

AUDIT AND GOVERNANCE COMMITTEE
Friday 2 February 2024

Present:

Mr G N Cook in the Chair

Councillors Crosby, Stewart and Trueman together with Mr M Knowles.

In Attendance:

Paul Wilson (Director of Finance), Claire Emmerson (Assistant Director of Finance), Paul Davies (Assistant Director of Assurance and Property Services) Tracy Davis (Senior Manager – Assurance) Mark Kirkham (Mazars) and Gillian Kelly (Democratic Services Team Leader).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Foster.

Minutes

15. RESOLVED that the minutes of the meeting of the Committee held on 29 November 2023 be confirmed as a correct record.

Risk and Assurance Map Update 2023/2024

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 2023 and had been updated following consultation with Chief Officers and relevant key officers.

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 to Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

Changes to the risk scores for Strategic Risk Areas had been made in relation to: -

- R02 – *The city, its residents and businesses do not access the potential in the investments being delivered in the context of significant economic challenges.* The likelihood of the risk occurring had reduced from 3 to 2 and the overall risk rating from 12 (Red) to 8 (Amber)
- 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.* The impact of the risk had been reduced from its previous level of 4 to 3 and this reduced the overall risk rating from 8 (Amber) to 6 (Amber).
- R06 – *Unable to maximise the opportunities created by the Smart City Infrastructure.* The target impact level had reduced from its previous level of 3 to 2, reducing the risk target score down from 6 (Amber) to 4 (Green)
- R07 – *Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to become carbon neutral by 2040.* The target impact level had increased from 3 to 4 and the target score had increased from 6 (Amber) to 8 (Amber).
- R11 – *Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.* The likelihood of this risk occurring had reduced from 3 to 2 and therefore the overall risk score had been reduced from 12 (Red) to 8 (Amber).
- 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.* The likelihood of this risk occurring had increased from 3 to 4 and the risk score has gone from 9 (Red) to 12 (Red)
- R13 – *Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment.* The impact of this risk had reduced from 4 to 3 and the overall risk score had been reduced from 8 (Amber) to 6 (Amber)
- R22 – *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. The target likelihood had increased from 1 to 2 and the risk target score had increased from 4 (Green) to 8 (Amber).

A new risk had been added which was 'R21 Unable to implement the aspirations set out in the Housing Strategy and Homelessness and Rough Sleeper Prevention Strategy and unable to develop the city's rough sleeper accommodation that meets the needs and aspirations of individuals'.

It was highlighted that there had been one change in relation to the Corporate Risk Areas in that the score for R47 'Asset Management' had reduced from 9 (Red) to 6 (Amber) due to the positive results of the recent audit of the implementation of the Corporate Asset Management Strategy.

The cumulative assurance position for all Council owned companies was rated Green and performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

The Assistant Director of Assurance and Property Services advised Committee Members that Internal Audit was required to be subject to an external review every five years and this was currently taking place. The outcome of the review would be reported to the Committee in due course but as part of the work, Internal Audit's Charter had been updated and was attached at Appendix 6.

Mr Knowles commented that the report was very clear and he was pleased to note the inclusion of R12 and R13. Partnerships with health organisation were important and he referenced the increased risk in relation to the introduction of the Integrated Care System (ICS). The Assistant Director of Assurance and Property Services explained that as the funding was now on a broader footprint, there was a risk that Sunderland's needs were not as great as other areas and that this would impact on the funding received by the city. The Director of Finance added that the ICS and Integrated Care Board (ICB) were undertaking reviews of their resources and this may see an impact across the region.

Given that position, Mr Knowles went on to say that the link to health and social care in R13 was even more important. The Director of Finance noted that there was a representative from the ICS attending local authority finance director meetings.

Councillor Stewart referred to the increased risk score for R07 and queried the rationale for the change and whether this was anything which the Council had much control over. The Assistant Director of Assurance and Property Services acknowledged that the Council had set an ambitious target for carbon neutrality and there was a lot to do and it was expensive. There was an awareness from the Authority that achieving the goal was probably more difficult than had been envisaged and so the score had been increased; this did keep the target in focus and as a priority.

Councillor Crosby asked if the risk involved in Council partnerships – such as leisure and waste management – was measured. The Assistant Director of Assurance and Property Services stated that any Council owned companies were covered by the Risk and Assurance Map but for other entities, these would be audited from a contract management perspective and Internal Audit would not specifically be

looking at risks for these bodies. The Director of Finance highlighted that Health, Housing and Communities were involved in contract management for the Leisure Joint Vehicle and representatives would sit on managing boards for example.

Having considered the Risk and Assurance Map, it was: -

16. RESOLVED that: -

- (i) the report be noted; and
- (ii) the revised Audit Charter at Appendix 6 be approved.

Risk and Assurance Map – Consultation for 2024/2025

The Assistant Director of Assurance and Property Services submitted a report consulting the Committee 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 in the plans.

The allocation of resources would continue to be flexible throughout the year, but there had been a number of priority areas identified for 2024/2025 as follows: -

- On-going audit work in relation to Council owned companies and Schools.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Compliance with the Civil Contingencies Act
- Premises Management Arrangements
- Building Maintenance Statutory Compliance
- New Port Fuel Management System
- Implementation of the Homelessness Strategy Action Plan
- Financial Safeguarding Team
- Arrangements for the Assessment of Non-paid carers
- National Fraud Initiative and counter fraud work
- Key corporate functions/systems, particularly where significant changes/budget reductions are planned or have occurred.

Having considered the proposed priority work areas, it was: -

17. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2024/2025 be noted.

Treasury Management – Third Quarterly Review 2023/2024

The Director of Finance submitted a report presenting the Treasury Management performance to date for the third quarter of 2023/2024 and setting out the Lending List Criteria and Approved Lending List.

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. No new borrowing had been taken out to date during 2023/2024 but the position continued to be monitored closely should it be needed to support the financing requirements of the Council's Capital Programme.

The Council's interest rate on borrowing was low, currently 2.80%, 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 5.05% compared with a benchmark of 4.88%.

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.

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.

Councillor Trueman asked if the information shown on page 41 showed the debt level of the Council and it was confirmed that this was the case.

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

18. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2023/2024 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Treasury Management Policy and Strategy 2024/2025, including Prudential Indicators for 2024/2025 to 2027/2028

The Director of Finance submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2024/2025. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2024/2025 to 2027/2028 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council 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 were affordable, prudent, and sustainable. The Prudential Indicators reflected the

commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement 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. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2021. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Prudential and Treasury Indicators for 2024/2025 to 2027/2028 were set out in Appendix 1 and the Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. There were no major changes proposed to the overall strategy which maintained the careful and prudent approach adopted by the Council in previous years. Paragraph 2.1.4 outlined the Council's potential Borrowing Strategy and it was noted that the basis of the proposed strategy for 2024/2025 was 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; and
- current (January 2024) long-term PWLB rate (50 years) 5.15%, Forecast rates over the financial year 2024/2025 are 4.90% Q1, 4.70% Q2, 4.60% Q3 and 4.40% 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.

Annex A of the report set out interest rate forecasts based on a range of intelligence sources and the Lending List Criteria and Approved Lending List were shown at Annex B and C of the report.

Mr Knowles referred to the fixed and floating limits for borrowing and asked, in relation to maturity, how the certain fixed element was set.

The Director of Finance explained that cash flow, spending and income was monitored on a daily basis and it was aimed to optimise any investments whilst adhering to counterparty limits. There were a whole raft of considerations which were made when the money was placed within the overall policy of maintaining liquidity and minimising risk. The Director of Finance also confirmed that detailed cash flows underpinning decision making were audited.

Councillor Crosby noted that 100% of Siglion was owned by the Council and asked if there were any costs associated with this. The Director of Finance said that partnership services were provided by the Council and there was an additional cost arising from that but nothing identifiable.

The Chair commended the work of the Treasury Management function and the consistent performance which was above national benchmarks.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

19. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2024/2025 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2024/2025 to 2027/2028 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

Audit Progress Update

Mark Kirkham was in attendance from Mazars and he advised that the 2022/2023 audit was not quite complete due to the need to have confirmation of an investment which was in place on 31 March 2023.

The Assistant Director of Finance reported that she had been in communication with the bank concerned daily about this matter but the confirmation was still awaited. The Director of Finance explained that the issue was that the bank needed to confirm that they held an investment balance for the Council on 31 March 2023.

The Chair proposed that this issue needed to be escalated and Mark stated that this had been done by other organisations in a similar position and suggested that this might be an appropriate action to take.

20. RESOLVED that the update be noted.

Dates and Times of Next Meetings

21. RESOLVED that the next meeting be held on Friday 26 April 2024 at 1.30pm.

(Signed) G N COOK
Chair