

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

**Meeting to be held remotely on Friday 16 October 2020 at 1.30pm**

The meeting will be livestreamed for the public to view on the Council's YouTube channel at: - <https://youtu.be/eJ8y7pip9Kk>

ITEM		PAGE
1.	<b>Receipt of Declarations of Interest (if any)</b>	
2.	<b>Apologies</b>	
3.	<b>Minutes of the Meeting of the Committee held on Friday 24 July 2020</b>  (Copy attached.)	1
4.	<b>Risk and Assurance Map Update 2020/2021</b>  Report of the Assistant Director of Business and Property Services (copy attached).	11
5.	<b>Annual Report on the Work of the Committee</b>  Report of the Assistant Director of Business and Property Services (copy attached).	31
6.	<b>Audited Statement of Accounts 2019/2020</b>  Report of the Executive Director of Corporate Services (copy to be printed separately).	-

For further information and assistance, please contact:

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7. **Treasury Management 2020/2021 - Second Quarterly Review** 35

Report of the Executive Director of Corporate Services  
(copy attached).

ELAINE WAUGH  
Assistant Director of Law and Governance

Civic Centre  
Sunderland

8 October 2020

## **AUDIT AND GOVERNANCE COMMITTEE**

### **Friday 24 July 2020**

#### **Present:**

Councillors Crosby, Lawson, N MacKnight, Stewart and Wood.

#### **In Attendance:**

Jon Ritchie (Executive Director of Corporate Services), Sarah Reed (Director of People, Communications and Partnerships), Paul Davies (Assistant Director of Business and Property Services, Tracy Davis (Senior Manager - Assurance), James Magog (Chief Accountant), Owen Thomas (Data Protection Officer), Cameron Waddell and Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

#### **Appointment of Chair**

In the absence of both independent members of the Committee, nominations were invited for the Chair of the meeting. It was proposed that Councillor Lawson be appointed as Chair for the meeting. Accordingly, the Committee: -

1. RESOLVED that Councillor Lawson be appointed as Chair for the meeting of the Committee taking place on 24 July 2020.

#### **Declarations of Interest**

There were no declarations of interest.

#### **Apologies for Absence**

Apologies for absence were received from Mr Cook and Mr Knowles.

#### **Minutes**

2. RESOLVED that the minutes of the meeting of the Committee held on 7 February 2020 be confirmed as a correct record.

## **Covid-19 Update**

The Executive Director of Corporate Services submitted a report providing an update to the Committee with regard to the Council's response to the Covid-19 pandemic, focusing on the areas within the remit of the Committee.

The Council had had in place specific major incident response arrangements through March to June; a command structure had been established and multi-agency arrangements were set up through the Local Resilience Forum. A specific Covid-19 Risk Register was developed to drive and inform the groups working within the structure.

When the number of virus cases fell in June, the Council moved out of the 'response' to the 'recovery' phase and the Recovery Co-ordination Group was focused on bringing services back online in a safe and managed way. New groups were also established to support delivery of the Covid-19 Outbreak Control Plan.

The Council was focusing on the recovery effort but also had a vital role to play in reform, including the restarting of the economy, dealing with the impact of Covid on education and learning, dealing with increased health inequalities and the general wellbeing of the population. The Strategic and Corporate Risk Registers would also be updated to reflect the impacts of Covid-19 moving forward.

Councillor Wood noted that there had been reports of cases of the virus increasing again in the local area and the Assistant Director of Business and Property Services stated that the numbers were still small, but the percentage rise was high. The Director of Public Health had been clear that the situation was finely balanced, and the Council would move forward in a phased and managed way.

The Council had been administering the grants to businesses under Government support schemes and had advised on business rate discounts for different sectors and issued new council tax bills to the most vulnerable households. A lot of work was taking place with regard to managing the Council's own budgets and finances.

Councillor Wood asked about the extent to which discussions would take place with the Government on the costs and complications resulting from Covid-19. Councillor Crosby queried whether the plans for the future and recovery would be affected by Brexit.

The Executive Director of Corporate Services was able to provide a further update as the position had changed since the report had been published. The Government had allocated £3.2 billion nationally for local government to cover the general financial impact of Covid. Sunderland had received just over £18m and had now been allocated a further £2.8m, bringing the total to £21m. Based on the authority's returns to MHCLG, the estimated costs to the council were over £40m; additional costs had been incurred in social care and budget areas such as the leisure joint venture had lost income as a result of closures. The Executive Director highlighted that there was a gap in terms of cost pressures against available funding.

The Executive Director went on to say that Brexit was a wider consideration as the authority reflected on the medium-term financial plan; there would be costs in this,

and the next, financial year. Brexit was one of the Council's planning assumptions and there would be updates to the Scrutiny Co-ordinating Committee and the Cabinet later in the year.

Councillor Stewart emphasised that the funding gap issue needed to continue to be pressed with the Government. He noted that the number of residents who qualified for the council tax support scheme had increased and queried if that was linked to people becoming unemployed. He asked if this was being monitored and also for some details on the monitoring of the Risk Register.

The Executive Director of Corporate Services advised that the Council would be lobbying as Sunderland, as part of the LA7 and Association of North East Councils and also through the Local Government Association and SIGOMA.

The council tax support scheme was monitored closely, and the Executive Director said that he would follow this up in writing. Working age people were subject to a means tested approach and approximately 16,000 people paid no council tax with another 14,000 receiving maximum support. There had been a 15% increase in people coming into the scheme and a reduction in the Council Tax Base which had been reported in the returns being made to MHCLG.

The Assistant Director of Business and Property Services drew Members' attention to the Risk Register at Appendix 1 of the report and explained that the Gold and Silver Command had met daily with risks being a standing item. The risks were formally reviewed in detail at least once a week and the risks setting out new causes and impacts would be worked into existing profiles and would be reflected in the scores. The updated profiles would be brought to the next meeting of the Committee.

Councillor MacKnight echoed the comments that had been made regarding resources and noted that there had been a number of lessons learned and mitigation action which would be utilised prior to a potential second wave.

The Assistant Director of Business and Property Services commented that after a major incident, a quick 'lessons learned' review took place on entering the recovery phase. A fuller, more detailed review would be carried out as the authority moved forward and would inform a future emergency response.

Upon consideration of the report, it was: -

3. RESOLVED that the report be noted.

### **Proposed Forward Plan of Reports for 2020/2021**

The Executive Director of Corporate Services submitted a report presenting the proposed Forward Plan of reports for 2020/2021 for consideration and comment.

The Assistant Director of Business and Property Services highlighted that this was an annual report setting out the reports which would allow the Committee to fulfil its role. He advised that the Internal Audit team would be in touch with Councillor MacKnight to offer training as he had recently been appointed to the Committee.

4. RESOLVED that the proposed Forward Plan of reports be agreed.

### **Annual Governance Review/Statement 2019/2020**

The Executive Director of Corporate Services submitted a report providing details of the 2019/2020 Annual Governance Review, the Risk and Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The report also included a draft Annual Governance Statement and an improvement plan for the year ahead.

The Local Code of Corporate Governance was reviewed annually to ensure that it was up to date and effective and no changes were considered to be required this year. The Council was also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

The Annual Governance Review has considered assurance provided from Assistant Directors, Executive and Corporate Directors, specialist functions, the Risk and Assurance Team, Internal and External Audit and other external agencies. These assurances were shown in the Risk and Assurance Map which had all elements marked as Green or Amber with the exception of those relating to the Ofsted inspection of Children's Safeguarding. The impact of Covid-19 began at the end of March and it was considered that this did not affect the strategic risks for 2019/2020 but would be reflected in the Strategic and Corporate Risk Profiles for 2020/2021.

The opinions from Internal Audit were set out in the Risk and Assurance Map and it was highlighted that the risk area 'More People Living Independently' had changed from Amber to Green due to follow up work confirming that all agreed actions had been taken in relation to an audit of the Council's Social Care Personal Budgets.

It was reported that 64 audits had been planned for the year 2019/2020, however six of these had not been completed for specific reasons and Covid had impacted on the year end meaning that two audits were cancelled. The Internal Audit service had been in the process of carrying out six audits and these had been difficult to complete due to the capacity of clients. At the end of March, 50 of the expected audits had been completed, one further audit had been completed since then and the remaining five were expected to be issued in the near future. 80% of the original 64 audits had now been completed and it was considered that sufficient internal audit work had been undertaken, along with the other assurances gathered, to provide an internal audit opinion on the Council's overall system of control.

Counter fraud and error work took place as planned during the year with no significant issues being highlighted. Testing had also continued on the results of the National Fraud Initiative undertaken in late 2018 and results had been very positive with a 0.0004% error rate.

Progress on the actions in the corporate governance improvement plan for 2019/2020 had been reviewed and it was found that three actions were complete and three were ongoing. In addition to these, a further three actions resulting from the Covid outbreak had been added to the improvement plan for 2020/2021.

Councillor Crosby commented that Sunderland Lifestyle Partnership was not included within the Risk and Assurance Map. The Assistant Director of Business and Property Services advised that the Risk and Assurance Map only included wholly owned companies and as the Lifestyle Partnership was a joint venture between the Council and SLM, monitoring was carrying out through the contract management arrangements. The Executive Director added that the provision of additional resources would be reflected in budget monitoring which was then presented to the Council, and transparency and oversight were achieved through that route.

With reference to duplicate payments, Councillor Stewart noted that these were a tiny amount but asked if there was any trend being identified. The Senior Manager - Assurance advised that the duplicate payments had been picked up in random areas and there were no concerns.

Following consideration of the report, it was: -

5. RESOLVED that: -

- (i) the report and the Risk and Assurance Map at Appendix 1 be noted;
- (ii) the Improvement Plan at Appendix 2 be agreed; and
- (iii) the draft Annual Governance Statement at Appendix 3 be agreed.

### **Risk and Assurance Map Update 2019/2020**

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

- the proposed Risk and Assurance Map and the supporting plans of work for the Internal Audit and Risk and Assurance teams for 2020/2021; and
- Internal Audit's key performance measures and targets for 2020/2021.

The proposed Risk and Assurance Map and planned work for the year had been due to be presented to the Committee in April 2020, however the meeting had been cancelled due to the pandemic and this was the earliest opportunity to bring the Map to Members. The report also included the Internal Audit and Risk and Assurance plans for the year, relevant Key Performance Indicators (KPIs) and targets.

The Assistant Director of Business and Property Services advised that the Internal Audit Service had been temporarily stood down during the early part of the lockdown to enable staff to support the response and critical functions as required. Due to Covid and its associated impacts, some planned work would potentially need to change and the service would need to be flexible and to respond quickly to the risks being faced at the time.

The Covid-19 outbreak had had a significant impact on Sunderland and as a result the City Plan was being reviewed and the Strategic Risk Profile would be updated to reflect this. The updated profile would be presented a future meeting of the

Committee and the impacts of Covid-19 would also be reflected in the Corporate Risk Profile.

Councillor Crosby asked if there was any plan to look at counter fraud checks in relation to the discretionary funding for businesses. The Executive Director stated that it was a pertinent question as officers had been required to balance the speed of getting grants out with the appropriate checks and balances. BEIS had issued a return which looked at that assurance, however it was noted that some Internal Audit staff had worked with the grants team to help to assure the grants as they were issued.

6. RESOLVED that the report be noted.

### **Treasury Management Review of Performance 2019/2020**

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2019/2020 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 6 March 2019.

The Treasury Management function continued to contribute financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 2.90% was low and this compared favourably with other local authorities as did the 1.01% rate of return achieved on investments.

Members were reminded of the basis for the agreed Borrowing Strategy for 2019/2020 and that it had been reviewed in July and December 2019 and February 2020. The worldwide response to Covid-19 had had a significant impact on financial markets and economic forecasting. To stimulate the economy and ease the impact of the pandemic, the Bank of England had cut the base rate by 0.5% to 0.25% on 11 March 2020 and to a historic low of 0.10% on 19 March 2020. As the crisis only developed late in the financial year, the impact had been minimal on the treasury management strategy and policy in 2019/2020.

There had been high levels of volatility in financial markers during 2019/2020 and PWLB rates had started the year at 2.44%, fell to 1.77% in September 2019 and peaked at 3.25% in December. The rates were 2.59% at the end of March 2020.

The Council had taken advantage of low borrowing rates troughs which had occurred and had taken out £50m of new borrowing during the financial year which would benefit the revenue budget over the longer term. Rates had not been sufficiently favourable for debt rescheduling in 2019/2020 but the Treasury Management Team continued to monitor market conditions and would secure early redemption if appropriate opportunities were to arise.

The Authorised Borrowing Limit for External Debt had been set at £673.627m for 2019/2020 and the Operational Boundary for External Debt was set at £648.627m and the authority was well within the tolerances for these.



The Investment Strategy for 2019/2020 was also approved by the Council on 6 March 2019 and had a general policy objective of the prudent investment of its treasury balances. The investment policy was regularly monitored and reviewed to ensure it had the flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The rate of return on investments was 1.01% against a benchmark of 0.53%. The total of fund managed by the Council's in-house team amounted to £212.316m with £150m being fixed term deposits and £62.316m in call accounts.

Following consideration of the report, the Committee: -

7. RESOLVED that the positive Treasury Management performance for 2019/2020 be noted.

### **Treasury Management – First Quarterly Review 2020/2021**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the first quarter of 2020/2021 and setting out the Lending List Criteria and Approved Lending List.

The Covid-19 pandemic had a significant impact on financial markets and economic forecasting and had required a pro-active approach to Treasury Management to support the Council's response to the pandemic. This had included holding higher levels of cash balances to support the Business Rate payer grants, stringent monitoring of cash flow and any investments being short term to ensure both liquidity and security of funds given increased economic uncertainty.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates continued to be volatile and no new borrowing had been taken out to date during 2020/2021. There was a requirement for borrowing within the Capital Programme and there was an ongoing Government consultation on the PWLB lending terms.

The Council's interest rate on borrowing was low, currently 2.90%, 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 0.56% compared with a benchmark of -0.04%.

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 economic climate was likely to be unclear and uncertain for some time and it was important not to lose sight of the impact of Brexit moving forward.

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 Wood referred to the average PWLB rates for Quarter 1 and that this was negative for 7 days' notice. The Chief Accountant stated that this was literally borrowing for a seven-day period and would be even cheaper if the 1% surcharge was removed; this anomaly reflected the volatility of the financial markets.

8. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2020/2021 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **Data Protection Annual Report 2020/2021**

The Director of Strategy, Partnerships and Transformation and the Data Protection Officer submitted a joint report presenting the Data Protection Officer's annual report of work and findings to the Committee for consideration.

The Committee was asked to consider: -

- the Data Protection arrangements outlined in the report;
- performance against Data Protection standards in the 2019/2020 year; and
- comments and issues which the Committee would highlight to the Council's senior leadership.

During the year, the Data Protection Office had supported the Council and its companies in developing a Data Protection Impact Assessment (DPIA) for a range of projects including the Office 365/Windows 10 project and a range of public health initiatives.

Where there was a serious breach in data protection, this was reported to the Information Commissioner's Office and there were five of these during the course of the year. Four of the breaches were reported by the Council and one by the external provider of their system which was thought to have been breached. This compared to seven reported breaches in the previous year. The five breaches related to: -

- A breach of security within the library management system
- Identification of a complainant to the person complained about through misdirection of a letter
- Unauthorised access by a council employee to personal data of individuals held in a management system
- Release of information about one young person to another
- Misdirection of a letter concerning family circumstances to a neighbour.

There had been no formal enforcement action taken in relation to the reported breaches, however the ICO had indicated that they were considering whether to take action against a former employee in one case and have made practice recommendations to the Council in relation to other cases reported to the office.

Towards the end of the year, the Data Protection Office had supported the Council and its partners in implementing data sharing arrangements in response to the Covid-19 pandemic against a changing set of requirements, guidance and legislation. The Office had also provided advice and guidance to mitigate the highest risks where possible.

The Data Protection Office had supported the development of information sharing arrangements for the Great North Care Record (GNCR) working in partnership with colleagues from Heath and other local authorities. Work also continued to support the development of the City Hall and to reduce the volume of paper records to be transferred to the new building.

The Investigatory Powers Commissioner's Office (IPCO) had carried out an inspection in November 2019 in relation to the Council's arrangements for oversight of covert surveillance under the Regulation of Investigatory Powers Act. There had been no use of RIPA authorisation since the oversight of this was transferred to the Data Protection Office in April 2019, however the inspection was positive about the Council's arrangements.

Councillor Stewart referred to the table showing data breaches and the category of 'Technical failure – including hacking'. He asked if the Council's systems had been hacked during the last year. The Data Protection Officer explained that the four issues recorded had not been hacking incidents. The authority had received cyber attacks, but these were not security issues.

The Data Protection Officer went on to say that the cases which had been reported to the Information Commissioner were mainly related to officers failing to understand the process and in four out of five of these, the Commissioner had been satisfied with the mitigations in place.

9. RESOLVED that the Data Protection Annual Report 2019/2020 be noted.

### **Audit Strategy Memorandum**

Mazars, the Council's external auditors, had submitted their Audit Strategy Memorandum for the year ending 31 March 2020.

The Audit Strategy Memorandum summarised the audit approach, highlighted significant audit risks and areas of key judgement and provided details of the audit team. Cameron Waddell, Engagement Lead with Mazars advised that Sunderland City Council was classed as a 'public interest entity' and as such would have additional acceptance and engagement considerations, enhanced quality control requirements and additional enhanced audit report requirements.

The timeline for the audit had changed due to the Covid-19 situation and the draft Accounts were now to be submitted by the end of August 2020. A group audit approach would be taken and instructions would be issued to the auditors of the subsidiaries and joint ventures of the Council in order to make the audit as efficient as possible.

Cameron advised that there were new elements to the significant risks identified due to the impact of the pandemic. More testing would be carried out in relation to property, plant and equipment and investment property valuations and this risk had increased due to the economic downturn. This year was triennial valuation of pensions and these investments had also been subject to a lot of movement due to the impact of Covid-19.

Significant risks in relation to management override of controls and risk of fraud in revenue recognition would be familiar to the Committee and there was a further risk with regard to the valuation of short and long term debtors being impacted by the economic downturn. There was also an enhanced risk regarding the valuation of long-term investments.

In relation to the Value for Money Conclusion, there were two significant risks; responding to financial pressures and the Ofsted inspection of Children's Services. The Council had previously received an 'except for' qualification and this situation would remain until there was a judgement which identified sufficient improvements to issue an unqualified opinion.

It was highlighted that the audit fees for 2019/2020 would be £104,546 which was the same as the scale fee for 2018/2019. The materiality thresholds had been adjusted for the 2019/2020 audit with overall materiality for the group being £13.898m and £13.538m for the Council itself. These thresholds were provisional and would be subject to the actual accounts. The triviality level had been set at £417,000 and errors above this would be reported to the Audit and Governance Committee.

Councillor Stewart referred to the Valuation Practice Alert issued by the Royal Institute of Chartered Surveyors recently. Cameron advised that this was in relation to accurate forecasting of future income being applied and that indices of valuation were a major focus of attention.

Following consideration of the report, it was: -

10. RESOLVED that the Audit Strategy Memorandum be noted.

(Signed) A LAWSON  
Chair for the Meeting

**AUDIT AND GOVERNANCE COMMITTEE**

**16 October 2020**

**RISK AND ASSURANCE MAP UPDATE – 2020/2021**

**Report of the Assistant Director of Business 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 July 2020 the Committee agreed the Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2020/21. Due to the Covid 19 pandemic this is the first update of the Risk and Assurance Map for 2020/21. Both the Strategic and Corporate Risk Profiles have been updated in light of Covid 19 and the Council's response. Chief Officers and relevant key officers have been consulted on the updates to both of the risk profiles. 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 has been updated to reflect the changes to both the Strategic and Corporate Risk Profiles and these are described in more detail in paragraphs 4.2 and 4.3 below. The only other change to the Risk and Assurance Map is that the overall assurance level from Internal Audit work for Together for Children Sunderland Ltd has moved from Amber to Green due to a number of positive results from recent audits and follow up work.

Strategic Risk Areas

- 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. There are a number of updates to the description of risk causes, impacts and mitigating actions. An additional risk has been included at R09a to address the potential risk that the spread of the Covid 19 infection cannot be controlled across the city. The only change to the current risk score is in relation to R018 in relation to the Council's financial position to deliver the priorities in the City Plan. This has been increased to 12 (Red) from 8 (Amber) due to the uncertainty of the Council's future financial position and the impact of Covid 19 related expenditure / loss of income.

### Corporate Risk Areas

- 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. All changes to the Corporate Risk Profile are again shown in red text for ease of reference. The main changes to the risk scores are as follows:
- R07 - *The level of services delivered by the council does not meet customer needs and/or expectations.* Has moved from 8 (Amber) to 12 (Red).
  - R22 - *Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. impacts of a no-deal BREXIT, changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.* Has moved from 6 (Amber) to 12 (Red).
  - R31 - *Prosperity within the City fails to grow resulting in the expected level of income being uncollectable.* Has moved from 9 (Red) to 12 (Red).
  - R45 - *Lack of awareness of content of business continuity plans.* Has moved from 6 (Amber) to 4 (Green).

### Council Owned Companies

- 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. As mentioned in paragraph 4.1 the Internal Audit opinion for Together for Children Sunderland Ltd has moved to Green.
- 4.5 As the Council has developed arrangements for a new internal housing service the audit work which would have been undertaken under Sunderland Homes Ltd has moved into the Council's audit plan. The Risk and Assurance team have been involved in the development of those arrangements.

#### Assurance from Internal Audit

- 4.6 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.
- 4.7 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the new 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.
- 4.8 Due to the Covid 19 outbreak the Internal Audit service was temporarily stood down in order to support the response and is still undertaking some work specifically in relation to the outbreak. This year's audits were therefore started later and depending on the situation moving forward all of the planned audits may not be completed. This will be kept under review but work in relation to supporting the completion of the Council's Annual Governance Statement for the year will be prioritised.

#### Assurance from Risk and Assurance Team

- 4.9 Areas that the Risk and Assurance Team are currently involved in are shown below. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:
- Risk management work in relation to the Covid 19 pandemic.
  - Risk Management work in relation to the potential impacts of BREXIT.
  - Major capital schemes such as the delivery stage of the SSTC Phase 3, the International Advanced Manufacturing Park, and the Housing Infrastructure Funding.
  - Corporate projects in relation to SAP self-service arrangements for HR and procurement.
  - Move to the new City Hall, including construction and new ways of working.
  - Risks in relation to information governance and security.
  - National Fraud Initiative data matching exercise.
  - Arrangements in relation to anti-money laundering.
  - Risk management arrangements in relation to the North East Combined Authority and the North East Joint Transport Committee.

#### Assurance from others within the Council

- 4.10 Assurance provided from others within the Council is shown in the Risk and Assurance Map.

#### 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 was undertaken at the end of 2019/20.

### Assurance from External Sources

- 4.12 The Map includes assurance from relevant external sources. There are no changes since the last report.

### Overall

- 4.13 The overall assurance levels are either green or amber, with the exception of the Red ratings relating to Children's Safeguarding.
- 4.14 The Risk and Assurance Map, Strategic and Corporate Risk Profiles were recently considered by the Chief Officer Group and the issues raised above highlighted.

## **5. Internal Audit Performance**

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5.
- 5.2 Performance is on target for all KPI's with the exception of the implementation rate for medium risk agreed actions for schools which currently sits at 82% against a target of 90%.

## **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.



## Risk and Assurance October 2020

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

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





City Plan Theme	Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Management	Business Continuity	Risk and Assurance	Internal audit	External Assurance
HEALTHY	More people living healthier longer lives.	R09	Health outcomes in Sunderland are still poor and health behaviours haven't yet changed sufficiently.	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	Health & Wellbeing Board to promote partnership working and develop a Joint Health & Wellbeing Strategy with an action plan to address the major issues identified in the Joint Strategic Needs Assessment. Strategy initially planned to be consulted on in March 20 (delayed due to Covid). Working groups have been established as follows: Healthy Economy (addressing work and health), Smoke free Sunderland, Addressing Alcohol harms, Best Start in Life, Young people aged 11-19, Mental health and wellbeing.	Executive Director Public Health and Joint Commissioning											
	More people living healthier longer lives.	R09a	Unable to control the Covid virus and reduce the spread of the infection across Sunderland.	Lack of knowledge about the virus. Response plans not being effective. Individuals do not adhere to the guidance.	Adverse impact on peoples health, including council employees. People are asked to self isolate. Unable to protect vulnerable people. Inability to deliver council services.	Outbreak Control Board. Sunderland Health Protection Board. Multi-Agency Strategic Co-ordinating Group. SCC Internal SCG and Silver Group.	4	4	16	Response arrangement set up (as set out). Mitigation will be based on the COVID-19 Outbreak Control Plan. Additional restrictions implemented. Council has developed and tested resilience and business continuity plans. Assurance is obtained regarding resilience in social care, e.g. Care Homes.	Executive Director Public Health and Joint Commissioning											
	People enjoying independent lives.	R10	Current model of social care cannot be sustained in the future, due to a growing population of older people and fewer younger working age adults.	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.	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	Further integration of Health & Social Care in Sunderland. Deliver better integrated care through promotion and support for self-care. Continue to investigate the use of technology to support the independence of older people. Delivery of the Assistive Technologies Test Bed programme. Continue to work with the Association of Directors of Adult Social Services ADASS on market sustainability for social care. The integration of health and social care is being addressed through the Altogether Better Alliance.	Executive Director of Neighbourhoods											
	Cleaner and more attractive City and neighbourhoods.	R11	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	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.	Executive Director of Neighbourhoods											
	A City with great transport and travel links.	R12	Unable to develop and maintain a sustainable / integrated transport infrastructure across the City.	High cost of maintaining existing infrastructure. Limited pedestrian and cycling routes.	Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6	Implement developments through the Transport Movement Plan for Sunderland for the period 2019-2030. Projects in development to deliver above.	Executive Director of City Development											
VIBRANT	More creative and cultural businesses.	R13	The approach to developing creative and cultural businesses is not integrated.	Partners have varied roles and engage at different levels with the diverse range of individuals / businesses.	Fail to enhance the reputation, attractiveness, vibrancy and economic development of the City.	Creative Industries Action. Plan. City Plan. Vibrancy Board.	3	2	6	Vibrancy Board set up. Board to develop Strategy and Delivery Plan to address areas below. Deliver an up-dated Creative Industries Action Plan to support new enterprises and innovation, as well as stronger, more successful businesses. Provide clear development paths and support for emerging artists and cultural businesses.	Executive Director of Neighbourhoods											
	More residents participating in their communities.	R14	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	Implement Neighbourhood Plans, which incorporate input from residents. Develop and implement a Volunteers Strategy. Strategy completed and Volunteer Sunderland website launched. Launch and promote Spacehive (a funding platform to support local projects) - launched in January 2020.	Executive Director of Neighbourhoods											
	More people visiting Sunderland and More residents participating in cultural events and activities.	R15	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.	City Plan. Vibrancy Board.	3	2	6	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	Executive Director of Neighbourhoods											
	More people feeling safe in their homes and neighbourhoods.	R16	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	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	Executive Director of Neighbourhoods											

City Plan Theme	Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Management	Business Continuity	Risk and Assurance	Internal audit	External Assurance
	More resilient people.	R17	Opportunities are not taken to enable individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity. <b>Impacts of Covid 19 through redundancies and reductions in income.</b>	Increased child poverty, indebtedness and a rise in the 'working poor'. These impacts are worse in deprived areas due to underlying problems (for example poor health and lower wage levels).	Sunderland Foodbank. City Plan.	4	2	8	Poverty Strategy and Delivery Plan to be developed.  Support is ongoing from the Welfare Reform priority response areas of: Digital Inclusion (DI), Crisis Support (CS), Information, Advice & Guidance (IAG).  Council to support Sunderland Foodbank to maintain stocks as demand increases.  <b>Community Wealth Building Strategy and Delivery Plan in development.</b>	Executive Director of Neighbourhoods											
ENABLING	Finance.	R18	Delivery of the City Plan is restricted by financial pressures.	Uncertainty as to the level of Revenue Support Grant (4 year agreement ended). Progressive reduction in Government funding. Brexit. Cessation of European Funding. Changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc. <b>Impact of Covid and unfunded costs/loss of income.</b>	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 Strategy. Budget Plan. City Plan.	4	3	12	<b>Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position. The City Plan delivery actions to be refreshed / updated in line with financial resources as part of the 2021/22 MTFP approval process. External funding opportunities are maximised, including the submission of a range of Covid returns and claims.</b>  The 2021/22 budget (revenue and capital) will be approved at Council in March 2021, following the usual consultation and scrutiny. Balanced revenue budget agreed for the year, although remaining pressures in the MTFP and uncertainty re: comprehensive spending review, fair funding review etc - as set out in Council papers. <b>The impact of Covid is reported monthly to both</b>	Executive Director of Corporate Services											
	Partnership Working.	R19	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.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8	Partners represented on the City Board to support delivery of the City Plan.	Executive Director of Corporate Services											



CORPORATE RISK PROFILE

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

4				
3				
2				
1				
1	1	2	3	4
Negative Impact				

Current Score (Sept 2020)
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Forecast Score
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ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating
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 Covid 19 on the community.	Fail to contribute to the welfare and future prosperity of our communities.	COG. JLT. City Plan. Covid 19 Risk Register.	4	1	4	City Plan driven by required outcomes and commissioning activity. Refresh of the JSNA	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
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.	4	2	8	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	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
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.	JSNA. 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	Governance questionnaire Internal Audit Corporate Performance Management	4	1	4
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 Covid 19.	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	City Plan. Service Plans. Covid 19 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	Cabinet reports Governance questionnaire Internal Audit	4	1	4
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 its may not	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	Governance questionnaire Internal Audit	3	1	3
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. Performance Management Framework.	4	3	12	Service Planning process is driven by the City Plan. Service Planning Process is communicated to all Assistant Directors.	All Assistant Directors Strategic Director People, Communications and Partnerships	Internal Audit Corporate Performance Management	3	2	6
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 the Covid 19 and lockdown measures	Required outcomes for customers not achieved. Reputational damage. Wasted resources.	Service Planning Process. Performance management arrangements. Transformation Programme. Covid 19 Risk Register.	4	3	12	Performance in relation to the delivery of outcomes is regularly monitored.	All Assistant Directors	Corporate Performance Management Internal Audit Corporate Complaints	4	1	4
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	Governance questionnaire Corporate Performance management Internal Audit	3	1	3
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	Corporate Performance management arrangements Internal Audit Corporate Complaints	3	1	3
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	Financial Resources Internal Audit	4	1	4
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	Risk and Assurance Internal Audit	3	1	3
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 Covid 19	Unable to achieve City priorities and support communities.	City Plan. Partnership Boards. Partnership Framework.	4	2	8	Performance management arrangements include a review of the achievement of outcomes where partners have some responsibility for delivery. Corporate Partnership arrangements should be reviewed in light of the new City Plan.	All Assistant Directors Strategic Director People, Communications and Partnerships	Corporate Performance management Internal Audit	4	1	4
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.	Strategic Director People, Communications and Partnerships All Assistant Directors	Corporate Performance Management Governance questionnaire Internal Audit	4	1	4

Appendix 3

Assurance												
	1st Line	2nd Line									3rd Line	
Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Mgt	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
Strategic Planning	X				X					X	X	
	X				X					X	X	
Commissioning	X									X	X	
	X		X							X	X	X
	X									X	X	
Service Delivery Arrangements					X						X	X
	X				X					X	X	
	X				X					X	X	
	X				X						X	
Partnership / Integrated Working										X	X	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	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Mgt	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
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. <b>Limited capacity of providers/suppliers due to Covid 19 outbreak.</b> 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	Internal Audit Risk and Assurance	3	1	3									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 Business and property Services  All Assistant Directors	Internal Audit	2	1	2									X	X	
R16		Value for money not obtained.	Lack of competition, <b>specifically as a result of the Covid 19 outbreak.</b> 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	3	2	6	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	All Assistant 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	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	Governance questionnaire Internal Audit	4	1	4	X				X				X	X	
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	Councils 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	Law and Governance Governance questionnaire Internal Audit	3	1	3	X	X							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. <b>Covid 19 Risk Register.</b>	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 Business and property Services	Risk and Assurance Team Audit and Governance Committee	3	1	3	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	Development of the performance management process in relation to delivering the priorities in the City Plan.	Assistant Director of Digital and Customer Service	Corporate performance management Internal Audit	3	1	3					X					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.	Executive Director of Corporate Services	Financial Resources	4	1	4			X	X							
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. impacts of a no-deal BREXIT, 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. <b>Lack of clarity of the financial support from Government as a result of the Covid 19 outbreak.</b>	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. <b>Covid 19 Risk Register.</b>	4	3	12	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position.	Executive Director of Corporate Services	Financial Resources External Audit	3	1	3			X								X
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.	Executive Director of Corporate Services	Financial Resources	3	1	3			X						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.	Executive Director of Corporate Services	Internal audit	3	1	3											
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.	Assistant Director of Finance	Internal Audit	3	1	3											
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	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.	Executive Director of Corporate Services	Financial Resources Corporate Performance Management	3	1	3			X		X					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.	Assistant Director of people Management	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	Assistant Director of Finance	Internal Audit	3	1	3									X	X	



	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Mgt	Health and Safety	Business Continuity	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.	Assistant Director of Digital and Customer Service	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	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.	Assistant Director of Finance	Financial Resources Internal Audit				Income Collection (including CT/NNDR)			X								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. The Covid 19 outbreak has 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.	Executive Director of Corporate Services	Financial Resources Internal Audit	3	2	6				X										
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.	Executive Director of Corporate Services	Financial Resources Internal Audit	3	1	3	Capital Programme Management			X							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.	Executive Director of Corporate Services	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 or self isolation due to Covid 19.	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.	Assistant Director of People Management	People Management Internal Audit	3	2	6	HR Management	X						X			X	X		
R35		Reduction in productivity and morale of workforce.	Increasing workloads. Instability due to ongoing changes. Job insecurity. Increased demand / pressures due to Covid 19.	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	Governance questionnaire People Management Internal Audit	4	2	8		X						X				X		
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. Additional measures due to Covid 19.	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.	Corporate Health and Safety Team. 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 People Management	People Management Internal Audit	4	1	4	Health and Safety							X				X	X	
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.	Corporate Health and Safety Team.	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 People Management	Head of HR and OD Internal Audit	4	1	4												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. Risk assessments developed for tasks and council buildings for Covid 19 safety arrangements	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 People Management	People Management Internal Audit	4	1	4												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	3	2	6	Continue to monitor compliance with incident reporting arrangements and address any areas for development.	Assistant Director of People Management	People Management Internal Audit	3	1	3												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 more remote working in response to Covid 19.	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. Rapid roll out of laptops, Windows 10 and Microsoft Teams to aid business continuity in response to Covid 19.	4	2	8	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	1	4	ICT Infrastructure	X						X			X	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	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.	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.	Assistant Director of Digital and Customer Service All Assistant Directors	ICT Internal Audit Business continuity officer	4	1	4		X					X			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	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Mgt	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
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. <b>Increased cyber activity during Covid 19 outbreak.</b>	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.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	2	8	Cyber Security						X				X	X	
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 it holds or ensures that it 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.	Executive Director of Corporate Services All Assistant Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	3	Information Governance / Security	X	X								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.  <b>A number of incidents impact at the same time e.g. Covid 19, Brexit, winter flu, adverse winter weather</b>	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans. <b>Response to the first wave of Covid 19 was successful with no failures to deliver critical services.</b>	3	2	6	Business continuity plans are reviewed and tested on a regular basis and take into account the cumulative effects of concurring incidents.	Business Continuity Officer All Assistant Directors	Business Continuity Officer Internal Audit	4	1	4	Business Continuity Management	X								X	X	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. <b>Successful response to Covid 19 outbreak.</b>	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	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4		X								X		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	3	1	3	Programme / Project Management	X			X						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 it 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.	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 Business 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 Business 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.	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	Governance questionnaire Internal Audit	2	2	4	Anti Fraud and Corruption	X										X	

## Internal Audit coverage

**Strategic Risk Profile**

Key Risk Area	2017/18 Audits / Opinions		2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		Overall Opinion
More and better jobs									
More and better housing							Housing Service Governance Arrangements		
							Housing Regulatory Framework		
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									
Access to the same opportunities and life chances									
More people living healthier longer lives									
People enjoying independent lives	Assessment and Management of Personal Budgets	S					Rollout of assistive technologies		
							Adults Safeguarding - MASH		
							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		
More people feel safe in their neighbourhoods and homes									
More resilient people									
Finance	Provision for significant financial liabilities	S							
Partnership Working					Partership Arrangements				

**Corporate Risk Profile**

Key Risk Area	2017/18 Audits / Opinions		2018/19 Audits / Opinions		2019/20 Audits / Opinions				Overall Opinion
Strategic Planning	Service/Business Planning								
	Service/Business Planning		Service/Business Planning	M					
			Derwent Hill	S					
Commissioning	Commissioning	M							

Service Delivery Arrangements	Corporate Performance Management	S	Liquid Logic including business processes		Licencing		Financial Safeguarding/CPAT		
			Derwent Hill	S	Development Control		Bereavement Services		
					Environmental Services	M	Housing Service Governance Arrangements		
					Delivery of Council Restructure	M	Housing Regulatory Framework		
					Liquid Logic - Adults	S	Adults Safeguarding - MASH		
							Blue Badges		
Partnership /Integrated Working	Corporate Partnership Arrangements				Partnership Arrangements				
Procurement	Commissioning	M	Revenue Procurement	S	Revenue Procurement	S			
	Revenue Procurement	M	Use of agency contract	M	Capital Procurement	M			
	Homecare Payments	L	Catering consortium	M					
Relationship/Contract Monitoring	Contract Management - Public Health School Nursing Service	S	Contract Management Arrangements for key contracts	S	Contract Monitoring SCAS	M			
	Commissioning	M	Contract Management - IAMP consultants	M	Contract Monitoring - Siglion	M			
	Together for Children Contract Monitoring	S			Contract Monitoring - Sunderland Homes				
Legality			Delegated Decision Making	M					
			Emergency Planning and Response	S					
Risk Management			Derwent Hill	S					
Corporate Performance Management	Corporate Performance Management	S	Performance Reporting - Data Quality	S	Performance Monitoring - City plan				
					Delivery of PEER Review Action Plan	S			
Financial Management	Provision for significant financial liabilities	S					Wave 3 Rocket Feasibility	S	
							Disabled Facilities Grant		
							Local Transport Capital Maintenance / Incentive Needs	S	
							Local Transport Integrated Transport	S	
	Budget Setting and Management		Financial Reporting Arrangements				Nexus	S	
							Pothole	S	
							Cycling to Sunderland		
	Budget Setting and Management		EFA Funding	S	Main Accounting	S	Vaux Phase 1		
	Payroll compliance testing	S	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management	S	Budget setting and management		
	BACS Compliance testing	S	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	Capital Asset Accounting		
	Housing Benefit Assessment	S	Nexus (Combined Authority)	S	Payroll		BACS	S	
	Sport for Life Grant	S	Pothole Action Fund	S	Accounts Payable	M	Payroll		
	EFA Funding	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding	S	Accounts Payable		
	Local Transport Capital Settlement	S	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S			
	Local Transport Integrated Transport	S	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S			

	Nexus (Combined Authority)	S	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S			
	Pothole Action Fund	S	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S			
	City Centre Cycle Permeability Scheme	S	A19 Ultra Low Carbon Enterprise Zone	S	Local TransportCapital Settlement - Incentive Element	S			
	Disabled Facilities Grant	S	External Funding	S	Better Care Fund - DFG	S			
			Building Maintenance Financial Management	L	Vaux Phase 1				
			Payroll	S	Northern Gateway	S			
			BACS	S	Local Transport Capital - Highway Maintenance	S			
			Accounts Payable	S	Liquid Logic including business processes	S			
			Liquid Logic including business processes		Pothole Action Fund - Additional Monies	S			
Income Collection (including CR/NNDR)			Derwent Hill	S					
	Cash Receipting, collection of Council Tax, NNDR, AR and PI	S	Cash Receipting	S	Cash Receipting, compliance	S	Business Rates Recovery		
	Business Rate Recovery	S	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing	S	Business Rates Valuation		
	Council Tax Recovery	S	Derwent Hill	S	Accounts Receivable - Recovery	S	Council Tax Valuation	S	
	AR Recovery	S			Council Tax Liability	S	Council Tax Recovery		
					Business Rates setting and billing	S	Accounts Receivable Recovery and Periodic Income		
					Business Rates Liability	S	Cash Receipting		
Capital Programme Management			Benefits Realisation		Project Management Benefits Realisation, including capital funding				
HR Management	Workforce Planning and Apprenticeship Scheme		Human Resource Management - updated SAP procedures		HR - SAP Optimisation		Recruitment and Selection		
			Apprenticeships	S	Port - Effectiveness of Restructure				
					Communications re organisational change	S			
Health and Safety	Corporate Health and Safety Arrangements		Corporate Health and Safety Arrangements	M					
ICT Infrastructure	ICT Strategy and Infrastructure		Externally hosted systems	M			ICT Disaster Recovery and Business Continuity		
	Disaster Recovery/Business Continuity Arrangements	M	Intrusion prevention and incident management	M	ICT Asset management	M			
Cyber Security	Cyber Security Arrangements	M	Intrusion prevention and incident management	M	Cyber Security	M			
					Mobile Device Management	S			
Information Governance/Security	Building Access Security Sites - Remote Sites	M	General Data Protection Regulation - Compliance	M	GDPR	M	GDPR		
	General Data Protection Regulations	M	Derwent Hill	S			Civica Upgrade		

Business Continuity Management	Corporate Business Continuity Arrangements	S			Update of Directorate plans re new structures	M			
Programme/Project Management	SAP Procedure Update		Benefits Realisation		Project Management Benefits Realisation, including capital funding		ICT Disaster Recovery and Business Continuity		
Asset Management	Corporate Asset Management	M					Collections Management - Museums		
Anti Fraud and Corruption	Revenue Procurement	M	Building Maintenance Financial Management	L	Payroll compliance Testing		Transaction Testing NFI		
	Homecare Payments	L	Revenue Procurement	S	BACS compliance testing	S	Blue Badges		
	Payroll compliance Testing	S	Use of Agency Contract	M	Cash Receipting	S	Mileage Claims		
	BACS compliance testing	S	Payroll compliance testing	S	AR Recovery	S	Testing on grants issued re Covid-19		
	Cash Receipting	S	BACS	S	ICT Asset Management	M	BACS	S	
	Business Rate Recovery	S	Accounts Payable	S	Council Tax Setting and Billing	S	Cash Receipting		
	Council Tax Recovery	S	Cash Receipting	S	Council Tax Liability	S	Accounts Receivable Recovery and Periodic Income		
	AR Recovery	S	Accounts Receivable/Periodic Income	S	Accounts Payable	M	Accounts Payable		
			Derwent Hill	S					
			Refuse Collection	S					
Schools	27 schools in the plan, 2 cancelled, 25 completed to date. 16 Substantial, 8 Moderate, 1 Limited	S	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, 1 complete to date. 1 moderate		
Sunderland Care and Support	Establishment Visits/Supported Living	M	Unit Costing		Risk and Assurance Framework		Risk and Assurance Framework		
	Unit Costing		Risk and Assurance Framework		DPO Checks	S	DPO checks		
	Procurement/Transaction Testing		Information Governance/GDPR	M	Unit Costing		Security of service users cash in transit		
	Governance/Audit Committee		Compliance with Financial Procedures in Establishments	M	Compliance with financial procedures in establishments	S	Compliance with financial procedures in establishments		
					Business Continuity (Telecare)	L	Collection of rental income		
					Recruitment and DBS Checks	S	Workforce planning and resilience		
Together for Children	Governance Arrangements	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim		
	Effectiveness of SLA Relationships	S	Budget Monitoring	S	Schools Financial Support Service	S	Administration Support Services		
	Financial Procedures - bank account/income	M	HR management / recruitment / agency workers / performance	M	Performance Management - Data Quality	S	Complaints Procedure		
	Information Governance/GDPR	L	Information Governance/GDPR	L	Purchase cards	M	Information Governance/GDPR		
			Next Steps	S	Achievement of cost savings		HR Case Management		
			Compliance with Financial Procedures within Establishments	S	Legal services		SEND Financial Framework		
					Designated Officer	S			
			Liquid logic		Liquid logic	L	Purchase Cards/Travel Expenses		
Siglion LLP					Governance Arrangements		Contract/relationship management		
							Performance Management		
							Procurement		
							Operational Asset Management		
							Financial Management		
Sunderland Homes					Procurement and Contract Management				

**Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2020/21**

<b>Efficiency and Effectiveness</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
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	1) All key risk areas covered over a 3 year period	1) On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Ahead of target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 85%	3) Ahead of target – 100%
<b>Quality</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – on target – 100%  Medium – ahead of target 97% (excluding schools)
<b>Client Satisfaction</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (1=Good and 4=Poor)	1) On target – 1.0 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) No recent surveys undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3 compliments 0 complaints





## **AUDIT AND GOVERNANCE COMMITTEE**

**16 October 2020**

### **ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2019/2020**

#### **Report of the Assistant Director of Business and Property Services**

#### **1. Purpose of Report**

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2019/20 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

#### **2. Role of the Committee**

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

#### **3. Matters Considered**

- 3.1 The Committee has met four times in the year. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings were the Executive Director of Corporate Services, Assistant Director of Business and Property Services, Chief Accountant, Senior Manager - Assurance and the Council's External Auditors.

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

- a) The Committee endorsed the Risk and Assurance Map for 2019/20 which sets out the key risk areas for the Council, the assurance that would be gathered in relation to them and where the assurance would be sought from. The report included the plans of work for the year for the Internal Audit and Risk and Assurance teams, and the performance indicators for Internal Audit. The Committee was also given the opportunity to identify any areas of work to be considered for the year.
- b) Progress reports in relation to the Risk and Assurance Map were presented on a quarterly basis. These provided details of the level of assurance for the strategic and corporate risk areas from management, specialist assurance functions, Internal Audit, Risk and Assurance, the external auditor and other external agencies. The Risk and Assurance Map was refreshed mid-way through the year to reflect changes made to the City Plan, which resulted in updates to the Strategic Risk Areas.
- c) Specific key issues were highlighted within the Risk and Assurance Map update reports for members to consider further, specifically in relation to the improvement of the financial management arrangements within Together for Children Sunderland Limited (TfC). The Executive Director of Corporate Services confirmed that the working relationship between the Council and the Company was effective and the financial position was continuing to improve over time.
- d) Further updates were provided in relation to the actions taken to improve the administration of Adult Social Care Personal Budgets, with actions being completed by the end of the financial year.
- e) External Auditors provided progress reports to each meeting, the Annual Audit Letter, Audit Completion report, and the Review of the Council's arrangements for securing value for money. These reports provided a very positive opinion and members of the committee commented that they found the reports to be re-assuring. The External Auditor also presented their Audit Strategy Memorandum setting out their work for the coming year.
- f) The results of the Annual Governance Review for 2018/19 were presented, which summarises the overall governance arrangements in place within the Council, and made recommendations for further improvement. The head of internal audit's opinion on the Council's internal control environment was positive. The resultant Annual Governance Statement highlighted the good corporate governance arrangements in place, apart from those improvements being made in relation to Children's Safeguarding and was approved by the Committee and included within the Council's Statement of Accounts. A revised Local Code of Corporate Governance was also agreed.

- g) The annual Statement of Accounts 2018/19 (subject to audit) was issued to the Committee members by the end of May 2019. The audited accounts were presented at the July 2019 meeting. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the accounts and the good relationship which allowed the audit to be completed within the restricted timeframe.
- h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved the Treasury Management Policy and Strategy. The Committee asked questions in relation to various aspects of the reports.
- i) The Committee received a report in relation to the review of the effectiveness of Internal Audit which had been undertaken by the Council's external auditors. The review concluded that *'the IA is compliant with the requirements of the PSIAS [Public Sector Internal Audit Standards] and the application note'*.
- j) Included within the Risk and Assurance Map update reports the Committee was provided with information regarding the areas of counter fraud work undertaken and the results of this work. No particular concerns were highlighted.
- k) The Committee received the Data Protection Annual Report 2018/19 which will be reported to the Committee on an annual basis moving forward. Members asked questions in relation to the arrangements in place. In addition, a report presenting the positive outcome of an inspection of the Council's arrangements to comply with the Regulation of Investigatory Powers Act was provided.

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

- *Risk and Assurance Map* – The Committee closely monitored activity in relation to the implementation of improvements in the financial arrangements of Together for Children Sunderland Ltd and the systems in place for administering Adult Social Care Personal Budgets. Senior Officers provided updates in relation to these areas.
- *Treasury Management* – The Committee has received regular updates regarding the Council's performance in relation to Treasury Management.
- *Internal Audit* - The Committee has received independent assurance that the Internal Audit service complies with the relevant professional standards.

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

**4. Recommendation**

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

**AUDIT AND GOVERNANCE COMMITTEE**

**16 OCTOBER 2020**

**TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2020/2021**

**Report of the Executive Director of Corporate Services**

**1. Purpose of Report**

- 1.1 To report on the Treasury Management performance to date for the second quarter of 2020/2021.

**2. Description of Decision (Recommendations)**

- 2.1 The Committee is requested to:
- Note the Treasury Management performance during Quarter 2 of 2020/2021.
  - Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

**3. Introduction**

- 3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2020/2021, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

**4. Treasury Management Response to Covid-19**

- 4.1 As previously reported to the committee the response to Covid-19 commenced in mid-March and this has continued during 2020/2021. As well as the significant impact on financial markets and economic forecasting, the crisis required a pro-active approach to Treasury Management to support the Council's response to the pandemic. This has included:
- In order to support the payment of Business Rate payer grants cash balances were held at higher levels to facilitate daily grant payments so ensuring funds were released to Businesses as promptly as possible.
  - Cash flow has been stringently monitored to ensure the position remains positive given the uncertainties around income collection and also the significant additional costs being incurred in response to the pandemic.
  - Investments made have been made predominately short term to ensure both liquidity and also security of funds given the increased economic uncertainty.

- 4.2 The response, coupled with the economic circumstances, is impacting on the investment returns generated during the year.

## **5. Summary of Treasury Management Performance for 2020/2021 – Quarter 2**

- 5.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have continued to be volatile, primarily in response to the economic impact of Covid-19 and they also reflect continued uncertainty over the outcome of Brexit negotiations. No new borrowing has been taken out to date during 2020/2021 but the position continues to be monitored closely.
- 5.2 No rescheduling of debt has been possible in 2020/2021 as rates have not been considered sufficiently favourable. The Council's interest rate on borrowing is very low, currently 2.90%, 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 advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.
- 5.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its 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 £842.243m for 2020/2021. The Council's maximum external debt during the financial year to 30<sup>th</sup> September 2020 was £492.313m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in section A2 of Appendix A for information.
- 5.4 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.
- 5.5 As at 30<sup>th</sup> September 2020, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.55% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of -0.06% (set at 0.125% less than the corresponding 7-Day LIBOR rate which due to the fall in gilts means the benchmark rate has become negative). Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.
- 5.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 5.7 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.

## **6. Recommendation**

- 6.1 Members are requested to note the Treasury Management performance for the second quarter of 2020/2021.
- 6.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.





## Appendix A

### Detailed Treasury Management Performance – Quarter 2 2020/2021

#### 1 Borrowing Strategy and Performance – 2020/2021

- 1.1 The Borrowing Strategy for 2020/2021 was reported to Cabinet on 11<sup>th</sup> February 2020 and approved by full Council on 4<sup>th</sup> March 2020.
- 1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view when the Treasury Management Policy and Strategy was drafted, prior to the global Covid-19 pandemic, was that the 0.75% Bank of England (BoE) Base Rate would remain until March 2021 when it would rise by 0.25% to 1.00%, followed by a further 0.25% increase in June 2022. PWLB borrowing rates were expected to rise, albeit gently, during 2020/2021 across all periods but could be subject to exceptional levels of volatility due to continued uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.
- 1.3 GDP data revealed the UK economy contracted by 20.4% during the second quarter compared to the previous (pre-Covid) quarter and down 21.7% on the same quarter last year as the UK emerged from lockdown to a new normal. Whilst the Government's furlough scheme had partially mitigated the financial impact of the Covid-19 pandemic on those individuals covered by the scheme it ends on 31<sup>st</sup> October. The new Job Support Scheme announced by the Chancellor is much less favourable to businesses already struggling in the aftermath of the pandemic and speculation is that unemployment levels could rise.
- 1.4 The annualised CPI inflation rate fell from 1.0% in July to 0.2% in August, largely attributable to the effects of the pandemic and Government support measures reducing VAT in the hospitality sector. This is well below the BoE's 2% target and inflation is expected to remain at low levels in the coming quarters.
- 1.5 As expected, the BoE's September Monetary Policy Committee (MPC) meeting voted to leave the Base Rate unchanged at 0.10%, a record low. The Quantitative Easing bond buying programme remains at £745bn but market economists generally expect this to rise. MPC Members were optimistic of an uplift in growth in the near term but warned this had little impact on the longer-term outlook. Rising Covid-19 infection rates, Brexit and the end of the furlough scheme (despite the more limited extension) are uncertainties that could dampen growth. The BoE Governor has sought to downplay recent reports of negative rates as speculation continues on circumstances where they could be applied as he feels other tools are available that would be more effective in stimulating the economy in the short-term such as increased bond buying.
- 1.6 Investment rates are likely to remain at very low levels throughout 2020/2021. With short-term investment rates forecast to be materially below long-term borrowing rates, it is likely that some investment balances will temporarily be used to fund long-term borrowing requirements. Such funding is wholly dependent upon market conditions and will be reassessed if the appropriate conditions arise.
- 1.7 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in August in light of continued volatility in the financial markets caused by the Covid-19 pandemic. They do not anticipate any change in the current BoE Base Rate

of 0.10% within their forecast timeframe up to March 2023. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

- 1.8 The following table shows the average PWLB rates for Quarter 1 and 2.

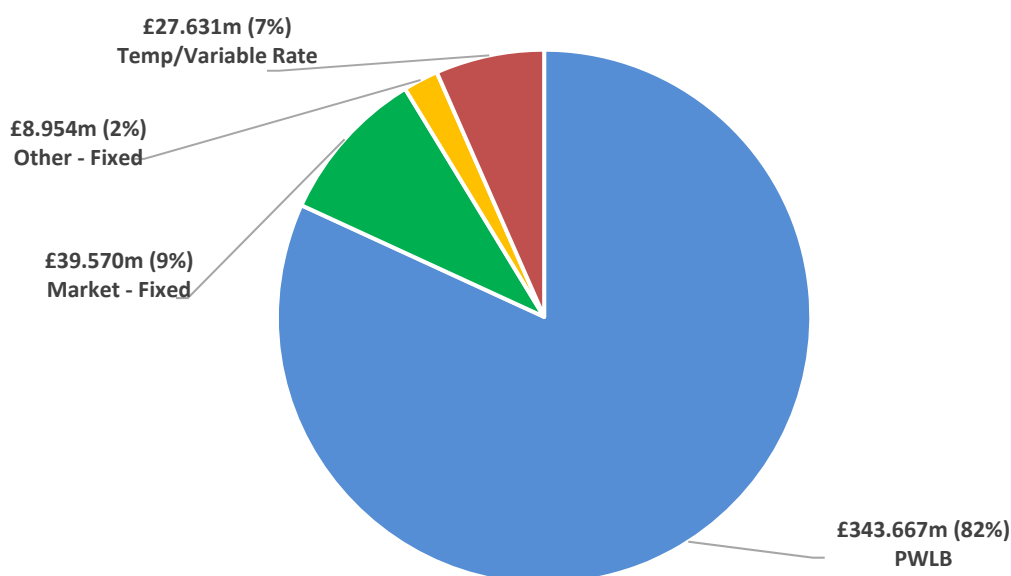
<b>2020/2021</b>	<b>Qtr 1* (Apr - June) %</b>	<b>Qtr 2* (July – 27<sup>th</sup> Sept) %</b>
7 days' notice	-0.04	-0.06
1 year	1.84*	1.76*
5 years	1.85*	1.74*
10 years	2.07*	2.02*
25 years	2.50*	2.57*
50 years	2.26*	2.39*

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

- 1.9 High levels of volatility in the financial markets have continued during 2020/2021. Uncertainty around the global rise in Covid-19 infection rates and the impact on world economies, the outcome of Brexit negotiations and continued tensions between China and the USA have led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds. Investor cash flow uncertainties and the need to maintain liquidity in these unprecedented times has depressed short-term rates available to very low levels.
- 1.10 Link Asset Services predict a gradual rise in PWLB rates reaching 2.00%, 2.10%, 2.50% and 2.30% for 5, 10, 25 and 50-year durations respectively by 31<sup>st</sup> March 2021 with further increases of 0.10% to 0.20% by March 2023. 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. In addition, PWLB rates are subject to ad hoc decisions by the UK Government to change the margin over gilt yields charged in PWLB rates. The Treasury consultation on reviewing PWLB margins and lending ended on 31<sup>st</sup> July and it is expected the Certainty Rate will be revised downwards but the timing of the announcement and its implementation remain unclear.
- 1.11 The strategy for 2020/2021 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 4.25% for long-term borrowing was set for 2020/2021 in light of the views prevalent at the time the Treasury Management policy was set in March 2020.
- 1.12 Due to high levels of volatility in the financial markets, with borrowing rates forecast to remain low over the short-term, no new borrowing has been undertaken in the current financial year to 30<sup>th</sup> September 2020. The Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future capital programme requirements.

1.13 The Council's treasury portfolio position at 30<sup>th</sup> September 2020 is set out below:

<b>Borrowing Summary at: 30 September 2020</b>			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<b><u>Fixed</u></b>			<b>%</b>
PWLB	343,666,667	10,222,738	2.97
Market – Fixed	39,570,383	1,743,146	4.41
Other – Fixed	8,954,092	1,532	0.02
	<u>392,191,142</u>	<u>11,967,416</u>	<u>3.05</u>
<b><u>Variable</u></b>			
Temporary/Other – Variable	27,630,855	198,098	0.72
	<u>27,630,855</u>	<u>198,098</u>	<u>0.72</u>
<b>TOTAL:</b>	<b>419,821,997</b>	<b>12,165,513</b>	<b>2.90</b>



## 2 Prudential Indicators – 2020/2021

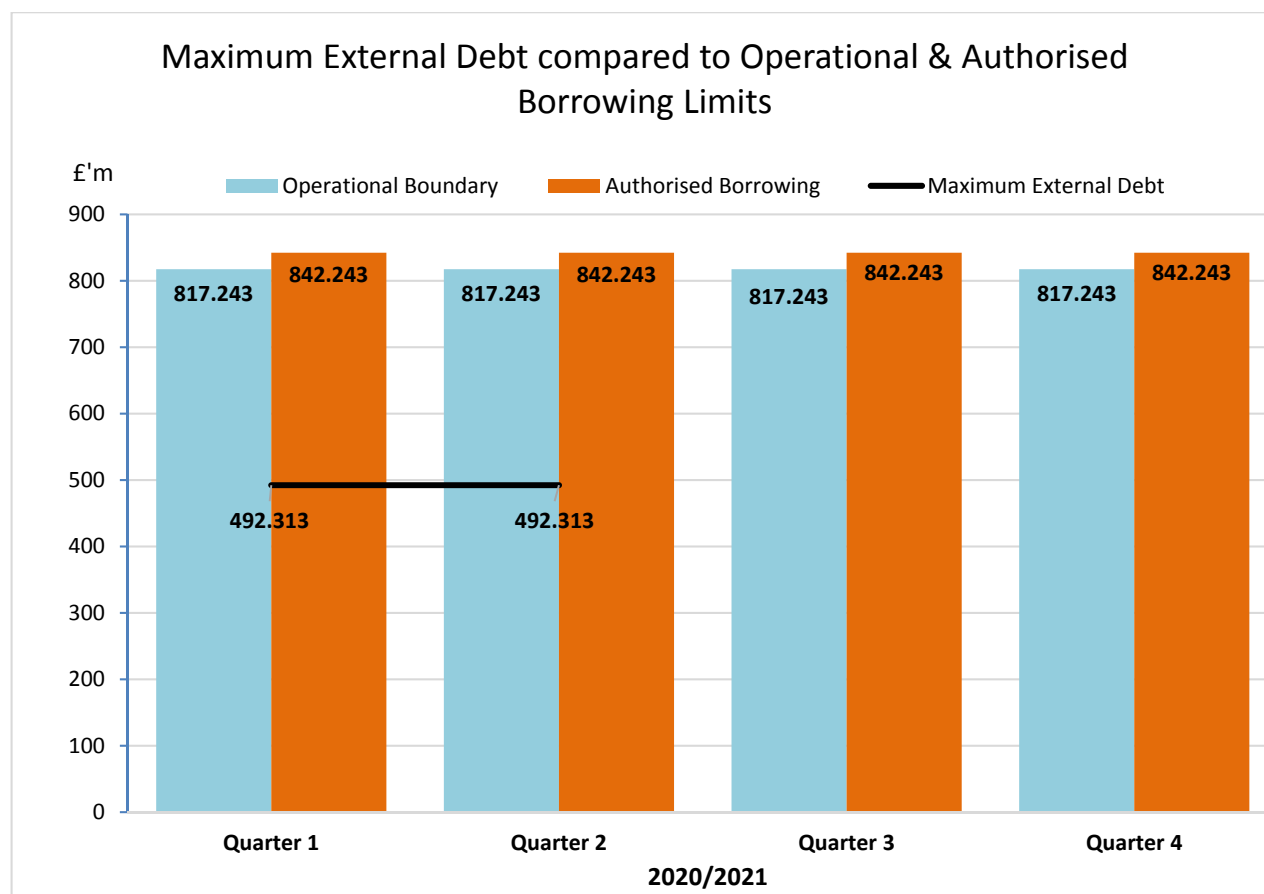
- 2.1 All external borrowing and investments undertaken in 2020/2021 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other 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 2020/2021 as follows:

	<b>£m</b>
Borrowing	767.185
Other Long-Term Liabilities	<u>75.058</u>
<b>Total</b>	<b><u>842.243</u></b>

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

	<b>£m</b>
Borrowing	742.185
Other Long-Term Liabilities	<u>75.058</u>
<b>Total</b>	<b><u>817.243</u></b>

The Council's maximum external debt in respect of 2020/2021 (to 30<sup>th</sup> September 2020) was £492.313m 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:

<b>Prudential Indicators</b>		<b>2020/2021 (to 30/09/20)</b>	
		<b>Limit £'000</b>	<b>Actual £'000</b>
<b>P9</b>	<b>Maturity Pattern</b>	Upper Limit	
	Under 12 months	50%	7.94%
	12 months and within 24 months	60%	1.79%
	24 months and within 5 years	80%	2.38%
	5 years plus	100%	87.97%
	A lower limit of 0% for all periods		
<b>P10</b>	<b>Upper limit for total principal sums invested for over 365 days</b>	75,000	0

### 3 Investment Strategy – 2020/2021

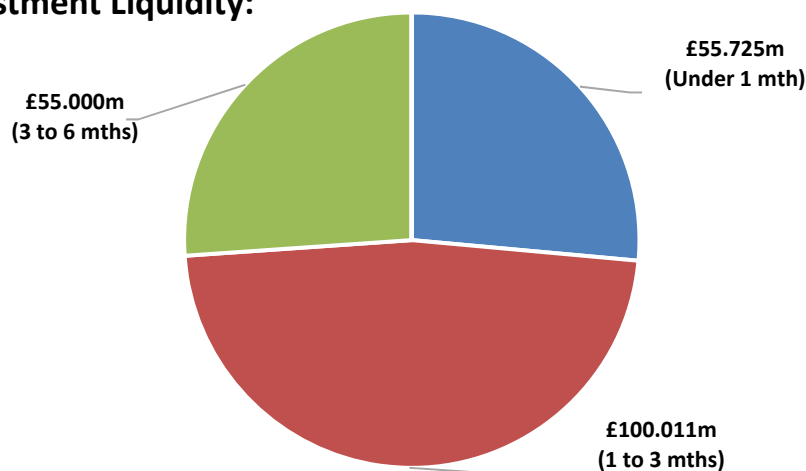
3.1 The Investment Strategy for 2020/2021 was approved by Council on 4<sup>th</sup> March 2020. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (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 30<sup>th</sup> September, the funds managed by the Council's in-house team amounted to £210.736 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 30 September 2020					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
<b>Call Accounts:</b>					
Natwest SIBA	Overnight	2,000,000	0.01		Call
Prime MMF	Overnight	11,170,000	0.06		Call
Aberdeen Liquidity Fund	Overnight	42,555,000	0.09		Call
Lloyds Banking Group Ltd	95d Notice	50,011,097	0.30		95 Day Notice
<b>Sub-total:</b>		<b>105,736,097</b>			
<b>Fixed Term Deposits:</b>					
Santander UK Plc	365 days	25,000,000	1.10	08-Nov-19	06-Nov-20
Barclays Bank Plc	185 days	25,000,000	0.67	22-May-20	23-Nov-20
Santander UK Plc	365 days	15,000,000	1.11	29-Jan-20	29-Jan-21
Lloyds Banking Group Ltd	365 days	15,000,000	1.11	29-Jan-20	29-Jan-21
Santander UK Plc	185 days	25,000,000	0.40	29-Sep-20	29-Mar-21
<b>Sub-total:</b>		<b>105,000,000</b>			
<b>TOTAL:</b>		<b>210,736,097</b>			

#### Investment Liquidity:



- 3.3 The table below shows the return received on these investments compared with the benchmark 7-Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	<b>2020/2021 Actual to 30/09/20 %</b>	<b>2020/2021 Benchmark to 30/09/20 %</b>
Return on investments	0.55	-0.06*

\*the 7-Day LIBID rate is set at 0.125% less than the corresponding 7-Day LIBOR rate, which due to the fall in gilts means the benchmark rate has become negative.

- 3.4 Investments placed in 2020/2021 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 remain lower than those achieved in previous years and reflect the fall in the BoE Base Rate from 0.75% to 0.25% on 11<sup>th</sup> March 2020 and then to a historic low of 0.10% on 19<sup>th</sup> March 2020.
- 3.6 Due to the volatility in the financial markets resulting from Covid-19 the Council has followed advice from our Treasury Management advisers and has operated a more risk adverse strategy by placing funds in shorter dated liquid investments than previously.
- 3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. 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.

**Counterparty Criteria**

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

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

<b>Fitch / S&amp;P's Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P's Short Term Rating</b>	<b>Moody's Long Term Rating</b>	<b>Moody's Short Term Rating</b>	<b>Maximum Deposit £m</b>	<b>Maximum Duration</b>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	365 days
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					300	2 years
<b>Money Market Funds (CNAV, LVNAV and VNAV)</b> Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
<b>Local Authority controlled companies</b>					40	20 years

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

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

### Country Limit

It is proposed that only 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 done 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	120
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, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.



## Approved Lending List

## Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
<b>UK</b>	AA-	-	Aa2	-	AA	-	300	
<b>Lloyds Banking Group</b>							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	2 years
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	2 years
Bank of Scotland Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	2 years
<b>Royal Bank of Scotland Group</b> (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	Baa2	P-2	A-	A-2	75	2 years
Santander UK plc	A+	F1	Aa3	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	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B-	B	B3	NP	-	-	0	
Goldman Sachs International Bank	<b>A+</b>	F1	A1	P-1	A+	A-1	<b>70</b>	365 days
HSBC Bank plc (NRFB)	AA-	F1+	Aa3	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	Aa3	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	65	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
Nottingham BS **	-	-	Baa2	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	365 days
<b>Money Market Funds</b>							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
<b>Australia</b>	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
<b>Canada</b>	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+	Aa2	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
<b>Denmark</b>	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A	A-1	50	365 days
<b>Finland</b>	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
<b>Germany</b>	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
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
<b>Netherlands</b>	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Coöperatieve Centrale Raiffeisen	<b>A+</b>	<b>F1</b>	Aa3	P-1	A+	A-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
Boerenleenbank BA (Rabobank Nederland)								
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	50	2 years
<b>Singapore</b>	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
<b>Sweden</b>	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
<b>Switzerland</b>	AAA		Aaa		AAA		50	
Credit Suisse AG	A	F1	A1	P-1	A+	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
<b>USA</b>	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

## 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.



## Risk Management Review of Treasury Management

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

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

## **Risk**

## **Controls**

### **3. Exchange Rate Risk**

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

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

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

### **4. Inflation Risk**

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

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

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

### **5. Counterparty Risk**

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

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

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

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

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

## Risk

## Controls

the approved lending list up to date and fully informed, using the latest available information.

### 6. Capital Financing and Refinancing Risk

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

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

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

### 7. Statutory and Regulatory Risk

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

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

### 8. Treasury Management Arrangements Risk

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

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

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

