely.	Reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Performance Management Framework.	3	1	3	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance.	Director of Strategy and Corporate Affairs	Corporate performance management Internal Audit	3	1	3	Performance Reporting		Performance		X	
R21	Financial Management	Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched.	MTFS Budget consultation process	4	1	4	The strategic financial plan should be aligned with the priorities in the City Plan.	Director of Finance	Financial Resources	4	1	4	Financial Management					
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Poor intelligence gathering or horizon scanning. Lack of resources. Lack of consultation/communication with senior officers. Lack of clarity of the financial support from Government.	Decisions made with inaccurate information. Plans made which are not adequately resourced. Failure to achieve plans and outcomes for community. Council financial resources overstretched.	Strategic financial planning process. Strategic Risk Register.	4	3	12	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position.	Director of Finance	Financial Resources External Audit	3	1	3						
R23		Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council.	Financial savings in one area may have a more than proportionate increase in other service areas	Savings plans are not achieved in practice.	Financial Reporting Procedures.	3	1	3	The Council's financial position is regularly reported to COG and Members.	Director of Finance	Financial Resources	3	1	3			Financial Resources		X	
R24		The Council does not take all opportunities to pursue external funding when available.	Lack of awareness of funding streams available. Lack of planning regarding priorities to be able to react to available funding.	The Council fails to deliver its priorities in an efficient way. Some priorities may not be delivered.	External Funding Team. Strategic funding group.	3	1	3	Ensure that horizon scanning considers changes in future sources of funding.	Director of Finance	Internal audit	3	1	3			Financial Resources			
R25		The Council does not maximise the use of external funding that has been allocated.	Lack of planning Lack of awareness of the terms and conditions of the funding Delays in project completion	Loss of grant income. Some priorities may not be delivered.	Financial monitoring. Project management standards.	3	2	6	The Council monitors the use of all grant monies to ensure there is no loss.	Director of Finance	Internal Audit	3	1	3			Financial Resources			
R26		Financial reporting fails to give a full and accurate picture of the progress to achieving corporate financial priorities and targets.	Financial reporting does not address all priority issues Financial performance measures are inappropriate Financial targets not set to aid evaluation of performance Financial performance data reported is inaccurate, out of date, difficult to understand or incomplete Financial performance reporting not timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Corporate Performance Reporting. Performance Clinics.	3	1	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies or inconsistencies.	Director of Finance	Financial Resources Corporate Performance Management	3	1	3			Financial Resources		X	
R27		The Council fails to pay its employees (and those of other clients) accurately and on time.	Lack of resources to process the changes to the payroll Lack of a clear timetable for the submission of information Lack or payroll staff with the required training	Delay in making salary payments. Claims from employees for costs incurred for late payment of bills. Loss of reputation as a payroll provider.	Policies and procedures in place for operating the payroll system. Employee self service.	3	1	3	Controls in place to ensure that the payroll runs are complete and accurate and operate efficiently.	Director of Smart Cities and Enabling Services	Internal Audit	3	1	3					X	X
R28		The Council fails to make payments to its suppliers and clients accurately and on time.	Lack of resources to process the required payments. Lack of appropriate checks on payments before processing. Lack of controls in place to ensure payments are processed per the required timescales.	Loss of reputation with suppliers. Claims for interest for late payments.	Procedures in place within the Purchase to Pay system	3	1	3	Procedures required for making payments accurately and on time are up to date and fully understood by staff within the payments service	Director of Finance/Director of Smart Cities and Enabling Services	Internal Audit	3	1	3					X	X

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R29		The Council fails to process payments for benefits accurately or on time.	Poor assessment procedures. Lack of timetable for assessing claims. Delay in the processing of claims.	Customers do not receive the correct amount of benefit resulting in financial hardship. Customers receive their payments late causing unnecessary debt.	Assessment procedures and performance indicators in place.	4	1	4	Established procedures are in place and followed by adequately trained staff for the assessment and processing of benefit claims.	Director of Finance	Internal Audit	4	1	4					X	X
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to its.	Lack of resources. Inadequate procedures for raising accurate bills. Inappropriate methods to allow customers to pay bills. Over generous credit terms. Economic conditions increase the number of bad debtors. Procedures fail to identify non payments. Ineffective enforcement of credit control arrangements.	Financial loss. Unable to balance the budget.	Financial procedure rules. Performance indicators in place.	3	1	3	Regular monitoring that the income received is in line with that expected as per the Council's budget.	Director of Finance	Financial Resources Internal Audit	3	1	3	Income Collection (including CT/NNDR)				X	X
R31		Prosperity within the City fails to grow resulting in the expected level of income being uncollectable.	Number of businesses in the City reduces or does not grow. Increased number of families suffering financial hardship. Debts increase and become harder to recover. External factors have resulted in a worsening financial and domestic situation of many residents.	Financial loss. Negative impact on cashflow. Inability to achieve financial targets.	City Plan. Strategic financial planning.	3	4	12	Clear performance measures and regular monitoring of the debtor position highlight potential loss of income.	Director of Finance	Financial Resources Internal Audit	3	2	6						
R32	Capital Programme Management	Capital projects do not support the delivery of strategic priorities and desired outcomes.	Capital projects are based on available funding and not linked to priorities. Inadequate business cases for projects.	Priorities are not delivered. City does not have the required infrastructure. Poor integration of city developments.	Capital Programme Board	3	1	3	The Capital Programme is directly aligned to the City Plan and strategic priorities.	Director of Finance	Financial Resources Internal Audit	3	1	3	Capital Programme Management		Financial Resources	X	X	
R33		The intended benefits of capital projects are not identified and/or realised.	Lack of awareness of funding conditions Poor planning Poor monitoring of projects Lack of monitoring of the realisation of benefits after the completion of the projects	Loss of funding. Council resources used to fill funding gaps. Other planned projects postponed. Lack of delivery of the Council priorities.	Capital Programme Board	3	3	9	Corporate approach to planning and monitoring of the delivery of the benefits of each project and the wider Capital Programme.	All Assistant Directors/Directors	Financial Resources Internal Audit	3	2	6				X	X	
R34	People Management	The council does not have the required skills and capacity to deliver the City's priorities.	Shrinking workforce leading to a reduction in capacity and skills. Rapid loss of key/senior officers and associated expertise. Lack of effective workforce planning to ensure Council has workforce to meet the needs of Council going forward. Insufficient resources to maintain effective HR management resource and arrangements. Insufficient training and development. Staff absence due to sickness.	Lack of or delay or increased costs in delivering priorities.	Corporate Performance Management.	3	3	9	Workforce planning strategy in place that is appropriately monitored to ensure its is effectively implemented. People Management Improvement Programme in place	Director of Smart Cities and Enabling Services	People Management Internal Audit Governance questionnaire	3	2	6	HR Management	X	Health and Safety	X	X	
R35		Reduction in productivity and morale of workforce.	Increasing workloads. Instability due to ongoing changes. Job insecurity. Increased demand / pressures due to external factors.	High absence/sickness rates. Stress related absence. Lower standards of service delivery. Increased costs. Increased homeworking has had a positive impact of staff morale.	Corporate Performance management. Performance Clinics.	4	2	8	Recognition of reduced capacity. Employees feeling valued and supported.	All Assistant Directors/Directors	People Management Internal Audit	4	2	8			People Management			
R36	Health and Safety	Council officers do not fully understand H&S roles and responsibilities.	Roles and responsibilities not clearly documented and/or communicated effectively. Loss of knowledge from organisational change and staff churn. Ineffective training and awareness programme. Lack of easy access to relevant documents on the Hub.	Lack of ownership and accountability for H&S. Inconsistent approach to the management of H&S issues across directorates, divisions and teams. Reduced compliance with quality standards and best practice. Inability to adequately prevent incidents occurring. Inadequate documentation and controls leading to injury and death.	Corporate Health and Safety Team and Audit programme. Corporate Health and Safety Statement of Intent.	4	2	8	H&S Strategy/Policy to be reviewed and revised. Revised Strategy/Policy to be agreed by COG.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4	Health and Safety		Health and Safety	X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R37		The council's key H&S risks are not identified, understood or agreed.	Lack of effective coordinated corporate approach to the identification of H&S risks. Lack of awareness or prioritisation of H&S across Chief officers, managers and operational colleagues. Lack of clear responsibilities of premises managers, landlords and leaseholders.	Key H&S risks not effectively managed leading to injury or death of the public, staff, suppliers or partners. H&S legal duties not fulfilled and/or demonstrated. Reduced oversight and accountability at strategic and operational levels across the council leading to uninformed decision making. None compliance with quality standards. Litigation and adverse PR.	Corporate Health and Safety Team. Risk assessment process. Dashboards provided to Assistant Directors and escalation process in place. Training packages on Ilearn system.	4	2	8	Continue to monitor Health and Safety Risks through the assurance framework and work with relevant colleagues to manage the risks in place.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4			Health and Safety		X	
R38		Appropriate action plans are not developed and agreed to manage the council's key H&S risks.	Lack of joined up corporate approach to the management of H&S risks. Lack of effective process to develop clear and robust action plans to establish relevant controls and officer ownership.	Effective controls not established and/or operated appropriately. Inconsistent and disjointed approach across the council to the management of shared risks leading to confusion and mismanagement of control systems.	Corporate Health and Safety Team. Health and Safety Audits. Implementation of actions recorded in IAuditor system. Risk assessments developed for tasks and council buildings.	4	2	8	Continue to oversee the management of Health and Safety risks through the Executive Group and annual reporting to COG.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	4	1	4			Health and Safety		X	
R39		Strategic approach to incident management does not adequately inform decision making.	Lack of understanding of responsibilities and accountability for incident response. Non-compliance with incident reporting arrangements. immitted trend analysis and learning lessons from incidents. Availability of quality data/information to inform effective reporting to COG.	Ineffective decision making. Implementation of inappropriate controls. Existing controls not reviewed and revised in response to learning from incidents becoming out-of-date and ineffective. Avoidable repetition of incidents.	Corporate Health and Safety Team. Annual Health and Safety Report. Regular Executive Health and Safety meetings where detailed information is presented and discussed. Specifc Training provided regarding how to manage a Health and Safety Incident.	3	2	6	Continue to monitor compliance with incident reporting arrangements and address any areas for development.	Assistant Director of Assurance and Property Services	Internal Audit Governance questionnaire	3	1	3			Health and Safety		X	
R40	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive).	Reducing resources impacts upon the ability to maintain a stable infrastructure. Lack of funds to maintain/upgrade infrastructure. Increased reliance/demand on ICT due to move to hybrid working.	Disruption to service provision impacting on delivery of priorities. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	ICT development plan. Wide roll out of laptops, Windows 10 and Microsoft Teams to aid hybrid working.	4	1	4	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services.	Director Smart Cities and Enabling Services	ICT Internal Audit	4	1	4	ICT Infrastructure	X	ICT	X	X	
R41		ICT infrastructure is not resilient to 'disasters'.	Lack of planning for disasters (prevent or respond to). No adequate business continuity/disaster recovery ICT infrastructure in place. Lack of business continuity/disaster recovery plan which has been tested. Key employees not briefed as to their disaster recovery responsibilities. Lack of 24/7 ICT support in the event of an incident.	Disruption to service provision impacting on delivery of priorities. Loss of productivity. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	Business continuity arrangements (ICT and in services).	4	2	8	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services.	Director Smart Cities and Enabling Services All Assistant Directors/Directors	ICT Internal Audit Business continuity officer	4	1	4		X	ICT	X	X	
R42	Cyber Security	The Council is exposed to vulnerabilities and threats, both internal and external, (e.g. hacking, phishing, denial of service attack) resulting in a loss of systems and/or confidential information.	Lack of appreciation by management of threat/risks of cybercrime to Council's operations. Low priority given to cybersecurity. Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness). Lack of monitoring of alerts/warnings, e.g. no Security and Incident and Event Management (SIEM) solution in place. Lack of investment in existing infrastructure increases level of vulnerability penetration testing vulnerability test results not actioned in suitable time scales. Lack of resources. Lack of understanding of what valuable data the Council holds. Increased cyber activity during Covid 19 outbreak.	Loss of public trust, customer confidence, finance and reputational damage. Fines / compensation. Loss of systems or data loss. Major business disruption.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan.	Director Smart Cities and Enabling Services	ICT Internal Audit	4	2	8	Cyber Security		ICT	X	X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Specialist Functions	Risk and Assurance	Internal Audit	External Assurance
R43	Information Governance / Security	Council's data is not accurately protected.	Lack of awareness of the importance of protecting the Council's data. Lack of compliance with data security arrangements. The Council is not aware of the data its holds or ensures that its is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data. Increased remote working brings increased risk to data held in homes.	Loss of public trust and reputational damage. Fines / compensation. Claims from those who have been adversely effected.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	3	2	6	Council has appropriate information governance and security arrangements in place which are complied with throughout the organisation.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	3	Information Governance / Security	X	DPO	X	X	
R44	Business Continuity Management	The Council's business critical services cannot function in the event of an incident.	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes. Business continuity plans are not tested appropriately. A number of incidents impact at the same time e.g. Covid 19, Brexit, winter flu, adverse winter weather	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans. Response to the first wave of Covid 19 was successful with no failures to deliver critical services.	3	2	6	Business continuity plans are reviewed and tested on a regular basis and take into account the cumulative effects of concurring incidents.	Assistant Director of Assurance and Property Services All Assistant Directors/Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4	Business Continuity Management	X	Business Continuity	X		
R45		Lack of awareness of content of business continuity plans.	Lack of effective communication strategy. Lack of testing.	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals. Loss of reputation.	Corporate Business Continuity Group. Business Continuity plans. Successful response to Covid 19 outbreak.	4	1	4	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them.	All Assistant Directors/Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4		X	Business Continuity	X		
R46	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes.	Lack of agreed Project Management Standards. Lack of Project Plans and Governance. Lack of monitoring of achievement.	Fail to obtain value for money. Programme and Project objectives are not achieved.	Corporate Project /Programme management arrangements.	3	3	9	The expected benefits of programmes and projects are clearly set out at the start and their achievement monitored throughout.	All Project Sponsors	Project Office Risk and Assurance Internal Audit Governance questionnaire	3	1	3	Programme / Project Management	X	Programmes and Projects	X	X	X
R47	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised.	Council does not "sweat" its assets to obtain the maximum returns. Fail to maintain property. Changes in size and direction of Council and services its provides. Lack of asset management planning. Changes in how services delivered. Changes in technology. Assets become uneconomic to run. Lack of investment in asset management planning. Council unaware of assets its owns.	Fail to increase council income. Fail to decrease costs.	Asset Management Plan.	3	3	9	The use of Council assets are monitored on an ongoing basis, particularly in response to changing staffing levels and changing service delivery models.	Assistant Director of Assurance and Property Services	Internal Audit	3	2	6	Asset Management			X	X	
R48		The Council does not fulfil its statutory duties in relation to its property portfolio.	Lack of resources. Lack of planning. Lack of monitoring or conditions of assets. Lack of knowledge of changes to the property portfolio.	Members of the public or staff are at risk of being harmed. Legal action taken against the Council. Reputational Damage.	Asset Management Plan.	4	2	8	The Council's Asset Management Plan is updated maintained accurately on an ongoing basis. Condition of assets are monitored on an appropriate basis and maintenance scheduled as required.	Assistant Director of Assurance and Property Services	Health and Safety Internal Audit	4	1	4						
R49	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption.	Relaxation of controls due to a reduction of resources. Lack of anti fraud culture. Lack of anti fraud and corruption procedures embedded into processes.	Financial loss potentially resuling in a reduced service offering to the customer.	Anti fraud and corruption policy and procedures.	2	2	4	Managers are aware of the fraud risks within their area and maintained appropriate controls bearing in mind changes to service delivery and staffing levels.	All Assistant Directors/Directors	Governance questionnaire Internal Audit	2	2	4	Anti Fraud and Corruption	X			X	

Appendix 4

Internal Audit coverage

Strategic Risk Profile

Key Risk Area	2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		2022/23 Audits / Opinions		Overall Opinion
More and better jobs											
More and better housing					Housing Service Governance Arrangements	M			Housing Regulatory Framework/HRA	S	
					Housing Regulatory Framework	M					
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy											
A stronger City Centre with more businesses, housing and cultural opportunities											
A lower carbon City with greater digital connectivity for all							Programme Governance Arrangements - Smarter Cities		Programme Governance Arrangements - Smarter Cities		
									Carbon Reduction Plan		
Access to the same opportunities and life chances							Taxi Licensing	M	Business Continuity Planning (TFC)	M	
More people living healthier longer lives							Public Health Grant	S	Health Protection Board	S	
									Homelessness	M	
People enjoying independent lives					Rollout of assistive technologies		Adults Safeguarding - MASH	M	Adult Social Care Recovery Arrangements		
					Adults Safeguarding - MASH		Financial Safeguarding - CPAT	S	Use of Assistive Technologies	M	
					Blue Badges						
Cleaner and more attractive City and neighbourhoods			Environmental Services	M							
A City with great transport and travel links											
More creative and cultural businesses											
More residents participating in their communities											
More visitors visiting Sunderland and More residents participating in cultural events					Collections Management - Museums		Collections Management	M			
More people feel safe in their neighbourhoods and homes											
More resilient people											
Finance											
Partnership Working			Partnership Arrangements						Partnership Arrangements	M	

Corporate Risk Profile

Key Risk Area	2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		2022/23 Audits/Opinions		Overall Opinion
Strategic Planning	Service/Business Planning	M							Partnership Arrangements	M	
	Derwent Hill	S									
Commissioning									Performance Monitoring within Public Health		
Service Delivery Arrangements	Liquid Logic including business processes		Licencing		Financial Safeguarding/CPAT		Financial Safeguarding/CPAT Communications	S	Delivery of Council Restructure		
	Derwent Hill	S	Development Control		Bereavement Services				Planning and Development Control	S	
			Environmental Services	M	Housing Service Governance Arrangements	M			Delivery of Port Business Plan		

			Delivery of Council Restructure	M	Housing Regulatory Framework	M			Highways Work Programme	S
			Liquid Logic - Adults	S	Adults Safeguarding - MASH					
					Blue Badges					
Partnership /Integrated Working			Partnership Arrangements						Partnership Arrangements	M
Procurement	Revenue Procurement	S	Revenue Procurement	S			Procurement Strategy	S	Revenue Procurement	
	Use of agency contract	M	Capital Procurement	M			Purchasing Cards	M		
	Catering consortium	M					Charging methodology - Highways	S		
							Use of agency framework	M		
Relationship/Contract Monitoring	Contract Management Arrangements for key contracts	S	Contract Monitoring SCAS	M						
	Contract Management - IAMP consultants	S	Contract Monitoring - Siglion	S						
			Contract Monitoring - Sunderland Homes							
Legality	Delegated Decision Making	M					Compliance with Operating Licence	L	Planning and Development Control	S
									Compliance with the Operating Licence	
									Delivery of Environmental Services Action Plan	
	Emergency Planning and Response	S							Compliance with the Operating Licence, Non Environmental Services	L
Risk Management	Derwent Hill	S							External Funding	S
									Highways Work Programme	S
Corporate Performance Management	Performance Reporting - Data Quality	S	Performance Monitoring - City plan				Performance Monitoring - City Plan	S	Performance Management within Housing	S
			Delivery of PEER Review Action Plan	S					Performance Management within Public Health	
Financial Management					Wave 3 Rocket Feasibility	S	BACS	S	Local Transport Capital Settlement - Highways Maintenance Needs	S
					Disabled Facilities Grant	S	Budget Management	S	Local Transport Capital Settlement - Integrated Transport	S
					Local Transport Capital Maintenance / Incentive Needs	S	Payroll	M	Local Transport Capital Settlement - Incentive Element	S
					Local Transport Integrated Transport	S	Accounts Payable	S	Nexus	S
	Financial Reporting Arrangements				Nexus	S	Local Transport Capital Settlement - Capital Maintenance	S	Pothole Action Fund	S
					Pothole	S	Local Transport Integrated Transport	S	Sunderland A1290 Safety Improvement Scheme Phase 2	S
					Cycling to Sunderland		Nexus	S	Disabled Facilities Grants	S
	EFA Funding	S		S	Vaux Phase 1		Pothole Action Fund	S	Public Sector Decarbonisation	S
	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management	S	Budget setting	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	Sustainable Mobility Hub	
	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	Capital Asset Accounting	S	Disabled Facilities Grant	S	Riverside Sunderland Strategic Infrastructure Works	
	Nexus (Combined Authority)	S	Payroll		BACS	S	Disabled Facilities Grant - Additional Monies	S	Hillthorn Business Park Power Supply	
	Pothole Action Fund	S	Accounts Payable	M	Payroll	S	Cycleways	S	Green Homes Grant LA Decarbonisation	S
	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding	S	Accounts Payable	S	Vaux Phase 1		Vaux LGF	
	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S	COVID-19 Compliance and Enforcement Grant	S	SSTC3 Design and Development		SSTC 3 Design and Development	S
	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S			Travel Demand Management	S	External Funding	S
	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S			Travel Demand Management - Top Up Monies	S	BACS	S
	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S			Home to School/College Transport - Second Half of Spring Term	S	Payroll	
	A19 Ultra Low Carbon Enterprise Zone	S	Local Transport Capital Settlement - Incentive Element	S			Home to School/College Transport - Summer Term	S	Accounts Payable	
	External Funding	S	Better Care Fund - DFG	S			Home to School/College Transport - 2020/21 Academic Year	S	Benefits Overpayment and Recovery	S
	Building Maintenance Financial Management	S	Vaux Phase 1						The provision of project promotion and prevention of Better Mental Health Grant Funding	S

	Payroll	S	Northern Gateway	S					Additional Drug Treatment Crime and Harm Reduction Universal Compnent Grant Funding	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/5309	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/5435	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/5668	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/5704	S	
	BACS	S	Local Transport Capital - Highway Maintenance	S					Test and Trace Support Payment Scheme Funding Grant Determination 31/5385	S	
	Accounts Payable	S	Liquid Logic including business processes	S					Test and Trace Support Payment Scheme Funding Grant Determination 31/5789	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/6187	S	
									Test and Trace Support Payment Scheme Funding Grant Determination 31/6215	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5075	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5219	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5244	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5304	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5341	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5411	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5183	S	
									Test and Trace Contain Outbreak Management Fund Surge Funding 31/5456	S	
	Liquid Logic including business processes		Pothole Action Fund - Additional Monies	S					Test and Trace Contain Outbreak Management Fund Surge Funding 31/5518	S	
	Derwent Hill	S									
Income Collection (including CR/NNDR)	Cash Receipting	S	Cash Receipting, compliance	S	Business Rates Recovery		Business Rates Recovery	S	Income Collection	S	
	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing	S	Business Rates Valuation	S	Council Tax Recovery	S	Accounts Receivable		
	Derwent Hill	S	Accounts Receivable - Recovery	S	Council Tax Valuation	S	Accounts Receivable Recovery and PI	M	Land Charges	S	
			Council Tax Liability	S	Council Tax Recovery		Housing Rent Collection	M			
			Business Rates setting and billing	S	Accounts Receivable Recovery	S	Income Collection	S			
			Business Rates Liability	S	Cash Receipting	S					
Capital Programme Management	Benefits Realisation		Project Management Benefits Realisation, including capital funding	M							
HR Management	Human Resource Management - updated SAP procedures		HR - SAP Optimisation		Recruitment and Selection		Recruitment and Selection	M	Human Resource Case Management		
	Apprenticeships	S	Port - Effectiveness of Restructure								

			Communications re organisational change	S							
Health and Safety	Corporate Health and Safety Arrangements	S							Port Health and Safety	S	
ICT Infrastructure	Externally hosted systems	M			ICT Disaster Recovery and Business Continuity		ICT Disaster Recover / Business Continuity	L			
	Intrusion prevention and incident management	M	ICT Asset management	M							
Cyber Security	Intrusion prevention and incident management	M	Cyber Security	M	Cyber Security	M	Cyber Security	M	Cyber Security		
			Mobile Device Management	S					Information Security		
Information Governance/Security	General Data Protection Regulation - Compliance	M	GDPR	M	GDPR	M	GDPR	M	GDPR		
									Information Security		
	Derwent Hill	S			Civica Upgrade				Archived Records Management		
Business Continuity Management			Update of Directorate plans re new structures	M			Corporate Business Continuity Arrangements	M	Use of Assistive Technologies	M	
									Resilience of Port Management Structure		
Programme/Project Management	Benefits Realisation		Project Management Benefits Realisation, including capital funding	M	ICT Disaster Recovery and Business Continuity		Programme Governance Arrangements - Smarter Cities		Programme Governance Arrangements - Smarter Cities		
Asset Management					Collections Management - Museums		Housing Asset Management	M	Corporate Asset Management Strategy and Compliance		
							Collections Management	M			
Anti Fraud and Corruption	Building Maintenance Financial Management	S	Payroll compliance Testing		Transaction Testing NFI	S	BACS	S	BACS	S	
	Revenue Procurement	S	BACS compliance testing	S	Blue Badges		Purchasing Cards	M	Income Collection	S	
	Use of Agency Contract	M	Cash Receipting	S	Mileage Claims	S	Income Collection	S	Accounts Receivable		
	Payroll compliance testing	S	AR Recovery	S	Testing on grants issued re Covid-19	S	Accounts Receivable Recovery and PI	M	Accounts Payable		
	BACS	S	ICT Asset Management	M	BACS	S	Accounts Payable	S	Land Charges	S	
	Accounts Payable	S	Council Tax Setting and Billing	S	Cash Receipting	S	Business Rates Recovery	S	Benefits Overpayment and Recovery	S	
	Cash Receipting	S	Council Tax Liability	S	Accounts Receivable Recovery	S	Council Tax Recovery	S	Revenue Procurement		
	Accounts Receivable/Periodic Income	S	Accounts Payable	M	Accounts Payable	S	Housing Rent Collection	M	Payroll		
	Derwent Hill	S									
	Refuse Collection	S									
Schools	14 schools in the plan, 15 completed to date. 12 Substantial, 2 Moderate, 1 limited	S	23 schools in the plan. 21 complete to date. 17 Substantial, 4 Moderate	S	23 schools in the plan, 10 complete to date. 9 substantial, 1 moderate	S	20 schools in the plan, 20 complete to date. 18 substantial, 1 Moderate, 1 Limited	S	19 schools in the plan, 17 complete to date. 12 substantial, 4 moderate, 1 limited	S	
Sunderland Care and Support	Unit Costing		Risk and Assurance Framework		Risk and Assurance Framework	S	Compliance with Financial Procedures in establishments	S	Compliance with Financial Procedures in Establishments		
	Risk and Assurance Framework		DPO Checks	S	DPO checks	S	ICT Security within establishments	S	Business Continuity Arrangements Arrangements	M	
	Information Governance/GDPR	M	Unit Costing		Security of service users cash in transit	S	DPO Checks	S	DPO Checks		
	Compliance with Financial Procedures in Establishments	M	Compliance with financial procedures in establishments	S	Compliance with financial procedures in establishments		Workforce planning, resilience and wellbeing		Workforce planning, resilience and wellbeing		
			Business Continuity (Telecare)	L	Collection of rental income	M			Transport Arrangements		
			Recruitment and DBS Checks	S	Workforce planning and resilience						
Together for Children	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim		
	Budget Monitoring	S	Schools Financial Support Service	S	Administration Support Services	S	Staff Wellbeing		Business Continuity Planning	M	
	HR management / recruitment / agency workers / performance	S	Performance Management - Data Quality	S	Complaints Procedure		Next Steps		Holiday and Activity Fund		
	Information Governance/GDPR	L	Purchase cards	M	Information Governance/GDPR		Nook Lodge - Compliance with Financial Procedures in Establishements	S	Interrupted Educational Pathways		
	Next Steps	S	Achievement of cost savings		HR Case Management	S	Procurement of Independent Providers - Residential	M	National Assessment and Accreditation System Grant Claim	S	
	Compliance with Financial Procedures within Establishments	S	Legal services		SEND Financial Framework	S	Counter Fraud	M	GDPR		
			Designated Officer	S			National Assesment and Accreditation System Grant Claim	S	Staff Wellbeing	S	
	Liquid logic		Liquid logic	M	Purchase Cards	M					
Siglion LLP			Governance Arrangements	M	Contract/relationship management		Financial Management	S	GDPR		

					Performance Management		Contract/relationship management	M	Risk Management Arrangements		
					Procurement	M	Disposal of property		Project Management Arrangements		
					Operational Asset Management	S	Performance management	S			
					Financial Management						

Appendix 5

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23			
		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)	1) All key risk areas covered over a 3 year period 2) 90% 3) 85%	1) On target 2) Ahead of target – 100% 3) Ahead of target – 96%
		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% Medium – ahead of target 95% (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) No recent surveys undertaken 0 compliments 0 complaints

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE 3 February 2023

RISK AND ASSURANCE MAP - CONSULTATION FOR 2023/24

Report of the Assistant Director of Assurance and Property Services

1. Purpose of Report

1.1 Each year the Audit and Governance Committee is consulted at an early stage on the development of the plans of work for Internal Audit and Risk and Assurance for the forthcoming year to give members the opportunity to raise any issues which they feel should be considered.

1.2 The allocation of resources will continue to be flexible throughout the year. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2023/24. These are as follows:

- On-going audit work in relation to Council owned companies: Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities.
- Overall programme of City Development Regeneration projects.
- Council's Smart Cities programme.
- Council's approach to Cyber Security.
- Compliance with the Asset Management Policy and Strategy.
- Compliance with the Council's pay and grading model.
- Compliance with the Civil Contingencies Act.
- Management of Council operational property leases.
- Corporate Service Planning arrangements.
- Preparation for potential Devolution.
- Management of vulnerable groups funding.
- National Fraud Initiative and counter fraud work.
- Key corporate functions/systems, particularly where significant changes / budget reductions are planned or have occurred.

Consultation with the Chief Officers and key senior managers is ongoing and will be considered as part of the finalisation of the plan before presenting to the Committee in April.

1.3 A discussion will be held at the Committee to seek its input for the Risk and Assurance Map, and the plans of work for Internal Audit and Risk and Assurance for 2023/24.

2. Recommendation

2.1 The Committee is asked to consider and comment on the areas mentioned above and any additional areas which they would like to be considered.

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **3 February 2023**

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2022/2023

Report of the Director of Finance

1. Purpose of Report

1.1 To report on the Treasury Management performance to date for the third quarter of 2022/2023.

2. Description of Decision (Recommendations)

2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 3 of 2022/2023 (Appendix A).
- Note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2022/2023 – Quarter 3

4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have gradually risen since the start of the financial year but continue to be extremely volatile. In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing during 2022/2023 to support the financing requirements of the Council's Capital Programme at an interest rate of 2.79%. This was considered opportune and will benefit the revenue budget over the longer term when compared with the current equivalent long-term rate of 4.19%. No further borrowing has been taken out in quarter 3.

4.2 No refinancing of debt has been carried out in 2022/2023 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.54%, and, as such, the

Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on information from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

4.3 Treasury Management Prudential Indicators are regularly reviewed, and the Council is within the limits set for all Treasury Management 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 £1,082.658m for 2022/2023. The Council's maximum external debt during the financial year to 31st December 2022 was £618.704m and is within this limit. More details of the Treasury Management Prudential Indicators are set out in Section 2 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 December 2022, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 2.07% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 1.74%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

4.6 More detailed Treasury Management information is included in Appendix A for Members' information.

4.7 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 performance for the third quarter of 2022/2023.

5.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

Appendix A

Detailed Treasury Management Performance – Quarter 3 2022/2023

1 Borrowing Strategy and Performance – 2022/2023

1.1 The Borrowing Strategy for 2022/2023 was reported to Cabinet on 8th February 2022 and approved by full Council on 2nd March 2022.

1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to levels of volatility.

1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a ninth consecutive meeting on 15th December 2022, taking it to 3.5%, the highest level since November 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe.

1.4 GDP fell by 0.3% quarter on quarter ending 30th September. Although recently released November 2022 GDP data saw a small rise, protracted and escalating strike action is expected to see the economy contract marginally overall in the final quarter of 2022. The BoE's latest forecasts predict a deeper and longer recession than market analysts were previously expecting, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.

1.5 CPI inflation looks to have peaked at 11.1% in October, a 41-year high, before falling to 10.7% in November and marginally further in December to 10.5%. Goods price inflation, which is largely driven by global factors, has peaked and the sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Despite the cost-of-living squeeze, the BoE will want to see evidence that wage growth isn't spiralling upwards if extensive strike action is successful in achieving large pay increases.

1.6 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years. However long-term borrowing rates are also currently high, and above our benchmark borrowing rate of 3.00%. Therefore, investment balances will be temporarily used where necessary pending borrowing rates reducing.

1.7 Link Asset Services, the Council's treasury advisors, reviewed their interest rate forecasts in December 2022 in light of continued volatility in the financial markets. They believe the MPC will need to see stronger signs of activity slowing, the labour market loosening and wage growth slowing before stopping rate rises. They believe the Government's policy of emphasising fiscal rectitude will probably mean the Bank Rate will not need to increase beyond 4.50%, much less than the peak of 5.25% expected by the financial markets.

1.8 Link forecast the BoE Base Rate will rise to 4.00% in February 2023, 4.25% in March 2023 and peak at 4.50% in May 2023, before gradually falling to 2.50% by September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

1.9 The following table shows the average PWLB rates for Quarter 1, 2 and 3 compared to the SONIA Overnight Rate used to benchmark investment returns.

2022/2023	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Sep) %**	**Qtr 3* (Oct - Dec) %**
SONIA Overnight Rate	0.89	1.55	2.75
PWLB 1 year	2.32*	3.27*	4.16*
PWLB 5 years	2.58*	3.25*	4.38*
PWLB 10 years	2.84*	3.41*	4.44*
PWLB 25 years	3.08*	3.79*	4.67*
PWLB 50 years	2.81*	3.52*	4.20*
PWLB Current 50 years			4.19*

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (including the Council).

4.3 In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing to meet its capital financing requirement during 2022/2023. These rates were considered opportune and will benefit the revenue budget over the longer term when compared with the current equivalent long term rate of 4.19% (at 18th January 2023). The Treasury Management team continues to closely monitor PWLB rates in line with future capital programme financing requirements. The new borrowing taken out in August 2022 is summarised in the following table.

Duration	**Date of the transaction**	**Start**	**Matures**	**Rate %**	**Loan Amount £m**
48 years	02/08/2022	09/08/2022	09/08/2070	2.79*	50.0

*rate takes account of the 0.20% discount to PWLB rates available to the Council.

1.10 High levels of volatility in the financial markets previous caused by Covid have been added to in 2022/2023 by the on-going conflict between Russia and Ukraine and heightened tensions between China, Taiwan and the United States. The overall balance of risks to economic growth in the UK is to the downside due to a number of factors. The risk that the BoE acts too soon or too far over the next year in raising the Base Rate could hamper economic growth and not have the intended impact on inflation. Significant issues remain unresolved over future UK/EU trade arrangements following Brexit and complications or lack of co-operation in discussions pose a threat.

1.11 The Chancellor's Autumn Statement on 17th November helped restore the Government's fiscal credibility in the financial markets without deepening the recession. The package of £54.9bn fiscal tightening measures is heavily backloaded, with net handouts of £3.8bn in 2023/24 and £0.3bn in 2024/25. The largest fiscal support measure was the extension of the domestic Energy Price Guarantee until April 2024 and targeted assistance for those most in need with most of the tightening taking effect after 2024/25. By relaxing the fiscal rules requiring debt as a percentage of

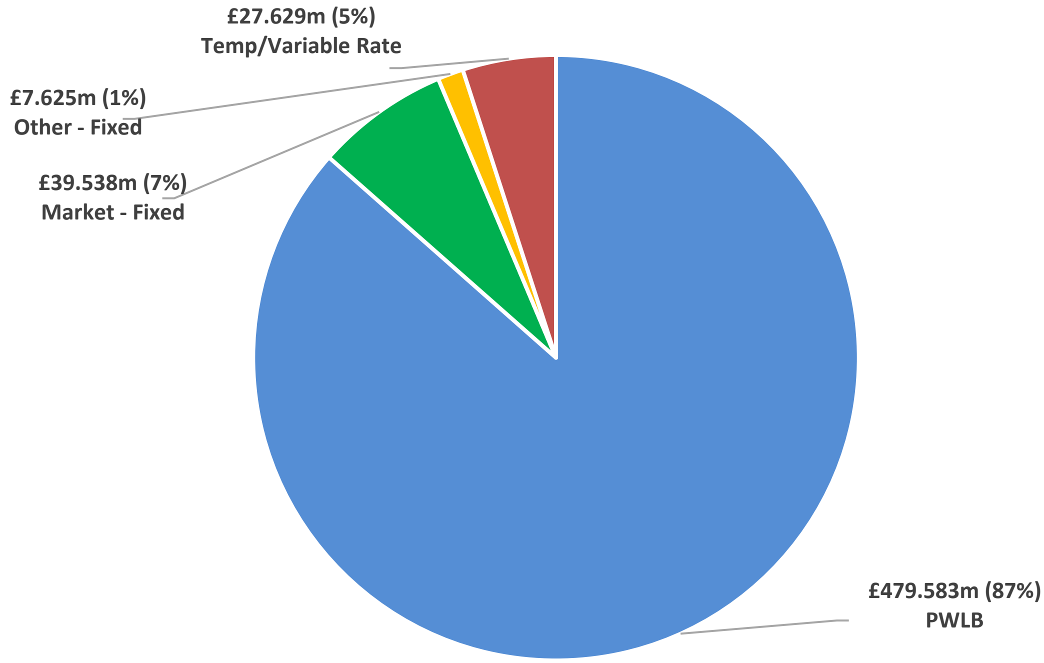
GDP to be falling in five years, rather than three, the Office for Budget Responsibility (OBR) in reviewing the package estimate this will be achieved, albeit by a slim margin.

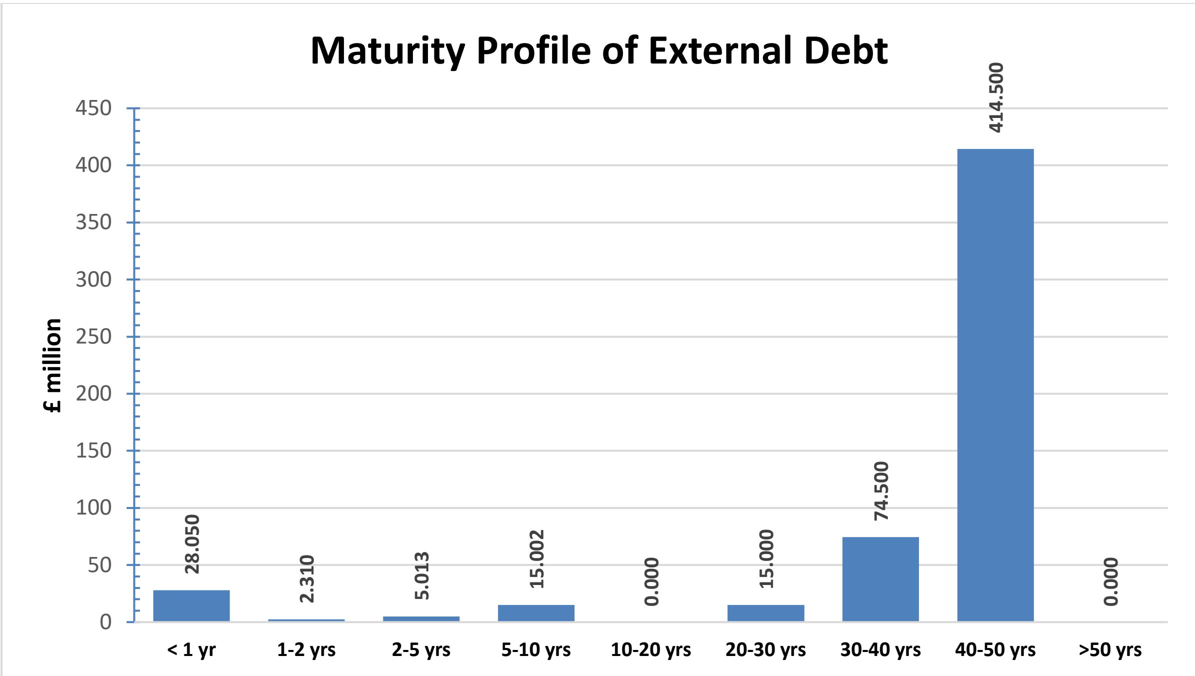
1.12 PWLB rates are expected to remain at around current levels until June 2023 before gradually falling through to December 2025. Link Asset Services predict PWLB rates standing at 4.20%, 4.40%, 4.60% and 4.30% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 before falling to within the range 3.1%-3.5% for all durations by December 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

1.13 The strategy for 2022/2023 is to adopt a pragmatic and flexible 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 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.

1.14 The Council's treasury portfolio position at 31st December 2022 is set out below:

Borrowing Summary at:	**31 December 2022**		
	Principal	**Interest**	**Ave rate %**
Fixed			
PWLB	479,583,333	11,777,204	2.46
Market – Fixed	39,538,123	1,741,445	4.40
Other – Fixed	7,625,230	306	0.00
	526,746,686	13,518,955	2.57
Variable			
Temporary/Other – Variable	27,628,762	548,805	1.99
	27,628,762	548,805	1.99
TOTAL:	**554,375,448**	**14,067,760**	**2.54**





2 Prudential Indicators – 2022/2023

2.1 All external borrowing and investments undertaken in 2022/2023 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 the other Treasury Management Prudential Indicators.

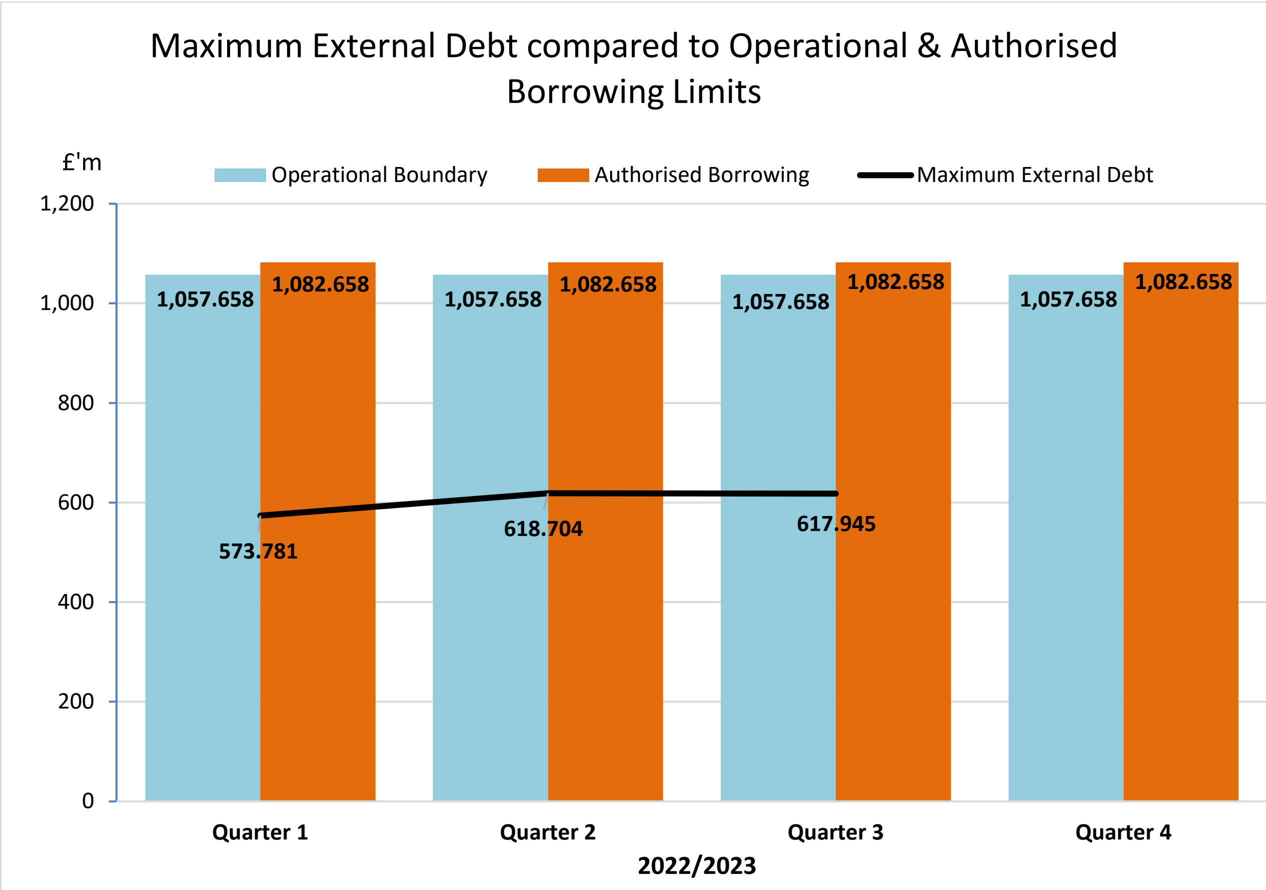
2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2022/2023 as follows:

	£m
Borrowing	939.926
Other Long-Term Liabilities	142.732
Total	**1,082.658**

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

	£m
Borrowing	914.926
Other Long-Term Liabilities	142.732
Total	**1,057.658**

The Council's maximum external debt in respect of 2022/2023 (to 31st December 2022) was £618.704m and is within the limits set by both these key indicators.



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

Prudential Indicators		**2022/2023 (at 31/12/22)**	
		Limit	**Actual**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.42%
	24 months and within 5 years	80%	0.99%
	5 years plus	100%	93.68%
	(A lower limit of 0% for all periods)		
P10	**Upper limit for total principal sums invested for over 365 days**	75m	0

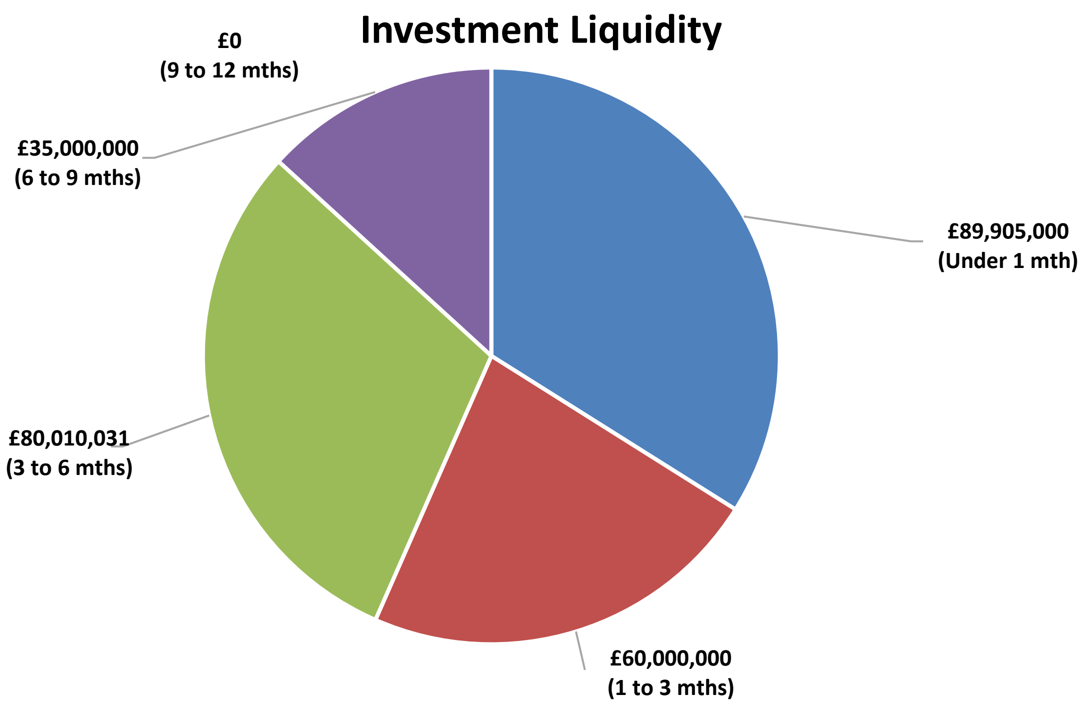
3 Investment Strategy – 2022/2023

3.1 The Investment Strategy for 2022/2023 was approved by Council on 2nd March 2022. 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.

3.2 As at 31st December 2022, the funds managed by the Council's in-house team amounted to £264.915 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 31 December 2022					
Borrower	**Duration**	**Amount of Loan**	**Rate (%)**	**Start Date**	**Maturity Date**
Call Accounts:					
NatWest SIBA	Overnight	2,795,000	0.800		Call
Prime MMF	Overnight	13,180,000	3.260		Call
Aberdeen Liquidity Fund	Overnight	48,930,000	3.284		Call
Lloyds Banking Group Ltd	95d Notice	10,031	1.750		95 Day Notice
Sub-total:		**64,915,031**			
Fixed Term Deposits:					
Yorkshire Building Society	186 days	20,000,000	2.080	07-Jul-22	09-Jan-23
Standard Chartered Bank	122 days	5,000,000	3.700	27-Sep-22	27-Jan-23
Goldman Sachs Int Bank	358 days	10,000,000	1.505	08-Feb-22	01-Feb-23
Goldman Sachs Int Bank	364 days	20,000,000	1.525	08-Feb-22	07-Feb-23
Yorkshire Building Society	184 days	15,000,000	2.410	09-Aug-22	09-Feb-23
Santander UK Plc	184 days	15,000,000	2.900	24-Aug-22	24-Feb-23
Standard Chartered Bank	273 days	20,000,000	2.470	07-Jul-22	06-Apr-23
Santander UK Plc	273 days	30,000,000	3.310	24-Aug-22	24-May-23
Standard Chartered Bank	182 days	30,000,000	4.150	07-Dec-22	07-Jun-23
Close Brothers	365 days	5,000,000	2.800	13-Jul-22	13-Jul-23
Standard Chartered Bank	303 days	10,000,000	5.180	27-Sep-22	27-Jul-23
Santander UK Plc	365 days	20,000,000	4.100	15-Sep-22	15-Sep-23
Sub-total:		**200,000,000**			
TOTAL:		**264,915,031**			



3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Council uses to assess its performance.

	2022/2023 Actual to 31/12/22 %	2022/2023 Benchmark to 31/12/22 %
Return on investments	2.07	1.74

3.4 Investments placed in 2022/2023 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.

3.5 Investment rates available in the market have started to rise following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 12 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting in December 2021, there have been eight subsequent rises. The Base Rate currently stands at 3.50% with further increases expected.

Effective Date	BoE Base Rate %
19 Mar 2021	0.10
16 Dec 2021	0.25
3 Feb 2022	0.50
17 Mar 2022	0.75
5 May 2022	1.00
16 Jun 2022	1.25
4 Aug 2022	1.75
22 Sep 2022	2.25
3 Nov 2022	3.00
15 Dec 2022	3.50

3.6 Whilst investment rates have improved recently, the Council continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Council continues to follow advice from our treasury advisors by placing funds in shorter dated liquid investments than previously.

3.7 Advice also confirms 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. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

3.8 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. Any changes are reflected on the Approved Lending List shown in Appendix C.

Lending List Criteria **Appendix B**

Counterparty Criteria

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

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

Fitch Long-Term Rating	**Fitch Short-Term Rating**	**Moody's Long-Term Rating**	**Moody's Short-Term Rating**	**S&P's Long-Term Rating**	**S&P's Short-Term Rating**	**Maximum Deposit £m**	**Maximum Duration**
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) * Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years
Strategic Partners						Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

* CNAV=Constant Net Asset Value, LVNAV=Low Volatility Net Asset Value and VNAV=Variable Net Asset Value

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 limits are as follows:

Appendix B (continued)

Country Limit
It is proposed that only non-UK 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 £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the Government has previously undertaken and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	300
Non-UK	50

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	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the 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-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	**A-**	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	**Ba1**	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	**A-**	F1	A1	P-1	A	A-1	**50**	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	BBB+	F2	**A3**	**P-2**	**A-**	**A-**	0	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Strategic Partners

Cabinet, at its January 2023 meeting, endorsed the extension of an unsecured investment with Education Partnership North East (EPNE), based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan. As at the 31st December 2022 there have been no funds drawn down by EPNE.

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 £75m.

*/** 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.

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE 3 FEBRUARY 2023

TREASURY MANAGEMENT POLICY AND STRATEGY 2023/2024, INCLUDING PRUDENTIAL INDICATORS FOR 2023/2024 TO 2026/2027

Report of the Director of Finance

1. Purpose of the Report

1.1 To inform the Audit and Governance Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2023/2024 and to note the Prudential 'Treasury Management' Indicators for 2023/2024 to 2026/2027 and to provide comments to Council on the proposed policy and indicators where appropriate.

2 Treasury Management

2.1 Treasury Management is defined as "the management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 **Statutory requirements**

2.2.1 The Local Government Act 2003 (the Act) requires the Council to:

- 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators including specific Treasury Management Indicators) for a minimum period of three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are detailed at Appendix 1.

- adopt a Treasury Management Policy Statement (detailed in Appendix 2), and

- to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments (set out in Appendix 3).

2.2.2 The Ministry of Housing, Communities & Local Government (MHCLG), now known as the Department for Levelling Up, Housing and Communities (DLUHC) 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice and Prudential Code in December 2021. Changes from the previous

MHCLG investment guidance focused particularly on non-treasury investments which are reported within the Commercial Activity – Investment Strategy section of the Capital Strategy rather than in the Treasury Management Strategy. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments. Code updates continue strong reinforcement that local authorities must not borrow to invest primarily for financial return.

2.3 CIPFA requirements

2.3.1 The Council continues to fully adopt and to re-affirm annually its adherence to the updated CIPFA Code of Practice on Treasury Management.

The primary requirements of the Code include that:

1. The Council will create and maintain, as the cornerstones for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

   - suitable treasury management practices (TMPs), setting out the way the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the treasury management policy statement is detailed in Appendix 2 and the TMPs follow the recommendations contained in Sections 6 and 7 of the Code, subject only to minor variations where necessary to reflect the circumstances of the Council and these do not result in the Council materially deviating from the Code's key principles.

2. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan, in advance of the year ahead, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance, who acts in accordance with the Council's Treasury Management Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council's Audit and Governance Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.4 **Treasury Management Strategy Statement for 2023/2024**

2.4.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments in 2023/2024.

2.4.2 There are no major changes proposed to the overall Treasury Management Strategy in 2023/2024, which maintains the careful and prudent approach adopted by the Council in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Capital Programme, the availability of borrowing, and the current and forecast global and UK economic positions, in particular forecasts relating to interest rates and security of investments.

2.4.3 The proposed Treasury Management Strategy Statement for 2023/2024 is set out in Appendix 3 and has been informed by market data, market information and leading market forecasts and views provided by the Council's treasury adviser, Link Asset Services.

2.4.4 The Council's treasury management practices are subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate so that the Council can take a view on the optimum time to carry out further borrowing or debt rescheduling.

3 Recommendation

3.1 Committee is requested to:

3.1.1 Note the proposed:

- Annual Treasury Management Policy and Strategy for 2023/2024 (including specifically the Annual Borrowing and Investment Strategies) and;
- Prudential and Treasury Management indicators 2023/2024 to 2026/2027.

3.1.2 Provide and appropriate comments to Council on the proposals.

Prudential and Treasury Indicators 2022/2023 to 2025/2026

All of the prudential indicators fully reflect regulatory requirements. Should any of the Council's prudential indicators be exceeded during the year then they will be reported to Cabinet and where appropriate full Council at the next appropriate meeting following the change.

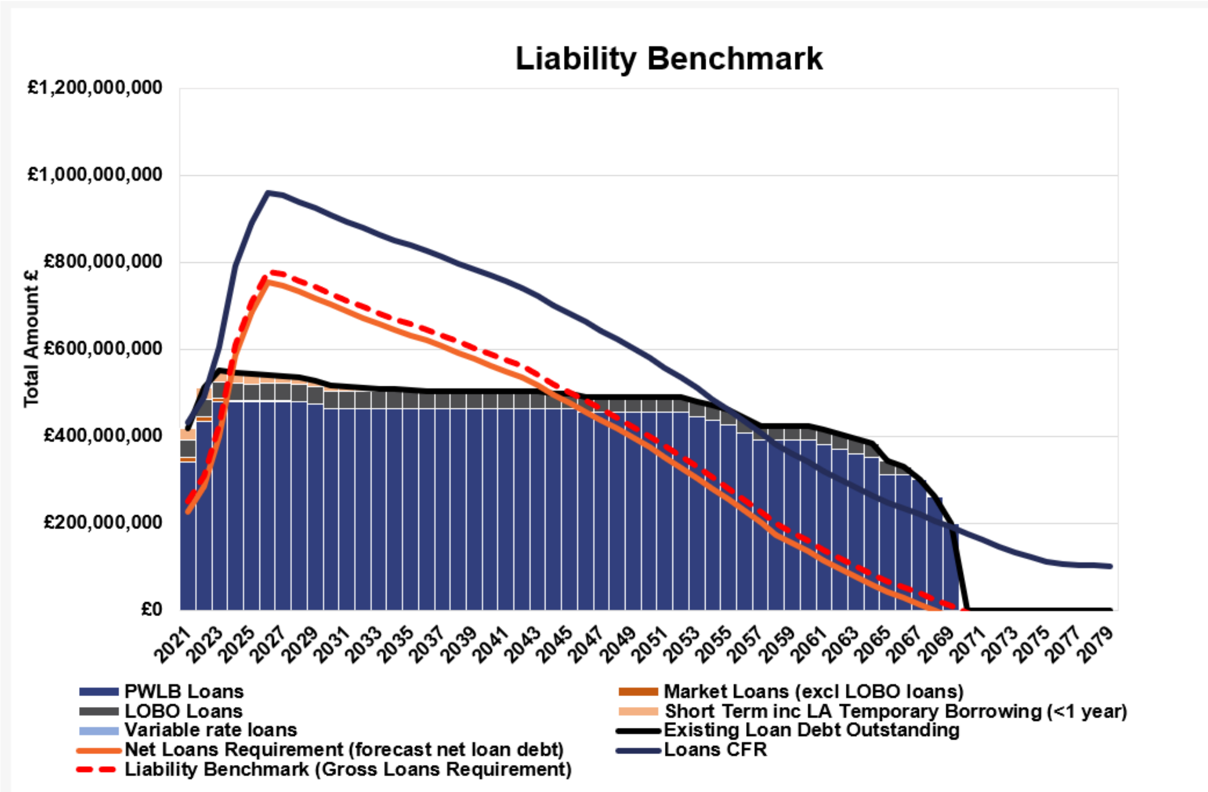
The indicators that must be taken into account are set out below:

P4 CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following comparator between gross debt and the capital financing requirement as a key indicator of prudence:

> "In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The Council had no difficulty meeting this requirement in 2021/2022, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report and the report elsewhere on today's agenda on the Revenue Budget and Proposed Council Tax 2023/2024.

The liability benchmark for the Council is shown in the chart below. From 2023 onwards it is projected for the next 20 years that the Council will be under-borrowed against its requirements. This will mean that additional borrowing will be required but the Council will manage that, as it always has, by monitoring interest rates and identifying the most appropriate borrowing opportunities. There may be occasions when the Council will opt to actively be under-borrowed to avoid excessive interest rate costs and manage financing requirements through internal resources.



P5 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt (gross of investments) for the next four financial years. These limits must separately identify borrowing from other long-term liabilities such as PFI schemes and leases. The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to Cabinet and the Council at the next available meeting.

Authorised Limit for External Debt

	2022/2023 £'000	**2023/2024 £'000**	**2024/2025 £'000**	**2025/2026 £'000**	**2026/2027 £'000**
Borrowing	929,152	981,975	971,732	952,613	933,570
Other long-term liabilities	153,506	146,013	138,780	131,233	123,241
Total	**1,082,658**	**1,127,988**	**1,110,512**	**1,083,846**	**1,056,811**

The above authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent, but not worst-case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements, non-financial investments and refinancing of all internal borrowing. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

The Council also undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in the Council's borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing for the Council. A specific element of risk has also been taken into account for these bodies. The capital expenditure and borrowing of companies where the Council has an interest such as International Advanced Manufacturing Park (IAMP LLP), Siglion, Sunderland Care and Support Ltd, Sunderland Lifestyle Partnership Ltd and Together for Children Sunderland Ltd is not included within the Council's prudential indicators, however regard to the financial commitments and obligations to those bodies is taken into account when deciding whether borrowing is affordable.

In taking its decisions on the Revenue Budget and Capital Programme for 2023/2024, the Council is asked to note that the authorised limit determined for 2023/2024 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst-case scenario level, without the additional headroom included within the authorised limit to allow for example for unusual cash flow movements. It equates to the projected maximum external debt and represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also requested to delegate authority to the Director of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, similar to the authorised limit set out in P5.

The operational boundary limit will be closely monitored, and a report will be made to Cabinet if it is exceeded at any point in the financial year ahead. It is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing needed to support the Council's Capital Programme has been undertaken for that particular year and the next two financial years and that it will only be exceeded temporarily as a result of the timing of debt rescheduling.

Operational Boundary for External Debt

	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Borrowing	904,152	956,975	946,732	927,613	908,570
Other long-term liabilities	153,506	146,013	138,780	131,233	123,241
Total	**1,057,658**	**1,102,988**	**1,085,512**	**1,058,846**	**1,031,811**

P7 The Council's actual external debt at 31st March 2022 was £618.497 million and was made up of borrowing of £511.176 million and other long-term liabilities of £127.684 million.

The Council includes an element for long-term liabilities relating to PFI schemes and finance leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for internal borrowing and cash flow variations.

P8 The Council is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However, the revised Code was adopted in 2017 by full Council and is re-affirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are <u>affordable;</u>
(b) all external borrowing and other long-term liabilities are within <u>prudent and sustainable levels; and</u>
(c) treasury management and investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved.
And that in taking decisions in relation to (a) to (c) above the local authority is <u>accountable</u>, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(a) <u>local strategic planning;</u>

(b) <u>local asset management planning; and</u>

(c) <u>proper option appraisal</u>.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the Council can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2023/2024 to 2026/2027

P9 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing maturing in each period expressed as a percentage of total projected borrowing at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
over 50 years	100%	0%

P10 A maximum maturity limit of £75 million is set for each financial year (2023/2024, 2024/2025, 2025/2026 and 2026/2027) for long-term investments (those over 365 days), made by the Council. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The types of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 7).

At present the Council has £29.376m of long-term investments. This is £16.508m for the value of share capital held in NIAL Holdings PLC (a 18.87% share), a £12.350m equity investment in Siglion (a 100% share), a £0.500m equity share in Sunderland Lifestyle Partnership Ltd (a 50% share) and the Council also holds £0.018m in shares and unit trusts.

Treasury Management Policy Statement

In line with CIPFA recommendations, on 3rd March 2010 (updated in December 2021) the Council adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Council defines its treasury management activities as: “The management of the Council’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA’s Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issue by the DLUHC supporting Part 1 of the Local Government Act 2003 in respect of local authority investments.

The Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2023/2024 as it does every year.

Treasury Management Strategy Statement for 2023/2024

1. Introduction

1.1 The Local Government Act 2003 and subsequent guidance requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing both its borrowing and its investments, which gives priority to the security and liquidity of those investments over yield.

The suggested strategy for 2023/2024 is set out below and is based upon the Director of Finance' views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Link Asset Services.

In December 2021 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 DLUHC revised their Guidance on Local Government Investments and also their Statutory Guidance on Minimum Revenue Provision. A particular focus of these revised codes is how to deal with local authority investments which are non-treasury type investments e.g. by investing in a property portfolio in order to generate income for the authority at a higher level than can be attained by vanilla treasury investments. This report deals solely with financial investments managed by the Council's Treasury Management function. Non-treasury investments are covered in the Capital Strategy which was approved by Council in November 2022. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

2. Treasury Management Strategy

2.1 Borrowing

2.1.1 Current Treasury Management Position

The Council's treasury portfolio position at 31st December 2022 comprised:		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	479.6		
	Market	39.5		
	Other	7.7	526.8	2.57
Variable Rate Funding	Temporary / Other		27.6	1.99
Total external borrowing			**554.4**	**2.54**
Total treasury investments				
	In house – short term		**264.9**	**2.07**
Net treasury borrowing			**289.5**	

The Council currently has a net deficit of £289.5m which represents the difference between gross debt and total investments and is significantly lower that the Council's capital financing requirement (capital borrowing need).

2.1.2 Treasury Indicators and Limits

Prudential and Treasury Indicators (as set out in Appendix 4) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels (and council housing rent levels where relevant) is 'acceptable'.

The "Affordable Borrowing Limit" comprises of the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and two successive financial years and details can be found in Appendix 4 (P5) of this report. The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long-term liabilities where this would be appropriate. Any such changes made will be reported to Cabinet and the Council at their next meetings following the change.

Also, the Council is requested to approve the Operational Boundary Limit (P6) which is included in the Prudential Indicators set out in Appendix 4. This operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Council is also asked to delegate authority to the Director of Finance, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

The requirement for the Council to indicate it has adopted the CIPFA Code of Practice on Treasury Management was removed in the revised 2017 edition of the code. However, this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002. The Council reaffirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 2).

2.1.3 Prospects for Interest Rates

The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a ninth consecutive meeting on 15th December 2022, taking it to 3.5%, the highest level since November 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe

Link Asset Services, the Council's treasury advisors, reviewed their interest rate forecasts in December 2022 in light of continued volatility in the financial markets. They believe the MPC will need to see stronger signs of activity slowing, the labour market loosening and wage growth slowing before stopping rate rises. They believe the Government's policy of emphasising fiscal rectitude will probably mean the Bank Rate will not need to increase beyond 4.50%, much less than the peak of 5.25% expected by the financial markets.

Link forecast the BoE Base Rate will rise to 4.00% in February 2023, 4.25% in March 2023 and peak at 4.50% in May 2023, before gradually falling to 2.50% by September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 10th January 2023.

2022/2023	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %	Qtr 3* (Oct – Dec) %	Qtr 4* (rates to 10th Jan 2023) %
SONIA Rate	0.89	1.55	2.75	3.42
1 year	2.32*	3.27*	4.16*	4.26*
5 year	2.58*	3.25*	4.38*	4.33*
10 year	2.84*	3.41*	4.44*	4.45*
25 year	3.08*	3.79*	4.67*	4.78*
50 year	2.81*	3.52*	4.20*	4.42*

*rates take account of the 0.2% discount to the PWLB rates available to eligible authorities (including the Council).

The Link Asset Services forecast in respect of interest rates for loans charged by the PWLB is as follows:-

Date	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment) %		
		5 year	25 year	50 year
March 2023	4.25	4.20	4.60	4.30
June 2023	4.50	4.20	4.60	4.30
Sept 2023	4.50	4.10	4.50	4.20
Dec 2023	4.50	4.00	4.40	4.10
March 2024	4.00	3.90	4.20	3.90
June 2024	3.75	3.80	4.10	3.80
Sept 2024	3.50	3.60	4.00	3.70
Dec 2024	3.25	3.50	3.90	3.60
March 2025	3.00	3.40	3.70	3.50
June 2025	2.75	3.30	3.60	3.30
Sept 2025	2.50	3.20	3.50	3.20
Dec 2025	2.50	3.10	3.50	3.20

The main sensitivities of the forecasts in the UK are felt to be that the BoE acts too soon or too far over the next year in raising the Base Rate. This could hamper economic growth and not have the intended impact on inflation. The ongoing conflict between Russia and the Ukraine, heightened tensions between China, Taiwan and the United States and other geopolitical factors are likely to continue to have a global economic impact. A further concern is that significant issues remain unresolved over future UK/EU trade arrangements following Brexit and complications or lack of co-operation in discussions pose a threat.

2.1.4 Borrowing Strategy

The Council's strategy for 2022/2023 was 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 3.0% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2022.

The basis of the proposed Borrowing Strategy for 2023/2024 is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable;
- current (January 2023) long-term PWLB rate (50 years) 4.17%. Forecast rates over the financial year 2023/2024 are 4.30% Q1, 4.20% Q2, 4.10% Q3 and 3.90% Q4. Should interest rates fall below these rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

As announced by the Chancellor in November 2020, a prohibition was introduced that denies access to any new borrowing from the PWLB for a local authority that has plans to purchase investment assets "primarily for yield". When applying for PWLB borrowing authorities must now submit a high-level description of their capital spending and financing plans for the following three years. In addition, the Section 151 Officer (Director of Finance) must confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment will be based on the Section 151 Officer's professional interpretation of guidance issued along with PWLB lending terms.

Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement – CFR), new borrowing of £50m was undertaken in August 2022 from the PWLB when there was a dip in rates to 2.79%.

PWLB interest rates remain the likely cheapest option available to the Council to fund the large borrowing requirement needed to support the capital programme and it will benefit the Council's revenue budget over the longer term. The Treasury Management team continues to closely monitor interest rates to assess the value of possible further new borrowing in line with Capital Programme requirements. In order to optimise the Council's position, consideration will also be given to various other funding options, including taking out shorter term borrowing, utilising investment balances, and use of other financial institutions to provide borrowing facilities to fund the Council's borrowing requirement.

The Council has seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and the Council can either accept the new rate or repay the loan without penalty. The following table shows the two LOBOs that were subject to a potential rollover in 2022/2023. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
21/04/2022 and 21/10/2022	Barclays	5.0	4.50	Every 6 months
14/08/2022 and 14/02/2023	Barclays	5.0	4.45	Every 3 years
Total		**10.0**		

The capital expenditure plans set out in Appendix 2 provide details of the service activity of the Council. The treasury management function ensures that the

Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

The Council's potential borrowing requirement is as follows:

		2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
1.	Capital Programme Borrowing	192.6	104.2	83.3	19.0
2.	Replacement borrowing (PWLB)	0.0	0.0	0.0	0.0
3.	Replacement LOBO	19.5	20.0	10.0	19.5
TOTAL:		**212.1**	**124.2**	**193.3**	**38.5**

The Council currently has net treasury borrowing of £289.5m which represents the difference between gross debt and total investments. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. Consideration will be given to continue utilising some investment balances to fund the borrowing requirement in 2023/2024. This policy has served the Council well over the last few years as investment returns were low. As a result, the Council is currently maintaining an under-borrowed position. This position will be carefully reviewed to avoid incurring higher borrowing costs over the long term whilst ensuring that financing is available to support capital expenditure plans.

There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable number of investments.

Benefits of having a high level of investments are:

- Liquidity risk – having a large number of investments means that the Council is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps support the Council's overall budget position; and
- of more importance, the Council has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

Risks associated with holding a high level of investments are:

- the counterparty risk – institutions cannot repay the Council investment placed with them; and
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Council.

The Council has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

A Municipal Bonds Agency, set up by the Local Government Association, has begun to offer bonds to local authorities. The rates offered by the Agency will be assessed and use made of this, and any other new sources of funding that may become available, where it is considered advantageous.

The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required when considering borrowing opportunities, and flexibility needs to be retained to adapt to any changes that may occur.

The Council, taking advice from the Council's treasury advisers will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

Taking into account potential market volatility and the advice of the Council's treasury adviser, alongside potential Bank of England base rate increases, a benchmark financing rate of 4.50% for any further long-term borrowing for 2023/2024 is considered to be appropriate.

2.1.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely to profit from treasury investments of the extra sums borrowed. Any decision to borrow in advance will be assessed within forward approved Capital Financing Requirement estimates, with regard to current policies, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance of activity will be subject to appraisal and any borrowing undertaken will be reported to Cabinet as part of the agreed reporting arrangements.

2.1.6 Debt Rescheduling

The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However, the very low underlying rate of the Council's long-term borrowing together with the current spread between the rates applied to new PWLB borrowing and repayment of PWLB debt means that PWLB debt restructuring is much less attractive. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Council.

Following consultation and advice from the Council's treasury advisers the Council has taken the decision to borrow over longer term periods and much of the Council borrowing is for periods over 40 years and on a fixed interest rate basis. This borrowing has been taken out where it offers good value and to allow for the potential to benefit from refinancing debt in the future. A further benefit is that it reduces risk by giving certainty of borrowing rates over the long term.

The Council is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

Any rescheduling undertaken will be reported to Cabinet, as part of the agreed treasury management reporting arrangements.

2.2 Annual Investment Policy and Strategy

2.2.1 Investment Policy and Management of Risk

When considering its investment policy and objectives, the Council has regard to the DLUHC Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code") consideration has also been given to the refreshed Code published in December 2021.

The DLUHC and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the Council's Treasury Management function). Non-financial investments, essentially the purchase of income yielding assets, are covered within the Capital Strategy approved by Council in November 2022.

The Council's investment objectives are:

(a) the security of capital, and
(b) the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments, but this is commensurate with proper levels of security and liquidity.

In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate the Council will also consider the value available in placing investments for longer periods with high credit rated financial institutions, as well as wider range fund options.

The guidance from the DLUHC and CIPFA places a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and in order to minimise the risk to investments, the Council will:

- apply minimum acceptable credit criteria (detailed in Annex B) in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Council is regarded as low in order to give priority to security of its investments;

- monitor credit ratings daily. The Council has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services' counterparty service. If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the Council will cease to place funds with that counterparty. If a counterparty's rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment limit and vice versa;
- not use ratings as the sole determinant of the quality of an institution. The Council will continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings provided;
- use other information source including the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties;
- define the type of investment instrument that the treasury management team are authorised to use. The Council is allowed to invest in two types of investment, namely Specified Investments and Non-Specified Investments:
    - Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Council has set additional criteria to limit the time and amount of monies that will be invested with these bodies;
    - Non-Specified Investments are any investments which are not classified as Specified Investments. As the Council only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-Specified Investments. A limit on the amount of investments which are can be invested for longer than 365 days is set in the Council's creditworthiness policy. In addition to investments in high credit rated companies the Council has agreed to provide an unsecured investment to Education Partnership North East (EPNE) (which is the group brand for Sunderland College, Northumberland College and Hartlepool Sixth Form College) in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.
- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, variable term deposits, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local

authority bonds, bond funds, gilt funds, and gilt-edged securities and will follow the criteria as set out in Annex B;

- assess the risk of default and if any of the Council's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This Council mitigates this risk with its prudent investment policy;
- set an approved lending list which shows lending limits and the maximum duration of any investment for each counterparty (detailed in Annex C). These are set using the agreed lending list criteria (detailed in Annex B);
- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Annex B). Should the UK Government AA- sovereign rating be withdrawn the Council's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to Cabinet; and
- engage external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

In accordance with accounting standard IFRS9, the Council considers the implications of investment instruments which could result in an adverse movement in the value of the amount invested and lead to resultant charges at the end of the year to the General Fund. In November 2018 DLUHC concluded a consultation for a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override for five years ending 31st March 2023.

The prudential code states that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

2.2.2 Creditworthiness policy

The creditworthiness policy adopted by the Council takes into account the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's). Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the Council's counterparty criteria.

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to future outlooks for counterparties. However, as economies are beginning to reopen, there have been some instances of previous lowering of future outlooks being reversed.

Although bank Credit Default Swap (CDS) prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

While the Council understands changes that have taken place to reduce ratings, it will specify a minimum sovereign rating of AA-. This is due to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution. It is important to stress the ongoing regulatory changes made in the UK and the rest of Europe are designed to make the financial system sounder. Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now.

In keeping with the agencies' new methodologies, the rating element of the Council's credit assessment process now focuses solely on the Short and Long Term ratings of an institution.

One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the Council's Counterparty criteria set out in Annex B..

Set out in Annex C is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment. If the Council's own banker, National Westminster Bank plc, should fail to meet the minimum credit criteria to allow investments from the Council then balances will be minimised as far as possible.

The Director of Finance will monitor long-term investment rates and identify any investment opportunities if market conditions change. It is proposed that delegated authority continues for the Director of Finance, in consultation with the Cabinet Secretary, to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively, in accordance with normal treasury management reporting procedures.

2.2.3 **Outlook and Proposed Treasury Investment Strate**gy

Based on its cash flow forecasts, the Council anticipates its fund balances in 2023/2024 are likely to range between £50 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2022/2023 some investment balances have been used to fund borrowing requirements. It is likely that this will continue into 2023/2024 with investment balances being used to fund some borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing), will affect cash flow and short-term investment balances;

- Any reprofiling of capital expenditure from, and to, other financial years will also affect cash flow, (no reprofiling has been taken into account in current estimates);
- Any unexpected capital receipts or other income;
- Timing of new long-term borrowing to fund capital expenditure; and
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £50 million. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of the total value of short-term investments maturing within 6 months.

A maximum limit of £75 million is to be set for in-house Non-Specified Investments over 365 days up to a maximum period of 2 years (excluding non-treasury management investments and all other investments defined as capital expenditure). This amount has been calculated by reference to the Council's cash flows, including the potential use of earmarked reserves.

The Council is not committed to any investments which are due to commence in 2023/2024 (i.e. it has not agreed any forward deals).

The Council, in conjunction with the Council's treasury adviser Link Asset Services and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

During 2022/2023 the Council did not employ any external fund managers; all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below compared with the benchmark SONIA (Sterling Overnight Index Average) rate and with the relevant benchmarks and performance from the previous year:

Return	2021/22 Benchmark %	2021/22 Return %	To date 2022/23 Benchmark %	To date 2022/23 %
Council	0.14	0.22	1.74	2.07

During 2023/2024 the Council will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Council uses the Sterling Overnight Index Average (SONIA) rate as a benchmark for its investments. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very turbulent market. The Council's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients.

2.2.4 Policy on the use of external service providers

At present the Council does not employ any external fund managers.

Should the Council appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These will be reported to Cabinet for agreement prior to any external fund manager being appointed.

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remain with the Council at all times and will ensure that undue reliance is not placed upon our external advisors.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

2.2.5 Non - Treasury Investments

The Council may make other types of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investments activity covers those investments which arise from the Council's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

Investments that may be made for policy reasons outside of normal treasury management activities may include: service investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration. This may include loans to local enterprises as part of a wider strategy for local economic growth.

The Director of Finance will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.

Investment objectives in relation to these types of investments will still be primarily security and liquidity but with the understanding that the liquidity for these types of investments may be less than those for treasury management activities and that these may be subject to higher levels of risk. When non-treasury management investments are considered, due diligence will take place with all proposed investments being subjected to a detailed financial appraisal that will include financial sustainability of the investment and the identification of risk to both capital and returns. An assessment against loss will be carried out periodically and if the value of non-financial investments is no longer sufficient to provide security against loss mitigating actions will be taken. Decisions relating to non-treasury management investments will follow appropriate governance arrangements.

Cabinet at its January 2023 meeting endorsed an unsecured investment with EPNE, based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.

The Council's approach to non-treasury investments is covered within the Capital Strategy approved by Council in November 2022 and complies with the guidance that Local Authorities will not use PWLB borrowing primarily for yield.

3. Scheme of delegation

3.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy (TMS) is approved annually by the full Council. In addition, quarterly reports are made to Cabinet and the Audit and Governance Committee and monitoring reports are reviewed by members in both executive and scrutiny functions respectively. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has the following reporting arrangements in place in accordance with the requirements of the Code: -

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement	Full Council	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	Full Council	As appropriate
Treasury Management Monitoring Reports	Director of Finance	Monthly
Treasury Management Practices	Director of Finance	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Cabinet / Audit and Governance Committee	Annually by 30 September after the end of the financial year

4. The Treasury Management Role of the Section 151 Officer

4.1 The Director of Finance is the Council's Section 151 Officer and has specific delegated responsibility in the Council's Constitution to manage the borrowing, financing, and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council. This includes:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparing a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council;
- ensuring that the Council has the appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- providing to members a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council; and
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above.

Annex A

1. Interest Rate Forecasts

1.1 The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy). PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 6th January 2023.

1.2 The forecast within this strategy statement has been drawn from these diverse sources and officers’ own views.

ECONOMIC FORECASTS

LINK GROUP – DECEMBER 2022

	End Q1 2023	End Q2 2023	End Q3 2023	End Q4 2023	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024	End Q1 2025	End Q2 2025	End Q3 2025	End Q4 2025
Bank Rate	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
5yr PWLB Rate	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%
10yr PWLB Rate	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.30%
25yr PWLB Rate	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%	3.70%	3.60%	3.50%	3.50%
50yr PWLB Rate	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%	3.50%	3.30%	3.20%	3.20%

CAPITAL ECONOMICS – DECEMBER 2022

	End Q1 2023	End Q2 2023	End Q3 2023	End Q4 2023	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024
Bank Rate	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5yr PWLB Rate	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%
10yr PWLB Rate	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%
25yr PWLB Rate	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%
50yr PWLB Rate	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%

2. Survey of Economic Forecasts

2.1 HM Treasury November 2022

The current 2022 base rate forecasts are based on samples of both City and non-City forecasters included in the HM Treasury November 2022 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2022	Ave. 2023	Ave. 2024	Ave. 2025	Ave. 2026
Average	1.65%	4.11%	3.94%	3.35%	3.00%
Highest	2.00%	4.80%	5.50%	5.60%	5.40%
Lowest	0.72%	1.09%	1.22%	1.35%	1.48%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2022 (No.424, Table M4)

Annex B

Lending List Criteria

1. Counterparty Criteria

1.1 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.

1.2 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 Long-Term Rating	**Fitch Short-Term Rating**	**Moody's Long-Term Rating**	**Moody's Short-Term Rating**	**S&P's Long-Term Rating**	**S&P's Short-Term Rating**	**<u>Maximum Deposit £m</u>**	**<u>Maximum Duration</u>**
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years
Strategic Partners						Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

CNAV – Constant Net Asset Value, LVNAV – Low Volatility Net Asset Value, VNAV – Variable Net Asset Value

1.3 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.

1.4 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 limits are as follows:

2. Country Limit

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

2.2 It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit (excluding money market funds) of £300m 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	300
Non-UK	50

3. Sector Limit

3.1 The Code recommends that 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	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

4. Group Limit

4.1 Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the 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.

4.2 Proposed group limits are set out in Annex C.

Annex C

Approved Lending List

	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-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	A-	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	Ba1	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days

SMBC Bank International Ltd	A-	F1	A1	P-1	A	A-1	50	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	

DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	BBB+	F2	**A3**	**P-2**	**A-**	**A-**	0	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

RFB – Ringfenced Bank, NRFB – Non-Ringfenced Bank

Strategic Partners

Cabinet at its January 2023 meeting endorsed an unsecured investment with EPNE, based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.

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 £75m.

* 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.

Audit Progress Report

Sunderland City Council

Audit and Governance Committee January 2023

mazars

1. Audit Progress
2. National publications

mazars

01

Section 01:

Audit Progress

1. Audit progress

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2020/21 Audit

The National Audit Office has issued its auditor instructions for the 2020/21 Whole of Government Accounts process and we have now submitted the required auditor's return. NAO has not yet though communicated the arrangements for the sample of authorities where they require additional audit procedures to be carried out. The Audit Certificate will be issued, and the audit formally closed, when NAO has confirmed their requirements and any further requested work has been completed.

2021/22 Audit

The position on the key elements of the 2021/22 audit is summarised below.

Financial Statements audit

We presented our Audit Completion Report during the meeting of the Audit and Governance Committee in November. Our audit of the 2021/22 financial statements is virtually complete other than the following two areas which remain outstanding:

- infrastructure (national issue); and
- outstanding Pension Fund auditor assurance (anticipated mid to late February 2023).

In respect of infrastructure, progress has been made on a national level, with guidance being issued and a statutory override being approved in late December 2022. The CIPFA bulletin, which sets out the updated guidance to Councils and is based on the December 2022 DLUHC amended Regulations, was issued on 11 January 2023.
The next steps are for the Council to review the recently issued guidance and consider its 2021/22 infrastructure accounting and make amendments, as required. We are continuing to liaise with the finance team on this topic and will critically review the Council's assessment once working papers are available.

1. Audit progress (continued)

2021/22 Audit (continued)

Value for Money arrangements

We reported our interim findings in our November 2022 report to the Committee i.e. that there were no significant issues arising at that time and have continued to keep our risk assessment up to date. There have been no significant changes to our assessment of the Council's arrangements. We will update our assessment on this and the other criteria covered by the value for money commentary and set out our findings and conclusions in the Auditor's Annual Report.

Assurance work

We have been engaged by the Council to carry out two pieces of assurance work. The status of these engagements is as follows:

- Teachers Pensions Return 2021/22 – this was completed by the end of November 2022 deadline. There are no matters arising that we need to bring the Committee's attention.
- Housing Benefit Subsidy Assurance 2021/22 – this work was completed in December 2022, ahead of the January 2023 deadline. There are no matters arising from the work carried out to date that we need to bring the Committee's attention.

Whole of Government Accounts

NAO has not yet issued its auditor instructions for 2021/22. We will carry out the work required when the instructions have been received and update the Committee at future meetings.

2022/23 Audit

We are updating our risk assessments and completing our planning for the 2022/23 audit. We will present our formal Audit Strategy Memorandum to the Committee's next meeting and continue to update members on progress.

At this stage we do not anticipate any significant changes in the scope of the audit opinion work, the approach or timeline. We have confirmed the requirements of the revised ISA 315 which applies to the Council's 2022/23 audit and underpins the work we are required to carryout to identify and assess the risks of material misstatement. This enhanced standard will require additional audit work and it is likely that we will need additional information and responses from the Council's management beyond those asked at previous audits. We have included a short summary of the key points from the revised ISA315 within Section 2 of this report and we will continue to liaise with management on the information required and any impact on our risk assessment.

NAO has confirmed that there are no changes to their requirements for the auditor's value for money commentary on the Council's arrangements for 2022/23.

2. Revised ISA 315

Revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

(*Effective for audits of financial statements for periods beginning on or after December 15, 2021*)

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The main changes relevant to your audit are outlined below:

- **Enhanced risk identification and assessment**

  The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework to identify the newly introduced inherent risk factors to drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these inherent risk factors, the auditor assesses inherent risk on the "spectrum of inherent risk", at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

  The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions:

Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?

2. Revised ISA 315

Consideration of account balances and assessing inherent risks

Under the revised ISA 315 we will make an assessment of the inherent risks associated with the Council's transactions, balances and disclosures. We then determine whether each transaction, balance and disclosure is a 'significant account' (i.e. a significant class of transactions, balances and disclosures) and identify the assertions that are relevant. We then consider the controls the Council has in place and conclude whether or not we consider the audit risk associated to each item is significant, i.e. after taking into account the controls in place is there a significant risk of material misstatement in relation to the relevant assertion. In addition, the revised ISA requires auditors to document more closely the key business process associated with each significant account with a focus on the processes for how transactions are initiated, recorded, processed, and incorporated into the general ledger.

Greater emphasis on IT

In response to constantly evolving business environments, the standard has placed an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

Increased focus on controls

In addition to the above, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

Impact on the audit of the Council

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in. This will build on the existing strong knowledge of the Council we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Council's IT environment although we will need to update our assessment following the financial system changes in 2022/23. We will keep this under review as part of our planning and interim audits. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Financial Reporting Council (FRC)		
1	FRC Major Local Audit Inspection Report	Outcome of the FRC inspection of audit quality from 2020/21 audits
Chartered Institute of Public Finance and Accountability (CIPFA)		
2	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
3	Insourcing in the Public Sector: A Practical Guide (2022 edition)	Guidance for practitioners
4	Update to the Code and Specifications for future Codes for Infrastructure Assets CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution	An update to the 2021/22 Code, which also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code. The bulletin covers the issues to be considered regarding the temporary solution set out in the Code update and the amended Regulations for the accounting and reporting issues relating to infrastructure assets
5	Integrating Care	CIPFA has published a report entitled, 'Integrating care: policy, principles and practice for places'.
Public Audit Forum		
6	Consultation responses to the revised Practice Note 10	The Public Audit Forum (PAF) overseas the development and publication of the Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom which was revised in 2022. PAF has now published the responses to the consultation and final draft amendments. These amendments were approved by the Financial Reporting Council in November 2022.
National Audit Office (NAO)		
7	Guide to Corporate Finance in the Public Sector	The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities

National publications

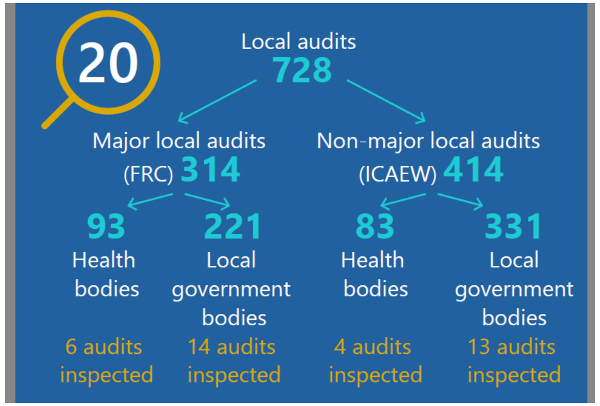
	Publication/update	Key points
8	Government Shared Services	The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver.
9	Departmental Overview 2021/22	The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021/22
Public Sector Audit Appointments Ltd		
10	Publication of the 2022/23 fee scale	External audit fees for 2022/23
11	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies
12	PSAA announces the number of audit opinions completed for the 2021/22 audits	PSAA has published this year's position on delayed audit opinions.
Department for Levelling Up, Housing and Communities		
13	Technical consultation on consequential changes to the homelessness legislation	This consultation aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.
14	Local government finance policy statement 2023/24 to 202/25	The policy statement sets out the government's intentions for the local government finance settlement for the next 2 years.
15	The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022	These amended Regulations provide local authorities with the temporary statutory override option to allow them to progress and resolve any issues relating to their accounting for Infrastructure Assets.

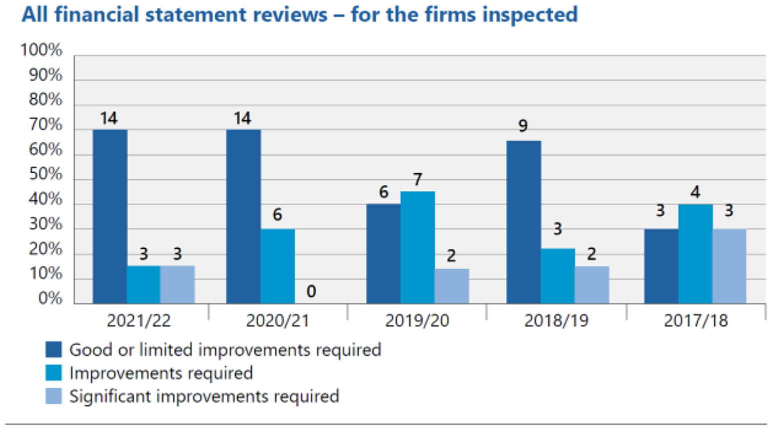
NATIONAL PUBLICATIONS
Financial Reporting Council

1. FRC Major Local Audit Inspection Report - October 2022

The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
Total	**314**		**20**





For Mazars, the FRC found that all 3 2021/22 files reviewed met the expected standards.

This was the second successive year of 100% compliance for Mazars.

Whilst the sample size is small and focused on the higher risk audits, these strong outcomes reflect the investment we have made in people, technical expertise, specialists (such as building an in-house valuation team) and strengthening our audit methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

NATIONAL PUBLICATIONS
CIPFA

2. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: **https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition**

3. Insourcing in the Public Sector: A Practical Guide (2022 edition), December 2022

The guide is an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in. In recent times, several outsourced arrangements have failed due to poor quality and unreliability of providers. It is important to note that while insourcing does not require a public body to run a full procurement process, it still needs to follow a process and undertake key steps (for example, TUPE and asset transfer) and is equally reliant on the public body having expert and skilled personnel to manage this.

This practical guide will support public sector practitioners in understanding key areas to focus on when considering insourcing as part of future delivery models.

https://www.cipfa.org/policy-and-guidance/publications/i/insourcing-in-the-public-sector-a-practical-guide-2022-edition

NATIONAL PUBLICATIONS
CIPFA

4. Update to the Code and Specifications for future Codes for Infrastructure Assets (November 2022), and CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution (January 2023)

This November 2022 publication is an Update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code, though these specifications will also be included in the 2023/24 and 2024/25 Codes for completeness. This Update to the Code and future specifications for the Code must therefore be considered against these editions of the Code, or where necessary earlier editions.

https://www.cipfa.org/-/media/files/policy-and-guidance/cipfa-lasaac/ifrs-based-code-update-infrastructure-assets.pdf

The January 2023 CIPFA Bulletin 12 provides further practical guidance and covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets. The Bulletin takes into account the matters set out in the amended regulations published in December 2022 (see item 15 later in this report). The objective of the bulletin is to provide guidance on the temporary solution for accounting for infrastructure assets, focussing on the reporting of the derecognition provisions where there is replacement expenditure and particularly for highways infrastructure assets

The temporary solution includes the Update to the Code and Specifications for Future Codes for Infrastructure Assets (Update to the Code) from 1 April 2021 to 31 March 2025 which features a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets and the statutory prescriptions from England and Wales and Scotland

The Bulletin also includes guidance on accounting for the pattern of consumption of economic benefits and service potential i.e. depreciation.

The Bulletin includes guidance on materiality, an overview of different elements of the temporary solution, the accounting requirements for derecognition including the statutory prescription, the impact on accounting policies and the reporting requirements for disclosure of gross cost and accumulated depreciation.

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-12-accounting-for-infrastructure-assets-temporary-solution

5. CIPFA publishes integrating care report – December 2022

CIPFA has published a report entitled, ‘Integrating care: policy, principles and practice for places’. The report provides an overview of the changes since the Health and Care Act 2022 was introduced and discusses what integration is seeking to achieve. It considers the wider health and care landscape in the current climate and addresses the remaining challenges at place level.

The recommendations and case studies it contains are intended to influence the development of further policy and guidance by central government, and to provide support for practitioners at local level. The purpose of the report is to help health and local government partners to find effective solutions to the challenges of health and care integration.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/press-release-cipfa-publishes-integrating-care-report

Public Audit Forum

6. Consultation on Practice Note 10 (Revised 2022): Summary of Responses and Proposed Amendments – December 2022

The consultation on the exposure draft of the 2022 revision of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10) closed on 16 September 2022 and this document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

Part 1 of PN 10 provides guidance on applying auditing, quality management and ethical standards in the public sector. It is important to consider potential changes to PN 10 in the context of PN 10’s status as a Statement of Recommended Practice (SORP): a set of sector-driven recommendations on (in this case) auditing practices for the public sector which guide auditors on how to apply the underlying standards, including International Standards on Auditing (UK) (ISAs (UK)), in the specialised context of the public sector. The PAF has no role in determining the principles or requirements which are included in the ISAs (UK). The PAF also has no direct role in setting the financial reporting frameworks for public sector entities (although member bodies of the PAF maintain dialogue with the framework setters).

As set out in the summary of responses included in the report, respondents commented on a range of issues faced by auditors of public sector entities. By far the most-cited issue was the current situation in local audit in England and current delays in completing audits of local authorities. A number of respondents suggested various ways in which the consultation draft of PN 10 might be amended so as to ameliorate some of these issues by reducing the audit effort in particular areas. There were suggestions that the proposed changes to the guidance on applying ISA (UK) 320 Materiality in planning and performing an audit may have a significant impact on local auditors’ approach to materiality judgements.

https://www.public-audit-forum.org.uk/wp-content/uploads/2022/12/Practice-Note-10-Consultation-Response-2022.pdf

NATIONAL PUBLICATIONS
National Audit Office

7. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts
- Organisations and functions
- Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/

8. Government shared services – November 2022

The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One)
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three)

The report concludes the government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence.

The reports highlights concerns that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. The NAO, therefore, cannot conclude that this programme is on track to demonstrate value for money.

https://www.nao.org.uk/reports/government-shared-services/#downloads

National Audit Office

9. Departmental Overview 2021/22: Department for Levelling Up, Housing & Communities - December 2022

The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021/22. DLUHC spends nearly £38 billion each year to support economic growth and housing across the country, in collaboration with local authorities. It has overall responsibility in central government for local authorities' funding. Along with other bodies, DLUHC oversees the core accountability system for local authorities.

The guide summarises the key information and insights that can be gained from the NAO's examinations of DLUHC and related bodies in the sector in England, and DLUHC's Annual Report and Accounts.

https://www.nao.org.uk/overviews/departmental-overview-2021-22-department-for-levelling-up-housing-communities/

Public Sector Audit Appointments Ltd

10. News release: Publication of the 2022/23 fee scale – November 2022

PSAA has published the 2022/23 audit fee scale following consultation. Information on the fee scale and consultation is available. Most audit work under this fee scale will be undertaken from April 2023 onwards.

The fee scale applies for the audit work to be undertaken by appointed auditors in respect of the 2022/23 financial statements at relevant principal authorities that have opted into PSAA's national auditor appointment arrangements for the period 2018/19 to 2022/23.

Auditors will undertake their work under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Under the Local Audit (Appointing Person) Regulations 2015, the 2022/23 fee scale must be published by 30 November 2022 and cannot be amended after that date. Any subsequent changes in national requirements or local circumstances relating to the 2022/23 audits will therefore be the subject of fee variations.

The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a procurement during 2022. PSAA will consult on the fee scale for the 2023/24 audit in early autumn 2023.

https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/

11. Directory of Auditor Appointments from 2023/24 – December 2022

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The Board agreed the appointments at its meeting on 16 December 2022.

https://www.psaa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/

Public Sector Audit Appointments Ltd

12. PSAA announces the number of audit opinions completed for the 2021/22 audits – December 2022

This year's position on delayed audit opinions underscores the scale of the huge challenge that local audit is facing. At the publishing date of 30 November 2022, only 12% of local government bodies' 2021/22 audit opinions have been given. Although this is slightly higher than last year's 9%, this year's publishing date is two months later than the 30 September target for delivery of 2020/21 opinions.

The table below highlights a comparison with previous years.

Year of Account	Publishing Date	Opinions given at the publishing date
2021/22	30 November 2022	12%
2020/21	30 September 2021	9%
2019/20	30 November 2020	45%
2018/19	31 July 2019	57%

What makes the latest position increasingly alarming is that more than 220 opinions from prior years remain outstanding. As opinions have been given at fewer than 60 bodies for 2021/22, this means that a total of more than 630 opinions are currently late. This year the position has been made more difficult by uncertainties concerning the valuation of infrastructure assets, adding to significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.

https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/

Department for Levelling Up, Housing and Communities

13. Technical Consultation on Consequential changes to the homelessness legislation – December 2022

This consultation seeks views on the consequential amendments to homelessness legislation as a result of the Renters Reform Bill, namely, the removal of section 21 evictions, assured shorthold tenancies and fixed-term tenancies and aims to identify and understand the impacts these changes will have on the sector, to ensure local authorities can continue to deliver their homelessness duties effectively and give people the support they need.

The scope of the consultation is limited to responses on the legislative technical amendments. The majority of the amendments to the legislation are minor and, while the consultation is open to everyone, most responses are expected to be from local authorities and charities in the homelessness space.

The consultation will run for 7 weeks.

https://www.gov.uk/government/consultations/technical-consultation-on-consequential-changes-to-the-homelessness-legislation/technical-consultation-on-consequential-changes-to-the-homelessness-legislation

14. Local government finance policy statement 2023/24 to 2024/25 – December 2022

The local government finance policy statement sets out the government's intentions for the local government finance settlement for the next 2 years, providing councils with greater certainty on key aspects of their funding to inform their budget setting process and help them to plan for the future.

For the core settlement the Business Rates Multiplier for 2023/24 will be frozen at 49.9p and Revenue Support Grant (RSG) will increase in line with CPI.

For council tax the bespoke council tax referendum principle of up to 3% or £5, whichever is higher, for shire districts remains.

In respect of the remaining settlement grants, the Rural Services Delivery Grant will remain unchanged, in recognition of the inflationary pressures across the sector the Lower Tier Services Grant will be repurposed along with a proportion of the expired New Homes Bonus legacy payments to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and council tax levels. There will also be new rounds of New Homes Bonus (NHB) payments in 2023/24.

These proposals are subject to consultation which will last for 4 weeks from 19 December 2022 to 16 January 2023.

https://www.gov.uk/government/publications/local-government-finance-policy-statement-2023-24-to-2024-25/local-government-finance-policy-statement-2023-24-to-2024-25

Department for Levelling Up, Housing and Communities

15. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 – December 2022

These amended regulations came into force 25 December 2022.

New regulation 30M (3) provides that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (i.e. either a nil amount or to follow the Code). Regulation 30M applies to statements of accounts for financial years beginning on or before 1 April 2024, and to those statements of accounts that have not already been certified by a local auditor.

The accompanying explanatory memorandum sets out the government's expectation in interpreting the statutory provision which is that where local authorities determine the carrying amount to be derecognised at nil value, no further evidence is required to support this. The government has indicated that 'determination' should be interpreted as a choice by an authority. As set out in the Local Government Act 2003 S.21 (3), where there is conflict between accounting practices specified in regulations and those in Code, the practices in regulations take precedent. The government has indicated that the intent of the Regulations and the Update to the Code is to mitigate the risks of further audit delays or the qualification of accounts due to issues relating to infrastructure assets, as described.

https://www.legislation.gov.uk/uksi/2022/1232/introduction/made

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