Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held on Friday 4 February 2022 at 1.30pm in the Council Chamber, City Hall, Plater Way, Sunderland, SR1 3AA

For further information and assistance, please contact by Teams or Email:
Gillian Kelly, Principal Governance Services Officer gillian.kelly@sunderland.gov.uk
Tel: 07919 509178

ELAINE WAUGH
Assistant Director of Law and Governance

City Hall
Sunderland

27 January 2022

Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 24 September 2021

Present:

Mr G N Cook in the Chair

Councillors N MacKnight, Nicholson, Stewart and P Wood together with Mr M. Knowles

In Attendance:

Jon Ritchie (Executive Director of Corporate Services), Paul Davies (Assistant Director of Business and Property Services), Paul Dixon (Chief Accountant), Jon Beaney (Senior Corporate Strategy Officer), Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Price.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 23 July 2021 be confirmed as a correct record.

City Plan Update

Jon Beaney, Senior Corporate Strategy Officer was in attendance to provide an update on the City Plan and the associated assurance and review work.

The City Plan was the Council's sole strategic plan for the period 2019-2030 and described the challenges, themes and commitments in place for regeneration, growth and recovery in the city. The City Plan was a key reference point for council processes and other plans and was published in 2019 with the intention of carrying out periodic reviews when it was considered necessary. The first review had taken place in 2020 and resulted in revisions being made to the Plan with Covid-19 having been a specific challenge and the emerging impacts of the pandemic and other socio-economic challenges being reflected. There had been refinements to the 14 commitments in the Plan and the indicative timeline had been updated to 2030.

Jon highlighted that the assurance and review process involved the collecting and collating evidence from four key sources: -

- Council quarterly performance management reporting
- Scrutiny committee responses to that reporting
- Specialist analysis from Council services and city partners
- Wider socio-economic data from around the city.

It was stated that this was the first time that the Council had drawn on specialist support from city partners; they had a key role to play in addressing challenges in relation to health and education and the identification of activity for the indicative timeline. Any changes to the contents of the Plan would be presented to Council in January 2022, having been reported to Cabinet in November 2021 and Scrutiny in December.

Councillor MacKnight commented that corresponding with key stakeholders, particularly in health, was a good idea. He noted that the timescales for agreeing changes to the Plan were tight and suggested that it would be useful for the members of the Scrutiny Co-ordinating Committee to get as early sight of the report as possible.

Jon Beaney said that it was encouraging that key stakeholders were willing to engage with the process and the Council could have an eye on some issues but not have an awareness of the pressures which other organisations were under from the Government and this process helped the understanding of all partners. Discussions were taking place around how the information could be shared with the Scrutiny Co-ordinating Committee at an early stage.

Councillor Stewart asked if the VCS Network had been involved in the review; the Plan was there to impact on residents and these organisations were very close to them. Jon advised that all partners were being involved as widely as possible and voluntary and community sector would be picked up. Once the Plan was developed this would be shared with the Sunderland Partnership, the document was to be reflective of everyone in the city and this would be built on as work progressed.

Mr Knowles commented that the health service had received a large amount of funding for the next six months and suggested it might be useful to go from that angle with partners. The Chair said that he would liked to have seen a list of the partners which were being engaged with.

Jon said that he would follow up with health partners and would also provide a list of partners and contacts.

10. RESOLVED that the information be noted.

Risk and Assurance Map - Update 2021/22

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

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

The proposed Risk and Assurance Map and planned work for the year had been agreed by the Committee in April 2021 and the Map had been updated to reflected changes in both the Strategic and Corporate Risk Profiles. The Cumulative Assurance Position for all risk areas was Green or Amber and this reflected the changes from Red to Green as a result of the Ofsted inspection of Children's Services. The key changes to the Strategic Risk Areas were as follows: -

- The risk score and assurance position in relation to R08 *'The Council is not able to fulfil its statutory responsibility for Children and Young People and also ensure families are supported to enable them to achieve their desired outcomes'* had been updated in response to the recent Ofsted inspection of Together for Children Ltd which gave an 'Outstanding' rating. The current risk score had been reduced to 4 (Green) and the assurance position had also been moved to Green. This was shown on the Risk and Assurance Map against the Strategic Risk Area *'Access to equitable opportunities and life chances'*.

- An additional risk had been added at R12 described as *'The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership, covering the North East and Cumbria may reduce the resources available in Sunderland for Health and Social Care'.* The current risk score was assessed as 9 (Red), as it was currently unclear what impact the new arrangements would have on the funding available for social care in Sunderland.

Corporate Risk Areas had been reviewed and there had been no changes to the Corporate Risk Profile. The Assistant Director of Business and Property Services reported that the overall risk and assurance positions for the Council owned companies Together for Children (TfC) and Siglion had moved to a Green rating. This was as a result of the Outstanding Ofsted judgement in relation to TfC and receiving assurances from the Siglion Director of Finance and the completion of the financial audit for the company.

The second line of assurance on the Map showed no red and the third line was also Green or Amber with the full detail of work carried out set out in Appendix 4 of the report. The Assistant Director of Business and Property Services commented that it could look like there had not been a lot done as yet this year and he explained that Internal Audit did undertake work for other clients and there were currently vacancies within the team; the service was looking at appointing an external company to do some work on its behalf.

The performance in relation to targets set for Internal Audit was shown at Appendix 5 and all Key Performance Indicators were on target.

Councillor Stewart referred to the Green rating for Together for Children and asked if this would now always be Green and what could be done regarding monitoring to show any changes.

The Assistant Director of Business and Property Services that just because the rating was Green now, it did not mean that this could not be changed, regardless of Ofsted. The opinion was based on internal audit work and risk and assurance work with a range of factors being taken into account which meant that if any concerns arose from the audit work, these would be flagged up.

In addition, there was an internal audit programme specifically for Together for Children which was agreed with, and reported to, the TfC Board. This would look at certain systems and controls and not the quality of practice. There were a whole range of contract measures existing between the Council and TfC with a suite of key performance indicators, through the monitoring of that, quality issues were picked up.

The Executive Director of Corporate Services highlighted that the Chief Executive of Together for Children reported to the Council Chief Executive. She also reported to the TfC Board and in turn to the Department for Education; the performance of the service was monitored through the Council's scrutiny regime.

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

11. RESOLVED that the report be noted.

Treasury Management Second Quarterly Review 2021/2022

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the second quarter of 2021/2022 and setting out the Lending List Criteria, the Approved Lending List and the Risk Management Review of Treasury Management.

The Chief Accountant reported that very little had changed since the first quarter review and the Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. In respect of borrowing, due to the temporary use of reserves to fund the Capital Programme no new borrowing had been required to date during 2021/2022 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 2.81%, 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 0.12% compared with a benchmark of -0.08%.

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.

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 noted that a fairly relaxed view of inflation was being taken at the previous meeting and it did not seem that this had changed. He asked if inflation was to take off, would this present serious difficulties, or were officers happy that it was under control.

The Executive Director of Corporate Services said that similar comments had been made through budget monitoring process at scrutiny meetings and it was for the Council to deal with any repercussions of rising inflation. In terms of the Capital Programme, increased costs would have to be managed within contingencies and potentially through re-financing.

There were concerns going forward in relation to utility prices, the Council had bought ahead through NEPO, but increases would be factored into the Medium Term Financial Plan (MTFP). The National Insurance increase would also feed through to some purchases. There was a long term planning assumption of 2% inflation and officers would continue to monitor the situation.

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

12. RESOLVED that: -

(i) the Treasury Management performance during Quarter 2 of 2021/2022 (Appendix A) be noted; and

(ii) the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Audited Statement of Accounts 2020/2021

The Executive Director of Corporate Services submitted a report providing Members with the Letters of Assurance required by the External Auditor as part of the final accounts process and presenting the Letter of Representation for 2020/2021. The Committee also received the Audit Completion Report from Mazars LLP providing their opinion on both the Council's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money). The audited Statement of Accounts for 2020/2021 was presented for approval by the Committee.

The Chief Accountant highlighted that the statutory audit deadlines had been extended for 2020/2021 and 2021/2022 and the Council had published its draft accounts on 12 July 2021. It was noted that it had been a massive team effort for all involved in the preparation of the accounts and the Chief Accountant thanked the local authority team and the team at Mazars for their contribution to completing the work.

The Chief Accountant stated that it was expected that the outcome of the audit would be unqualified, however there had been identified misstatements in relation to Property, Plant and Equipment and Pensions which would be likely to result in material adjustments to the accounts.

Diane Harold was in attendance from Mazars to present the Audit Completion Report and confirmed that it was proposed to issue an unqualified audit opinion and there were no significant weaknesses identified in relation to value for money. It was anticipated that the audit would be completed shortly however there had been some late adjustments meaning that the auditors were a little behind where they wanted to be at this stage.

Turning to the findings and the significant matters discussed with management, Diane advised that Mazars had engaged a qualified internal valuer for Property, Plant and Equipment and consequently there were more issues being picked up. It was noted that the Council was valuing schools on a Modern Equivalent Asset (MEA) basis and had done so for schools due a valuation in 2020/2021 but not for all schools. The Council was now revising the financial statements to include an MEA valuation for all schools but it was not expected that this adjustment would be material.

The figures produced by the Actuary for pensions had a large variance with those used in the draft accounts and a revised pensions report was awaited. Diane advised that other local authorities were having similar issues and these were large numbers impacting on disclosures but not on the bottom line. The auditors needed to do further work on this element but would summarise this in their follow up letter.

Mr Knowles asked if these issues should be a matter for concern and Diane stated that there was a risk of the audit missing the statutory deadline, however this would be a greater concern if big issues were the reason for the delay. Sunderland had been prioritised for completion, however Diane advised that the majority of audits in the sector would not be complete by the end of September.

In relation to other significant risks, Diane advised that there were no issues in relation to the valuation of current and non-current debtors and there had been an amendment with regard to Covid-19 grant recognition as the external auditors only covered grants which were in the accounts, not where the Council had acted as an intermediary for funds.

It was confirmed that Mazars had not had to exercise any of their wider responsibilities under the 2014 Act and there was one small internal control recommendation in respect of a housekeeping issue for system access. The value of any misstatements was not yet confirmed and would be set out in the follow up letter but did not have a bottom line impact.

The approach to value for money was to identify any risks of significant weaknesses and for Sunderland these had been found to be sustainable resource deployment and the Ofsted inspection of children's services. The work was yet to be completed in this area but no significant weaknesses had been identified . The full commentary would be provided in the Auditor's Annual Report no later than three months after the audit of the financial statements was signed off.

Councillor Wood referred to an issue under the internal control recommendations around the Council not having deeds for a car park. Diane explained that this had been flagged up in the previous year's report and had been followed up during 2020/2021.

Following consideration of the report, it was: -

13. RESOLVED that: -

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

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

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

(iv) the revised Audited Statement of Accounts for the financial year ended 31 March 2021 (Appendix E) be approved; and

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

(Signed) G N COOK
Chair

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE 4 February 2022

RISK AND ASSURANCE MAP UPDATE – 2021/22

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 April 2021 the Committee agreed the Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2021/22. Both the Strategic and Corporate Risk Profiles have been updated as well as the Risk and Assurance Map following consultation with Chief Officers and relevant key officers. The ‘X’s in the assurance columns show where assurance is expected to be received from in the current financial year.

4. Risk and Assurance Map

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

<u>Strategic Risk Areas</u>

4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile, attached at Appendix 2. All changes to the Strategic Risk Profile are shown in red text for ease of reference. There are a number of updates to the description of the risk, scores and mitigating actions. Key changes are as follows:

- The risk score in relation to risk R02 *‘The city, its residents and businesses do not emerge from the Covid-19 pandemic in a strong and competitive position.’* has reduced from 16 (Red) to 12 (Red) to reflect the economic growth activity that is ongoing and planned within the City. More detail regarding the activity is set out in risks R01, R03 and R05.

- The risk description in relation to R07 has changed to include the expected timescales regarding carbon neutrality and is now '*Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040*.' The current risk score for this risk has also increased from 9 (Red) to 16 (Red) to reflect the importance and difficulty of meeting this global challenge.

- The risk description in relation to R015 has changed to '*The City cannot meet the challenge to develop an active and green transport system in response to Covid and other pressures.'* to reflect the challenge of lowering the City's carbon footprint.

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. There have been no changes to the Corporate Risk Profile.

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. Sunderland Care and Support have recently received a report from the Care Quality Commission regarding their supported Living Service, which received an overall rating as Good. This has been added to the External Assurance Column on the Risk and Assurance Map and has moved the Overall Assurance Rating from Amber to Green.

Assurance from Internal Audit

4.5 The audits to be carried out this year and the detailed results of completed Internal Audit work is shown at Appendix 4, with the summary outcomes shown on the Map.

4.6 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the Strategic and Corporate Risk Areas and Council Owned Companies. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time. In the current year Internal Audit has lost two long serving employees. Two recruitment exercises have been undertaken during the year with both vacancies being filled, one an internal candidate and one external who took up the post at the beginning of January 2022. An external internal auditing firm has also been appointed to help complete the audits for the year.

Assurance from Risk and Assurance Team

4.7 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 EU Exit.
- Major capital schemes such as the delivery stage of the SSTC Phase 3, the International Advanced Manufacturing Park, and the City Centre developments.
- Move to the new City Hall, including construction and new ways of working.
- Smart Cities Programme.

Assurance from others within the Council

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

Assurance from Management

4.9 Arrangements are in place to obtain assurance from senior managers for all service areas within the Council through an annual governance questionnaire which has been undertaken for 2020/21.

Assurance from External Sources

4.10 The Map includes assurance from relevant external sources.

Overall

4.11 The overall assurance levels are either green or amber. The Risk and Assurance Map, Strategic and Corporate Risk Profiles were recently considered by the Chief Officers 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. All KPIs are on target.

6. Conclusion

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

7. Recommendation

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

Appendix 1

Risk and Assurance Map – January 2022

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

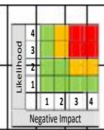
Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Appendix 2

STRATEGIC RISK PROFILE 2021/22

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

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



City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Current Score (January 2022) Impact	Likelihood	Rating	Target score Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Assurance: 1st Line Management	2nd Line Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Management	Business Continuity	Risk and Assurance	3rd Line Internal audit	External Assurance
DYNAMIC	More and better jobs.	R01	Unable to attract commercial / manufacturing interest to our development sites.	Developments in other areas of the country may be more attractive to Investors. Uncertainty arising from Covid 19 / BREXIT leading to greater caution by Investors. Firms may review their plans due to the impacts of Covid (including reduced turnover and increased home working).	Delay in regenerating the City and delivering the City Plan. Inability to grow Business Rate Income.	City Plan. City Board. IAMP LLP Board.	4	2	8	4	1	4	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the City to achieve targets and outcomes. Sunderland has been chosen as the base of Nissan 36Zero, a flagship Electric Vehicle (EV) Hub that will create a world-first EV manufacturing ecosystem. Comprised of three interconnected initiatives, Nissan EV36Zero brings together electric vehicles, renewable energy and battery production. The projects represent 6,500 jobs at Nissan and its UK suppliers, including more than 900 new Nissan jobs and 750 new jobs at a second Envision-AESC Gigafactory	Executive Director of City Development											
	More and better jobs.	R02	The city, its residents and businesses do not emerge from the Covid-19 pandemic in a strong and competitive position.	Covid restrictions, including national lockdown controls and enhanced local restrictions. Reduction in footfall. Other interacting factors contributing to commodity and logistical issues, including driver shortages.	Adverse economic impact on local businesses. Delay in regenerating the City and delivering the City Plan.	City Plan. City Board. University Enterprise Zone	4	3	12	4	2	8	Reassess support that is available to different sectors and communicate widely. Encourage entrepreneurship utilising the business incubators to support business establishment, growth and job creation. Lobby Government for additional support nationally for self-employed. Delivery planning to take into account, potential shortages and delays. Despite the continuing impact of Covid, score reduced to 4x3 from 4x4 to reflect the activity around the city as evidenced in R01 R03 and R05	Executive Director of City Development											
	More and better housing.	R03	Unable to meet the aspirations set out in the Local Plan to generate a variety of property types and tenures that meet the needs and aspirations of families and individuals	Traditionally a difficult market to incentivise. High number of empty properties. High % of homes in low Council Tax bands.	Outward migration continues.	Housing Strategy. City Plan. City Board.	4	2	8	4	2	8	Incentivise the market to progress key housing sites including, Riverside Sunderland, existing Civic Centre site, Northern Spire Park, Washington Meadows and Potters Hill (South Sunderland Growth Area). In October 2021 there were 64 new homes built that contributes to a cumulative ytd figure of 485 and a predicted end of year figure of 831 new homes which is above the 676 built in 2020/21 and is also above the annual target of 645 There have been 24 completed affordable homes between April - September 21 and 5 empty properties brought back into use in Quarter 2 (taking the total since April 2019 to 95)	Executive Director of City Development / Executive Director of Neighbourhoods											
	More local people with better qualifications and skills.	R04	The qualifications and skills which Sunderland's residents have may not match the needs of industry in the City.	Employer entry level qualification requirements not clearly understood. Schools are performance / league table driven with very little scope to tailor curriculum or follow vocational routes. High attainment at Primary School falls off at Secondary Level. City has comparatively fewer residents with degrees.	Sunderland residents are less able to access all of the employment opportunities that are created in the City and on average earn less than non-resident Sunderland workers.	City Plan. City Board	4	3	12	4	2	8	Facilitate collaborative working between employers, education/skills providers and students. The North East Automotive Alliance (NEAA), is an industry-led cluster group, which supports, the economic sustainable growth and competitiveness of the sector. Its role includes cohesive workforce planning, helping to forecast future skills demand and informing providers so that they can make relevant courses available. Skills Strategy to form part of the Local Industrial Strategy with a heavy digital bias. Developing a City Skills Board including University and College NECA developing plan to grow the local Economy which includes skills and qualifications The Council will continue to focus on tackling the barriers for those least able to access employment through initiatives such as Community Local Led Development (the scheme has now been extended to June 2023 Sunderland City Council, Education Partnership North East and MOBIE have secured funding from the Government's Levelling Up Fund (LUF) to develop a Housing Innovation and Construction Skills Academy (HICSA) - a ground-breaking facility that will educate, train and upskill the people of Sunderland to create innovative factory-built new homes, the first of which will be assembled at Riverside Sunderland .	Executive Director of City Development											
	A stronger City Centre with more businesses, housing and cultural opportunities.	R05	Sunderland City Centre fails to drive transformational economic growth.	Declining retail, economic and service functions. Independent traders struggling. Peripheral but accessible employment locations – e.g. Doxford Business Park. Fragile viability of the City Centre.	Delay in regenerating the City and delivering the City Plan. Continued decline of the City Centre. Migration out of the City continues.	City Plan. City Board. Riverside Sunderland Development.	4	3	12	4	2	8	Progress the Riverside Sunderland development which aims to double the residential population and increase the number of jobs by 50% by 2030 Support development of the central business district, which will increase footfall and act as a showcase to attract further investment. Council took occupation of City Hall Nov 21 City Centre projects that are progressing include; Hotel on Keel Square, Sunderland's Eye Hospital, Sunderland Railway Station, High Level Bridge and Culture House,	Executive Director of City Development											
	A lower carbon city with greater digital connectivity for all.	R06	Unable to maximise the opportunities created by the Smart City Infrastructure.	Unable to agree an appropriate solution. Unable to attract funding to develop the required infrastructure.	Businesses and residents are not attracted to the City. Unable to access faster speeds and more reliable connectivity than existing 3G and 4G networks.	City Plan. Contract with City Fibre. Virgin Media upgrades. Pilot secured for healthier homes. Logistic Pilot at Nissan and Vantec. Partnership with Digital Catapult.	3	2	6	3	2	6	Sunderland City Council has awarded a 20-year strategic partnership to BAI Communications to design, build and operate next generation digital infrastructure including a private 5G small cell network. Project areas include; • Manufacturing and logistics. • Intelligent traffic mapping and air quality • Education, including digital skills. • Social Care. • Smart buildings	Executive Director of Corporate Services											
	A lower carbon city with greater digital connectivity for all.	R07	Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040 .	Measures are not in place to meet the aspirations of the Council and City to become carbon neutral. Limited business take-up of low carbon initiatives.	Fail to reduce greenhouse gas emissions and make related financial savings.	Carbon Management Plan. City Plan.	4	4	16	3	2	6	Implement the Low Carbon Framework and Delivery plan to reduce individual carbon footprints, improve energy efficiency of existing homes and buildings, develop low carbon and active transport modes, develop renewable energy generation / storage grow the city's green economy, reduce the volume of all consumption and waste, increase opportunities to reuse materials and recycle waste. Sunderland's Low Carbon framework sets an ambition for the Council becoming carbon neutral by 2030 and the City to become carbon neutral by 2040. Score increased to 4x4 to reflect the difficulty and importance of meeting this global challenge	Executive Director of City Development											
	Access to equitable opportunities and life chances.	R08	The Council is not able to fulfil its statutory responsibility for Children and Young People and also ensure families are supported to enable them to achieve their desired outcomes.	Children and young people, if not protected, are at risk of harm or exploitation by others. Families are in need of support to respond to challenges and achieve the best possible outcomes for their children	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk and harm or exploitation by others.	TfC contract monitoring arrangements. City Plan. Outstanding Ofsted outcome	4	1	4	4	1	4	Monitor commissioning arrangements and outcomes, including the priority areas of Safeguarding, the development of life skills and support for families, which enhance access to the same opportunities and life chances.	Executive Director of Corporate Services / Director of Children Services											
		R09	Families are not sufficiently resilient and resourceful to respond to challenges and achieve the best possible outcomes for their children.	Families unable to support children at home with educational progress. Families do not have financial stability. Parents do not have emotional stability to support their families.	Adverse impact on vulnerable children at both an educational and safeguarding perspective. Children and young people are at risk from harm or exploitation by others.	TfC City Plan. Outstanding Ofsted outcome	4	2	8	4	1	4	Ofsted Report August 21 "Leaders and managers are confident, ambitious and influential in changing the lives of local children, young people and their families including cared for children and care experienced young people." "A new and vibrant culture is now widespread across children's services in Sunderland. This successful approach has resulted in children's voices and influence being central to assessments, planning and interventions. Staff across the council and the multi-agency partnerships are hugely focused on seeking to identify vulnerabilities and needs, providing support for children and families before problems escalate.	Executive Director of Corporate Services / Director of Children Services											
	Reduced health inequalities enabling more people to live healthier longer lives.	R10	Unable to improve the historically poor Health outcomes in Sunderland and reduce Health inequalities.	Adverse impact of Covid 19 on health inequalities. The Sunderland Joint Strategic Needs Assessment identified high level health challenges for Sunderland including: Long term health problems- excessive alcohol, smoking, poor diet and low levels of physical activity. Poor mental health and wellbeing. Increased health risks of people with a physical or learning disability.	Life expectancy and healthy life expectancy are below the national average. Ill health continues to present an unsustainable burden on the health and care system and wider City economy.	Joint Strategic Needs Assessment. Health & Wellbeing Board. H&WB Priority Working Groups City Plan. Altogether Better Alliance	4	4	16	4	2	8	Healthy City Plan agreed to address the major issues identified in the Joint Strategic Needs Assessment The Health & Wellbeing Board oversees the Delivery Plan and Workstreams including, Best Start in life, Young people aged 11-19, Smoke free Sunderland, Addressing alcohol harms, Healthy economy, Mental health and wellbeing, Ageing well. There is also a Covid -19 health inequalities workstream to address the health inequalities amplified during the pandemic. Council is taking a 'health in all policies' approach to tackling inequalities.	Executive Director Public Health and Joint Commissioning											

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Management	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Management	Business Continuity	Risk and Assurance	Internal audit	External Assurance
HEALTHY	Reduced health inequalities enabling more people to live healthier longer lives.	**R11**	Unable to control variants of the Covid virus, which could increase the spread of the infection across Sunderland.	Complexities in controlling the spread of the virus / variants. Individuals do not adhere to guidance	Adverse impact on peoples health, both short and long term (including council employees). People are asked to self isolate.	Sunderland Health Protection Board Sunderland Outbreak Control Board	4	4	16		4	1	4	Mitigation will be based on the COVID-19 Control Plan. Continued rollout and development of the vaccination process and continued delivery of the NHS Test and Trace programme. Spread of the Omicron variant, increasing pressure on services during a busy winter period.	Executive Director Public Health and Joint Commissioning											
	Reduced health inequalities enabling more people to live healthier longer lives.	**R12**	The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership, covering the North east and Cumbria may reduce the resources available in Sunderland for Health and Social Care	Under new proposals NHS and local authorities will be given a duty to collaborate with each other under a statutory Integrated Care Systems (ICSs). These will include an ICS Health and Care Partnership, bringing together the NHS, local government and partners,	A regional ICS Health and Care Partnership, covering the North east and Cumbria, may prioritise areas outside of Sunderland	Health & Wellbeing Board.	3	3	9		3	2	6	Local partners to work together to promote Sunderland interests at a regional level. Assistant Director of Integrated Commissioning jointly appointed (CCG) to develop Sunderland Based Place Arrangements. National changes to the NHS may be delayed and this may impact on local arrangements.	Executive Director Public Health and Joint Commissioning											
	People enjoying independent lives.	**R13**	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. Impact of Covid 19 on delivery arrangements, PPE etc.	Health & Wellbeing Board. City Plan.	4	2	8		4	1	4	Deliver better integrated care through promotion and support for self-care, 98% of people 18+ in the city live independently (without social care services) based on mid-year population estimates Continue to investigate the use of technology to support the independence of older people. Delivery of the Assistive Technologies Test Bed programme - 1,226 homes had the technology by the end of March 2021. 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 All Together Better Alliance. The Sunderland Voluntary Sector Alliance has been launched to build on the outstanding contribution made by the city's voluntary and community sector in supporting communities during the pandemic. It will improve support for the sector and expand their role, working with partner organisations across the city to meet the city's strategic needs. Our Social Health Enabling Independent Living (SHIELA) App's innovative use of assistive technology SHEILA has transformed adult social care across the city, with over 1,400 homes across Sunderland now equipped with AT. The service is now well versed in helping families to use GPS and other devices to identify when a family member needs assistance and provide the response that is required to keep them safe. The greater reach and capacity of new connectivity being developed through our joint venture with BAI Communications will enable existing deployment of assistive technologies for vulnerable people to scale significantly. Using local intelligence with our Partners, through the Aging Well Delivery Board, we have identified key areas of targeted work that will contribute to reducing falls, and the impact of falls, on our residents.	Executive Director of Neighbourhoods											
	Cleaner and more attractive City and neighbourhoods.	**R14**	Council resources and the input of residents are not fully optimised to tackle environmental issues in neighbourhoods.	The level of services delivered by the council does not always meet customer expectations. Recycling bins are often contaminated. Increased fly tipping.	Fail to achieve cleaner and greener streets across the City. Recycling rates are not increased.	City Plan.	4	2	8		4	1	4	Environmental issues are a concern to residents and are therefore included in the Neighbourhood Improvement Plans. CLEAN and GREEN promotion introduced supported by the Sunderland Echo encouraging volunteers to tackle local environmental issues. Implement a Waste Management Strategy to tackle environmental issues. A new Enforcement Delivery model has been introduced with a greater focus on Environmental issues. As at the end of Quarter 2, 2021, a total of 2,003 enforcement activities had been carried out. The percentage of household waste sent for reuse, recycling or composting at 29.9% in Quarter 2, is consistent with performance in the same period in the previous year	Executive Director of Neighbourhoods											
	A City with great transport and travel links.	**R15**	The City cannot meet the challenge to develop an active and green transport system in response to Covid and other pressures.	Enhanced electric infrastructure required. Limited pedestrian and cycling routes. Winter maintenance programme may be impacted by the availability of resources (grit and drivers)	Fail to change the use of cars as the primary source of travel. Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6		3	1	3	Review the Transport Movement Plan for Sunderland to reflect new opportunities. Plans have been agreed to revamp Sunderland's Central Train Station, beginning with the demolition of the current south entrance. SSTC3 link road from Northern Spire to City Centre opened November21 High Level Bridge design in development Winter maintenance issues monitored by Regional Partners and the Local Resilience Forum (LRF)	Executive Director of City Development											
VIBRANT	More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities.	**R16**	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. Adverse Impact of Covid restrictions on cultural 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		2	2	4	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. Many creative and cultural businesses have been adversely impacted by Covid with many unable to open. Grants have been awarded to support creative and cultural businesses	Executive Director of City Development											
	More residents participating in their communities.	**R17**	Pathways are not in place to encourage / support more residents to participate in making their neighbourhoods more desirable.	Residents are not fully aware of opportunities to participate in their neighbourhoods.	Neighbourhoods become less attractive. Outward migration continues.	City Plan. Vibrancy Board.	3	2	6		3	2	6	Implement Neighbourhood Plans, which incorporate input from residents. Develop and implement a Volunteers Strategy. Strategy completed and Volunteer Sunderland website launched. Community Support Workers are now in post supporting the Sunderland Voluntary Sector Alliance and external funding has been secured to grow its capacity across the city. Launch and promote Spacehive (a funding platform to support local projects) - launched in January 2020. At the end of 2020/21, 22 projects have been supported raising £236,976 for Sunderland projects since the launch. Neighbourhood Plans are being refreshed to reflect the impact of Covid.	Executive Director of Neighbourhoods											
	More people visiting Sunderland and More residents informing and participating in cultural events programmes and activities.	**R18**	Sunderland may not be recognised as a cultural destination of choice.	The developing cultural offer is not fully understood. Limited number of City centre hotels.	City's cultural offer does not contribute fully to the City being an attractive and vibrant place to invest, work, learn, live and visit. Adverse impact of Covid restrictions.	City Plan. Vibrancy Board.	3	2	6		3	1	3	Develop a wider Vibrancy Partnership to promote new events and increase cultural activity. Vibrancy Board set up. Board to develop a Delivery Plan to promote Sunderland as a cultural destination of choice. Tourism offer and City Brand being reviewed. Covid 19 has resulted in reduced visitor numbers and disruption to cultural activities, but online events and exhibitions have been created. Sunderland continues to promote its tourist attractions to take advantage in the upsurge in "staycations" On Friday 30 July, a new tourism campaign was launched. The campaign is named 'City of Surprises', aiming to raise Sunderland's profile as a destination of choice this summer and to support the economic recovery of the city. A Tourism recovery plan is now in place to promote and sustain the return of visitors and participation of residents in cultural events, programmes and activities.	Executive Director of Neighbourhoods											
	More people feeling safe in their homes and neighbourhoods.	**R19**	Reduced trust in public protection.	Significant local crime events. Vulnerable residents are exploited by organised crime syndicates. Community Engagement has indicated that fear of crime is an issue although crime statistics are low. Young People's survey Nov 19 indicated that Knife crime and Hate crime are issues of concern.	Localised community tensions. Vulnerable individuals have their lives controlled by criminal organisations.	Safer Sunderland Partnership. City Plan.	4	2	8		4	1	4	Support Partners to improve community safety and maintain high levels of feelings of safety for all. Criminal activity to be disrupted through increased Policing and other Agency intervention and enforcement activity. Promote Sunderland more positively as a City that welcomes all, with neighbourhoods that are attractive, safe, inclusive and cohesive. Targeted engagement to be undertaken with communities to establish the cause of concerns and actions that can be taken to reduce the level of concern. Crime for August 2020 to August 2021 has continued to reduce when compared with the same period in the previous year. Overall, our residents feel safe in their local area, with the percentage consistently at 96% or above since 2012/13 to early 2020 based on the Northumbria Police Survey. Latest available data is for Quarter 1 of 2020/21 at 95%. Crime for April 2021 to June 2021 (at 13,806 incidents) has decreased when compared with the same period in the previous year (14,480 incidents). Sunderland Domestic Abuse Safe Accommodation Strategy agreed (see R20 below)	Executive Director of Neighbourhoods											
	More people feeling safe in their homes and neighbourhoods.	**R20**	Council fails to provide support for victims of domestic abuse as required by the Domestic Abuse Act 2021.	New legislation imposing duties on the Council to provide accommodation-based support for victims of domestic abuse	Individuals / Families continue to suffer from the adverse impacts of domestic abuse	Domestic Abuse Act 2021 Health & Wellbeing Board	4	2	8		4	1	4	Domestic Abuse Local Partnership Board, developing a strategy for the provision of accommodation-based support. Cabinet (Dec21) approved the Sunderland Domestic Abuse Safe Accommodation Strategy, which aims to improve the lives of victims, survivors and their children describing how safe accommodation and support for domestic abuse victims-survivors will be provided over the next three years.	Executive Director Public Health and Joint Commissioning											

City Plan Theme	City Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Management	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Management	Business Continuity	Risk and Assurance	Internal audit	External Assurance
	More resilient people.	**R21**	Opportunities are not taken to enable families and individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms and progress their ambitions.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity. Impacts of Covid 19 through redundancies and reductions in income.	and the last update	Sunderland Foodbank. City Plan.	4	2	8		4	1	4	Sunderland City Council, in partnership with the voluntary and community enterprise sector has; Published our Statement of Intent for fuel energy measures to address fuel poverty/energy efficiency in privately owned homes. Launched an affordable credit solution for all residents and staff. Recommissioned advice provision for benefits, debt, employment and housing across neighbourhoods. Developed and expanded 'Making your money go further' toolkit. Adopted a standard financial assessment by the council and key partners and a coordinated approach to debt support. Implemented a financial resilience service to support the new Council Housing Service in creating sustainable tenancies. Reviewed Adult Learning specifications to reflect a better aligned curriculum with meaningful progression pathways for learners to achieve their work and life goals. Increased resident participation in digital opportunities. Increased resident participation in digital opportunities. During the first few months of the pandemic the use of foodbanks more than trebled and high usage has continued throughout 2020/21. In Quarter 1 of 2021/22, figures reduced to 3,744, however, in line with previous years trends figures rose to 3,919 Quarter 2	Executive Director of Neighbourhoods											
ENABLING	Finance.	**R22**	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. Impact of Covid and unfunded costs/loss of income.	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		4	1	4	The 2022/23 budget and MTFP is currently being updated and taken through Cabinet (October and December) and Scrutiny ahead of the formal proposals (revenue and capital) going to February 2022 Cabinet and Council in March 2022. At the same time, the update to the City Plan is ensuring a joined up strategy and financial view for the council. Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position – the Let's Talk approach is being used with residents, supplemented with the usual engagement with Trades Unions, Schools Forum and business community. As at December Cabinet, uncertainty remains re: the level of funding for next year with no confirmation of whether there will be a multi-year settlement. Nor is there any detail of when/what format proposed local government funding changes will take.	Executive Director of Corporate Services											
	Partnership Working.	**R23**	Objectives and priorities of Council and other Partner(s) may conflict or are not aligned to deliver the priorities in the City Plan.	Reducing resources may lead to partners concentrating on their own priorities at the expense of City priorities. Lack of understanding by each partner as to the contribution they can play to the delivery of the City Plan. Lack of partnership performance monitoring.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8		4	2	8	Partners represented on the City Board to support delivery of the City Plan. Partners to identify projects that support delivery of the City Plan.	Executive Director of Corporate Services											

CORPORATE RISK PROFILE

Appendix 3

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

Likelihood				
4				
3				
2				
1				
	1	2	3	4
	Negative Impact			

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Current Score (January 2022) Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Target Score 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	Executive Director of Corporate Services	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.	Executive Director of Corporate Services	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, using the intelligence team.	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, egg, 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 be the optimal solution	Service Plans.	4	2	8	Review of performance to ensure service delivery model is delivering outcomes. Commissioning Cycle to include planned review date either linked to outcome or contract timescales.	All Assistant Directors	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	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	Corporate Performance management Internal Audit	4	1	4

Assurance

ID	Overall Assurance	1st Line: Management Assurance	2nd Line: Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	People Mgt	Health and Safety	Business Continuity	Risk and Assurance	3rd Line: Internal audit	External Assurance
R01	Strategic Planning	X				X					X	X	
R02		X				X					X	X	
R03	Commissioning	X									X	X	
R04		X		X							X	X	X
R05		X									X	X	
R06	Service Delivery Arrangements					X						X	X
R07		X				X					X	X	
R08		X				X					X	X	
R09		X				X						X	
R10													
R11													
R12	Partnership / Integrated Working										X	X	X

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating
R13		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing).	Lack of formal comprehensive written partnership agreement.	Delay in delivery of plans and outcomes for community. Lack of delivery of priorities.	Partnership Framework.	4	2	8	All Assistant Directors should be reminded of the requirements of the partnership Code of Practice. Partnership agreement in place with each partner setting out the expectations of each party and the required reporting arrangements.	All Assistant Directors	Corporate Performance Management Governance questionnaire Internal Audit	4	1	4
R14	Procurement	The product or service procured does not deliver the intended outcomes.	Poor specification. Lack of understanding of what is needed by commissioner. Poor communication between commissioner and procurement. Limited capacity of providers/suppliers due to Covid 19 outbreak. 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
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
R16		Value for money not obtained.	Lack of competition, specifically as a result of the Covid 19 outbreak. Corruption. Inappropriate specification. Poor procurement planning.	Poor quality of goods/services and customer service. Pay higher prices - waste of scarce resources.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	3	2	6	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	All Assistant Directors	Internal Audit	3	1	3
R17	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes.	Lack of clear contract/specification provisions in place to allow effective management of the contract. Lack of appreciation of importance of contract management during the procurement process. Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award. Lack of contract management activity following contract award	Fail to obtain value for money, i.e. pay too much or poor service obtained. Objectives are not achieved. Excessive resources used on dispute resolution.	Contract management framework. Corporate Procurement support to officers.	4	2	8	Contract management arrangements should be in place for all key contracts entered into by the Council.	All Assistant Directors	Governance questionnaire Internal Audit	4	1	4
R18	Legality	Council fails to act within its statutory powers.	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers. Decision makers have lack of access to legal expertise. Lack of awareness of officers as to their legal responsibilities. Changes in law are not recognised and implemented.	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
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. Covid 19 Risk Register.	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
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
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
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Poor intelligence gathering or horizon scanning. Lack of resources. Lack of consultation/communication with senior officers. Lack of clarity of the financial support from Government as a result of the Covid 19 outbreak.	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. Covid 19 Risk Register.	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
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
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 timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Corporate Performance Reporting. Performance Clinics.	3	1	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies or inconsistencies.	Executive Director of Corporate Services	Financial Resources Corporate Performance Management	3	1	3

ID	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
R13		X										X	
R14	Procurement										X	X	
R15											X	X	
R16												X	
R17	Relationship / Contract Management	X				X					X	X	
R18	Legality	X	X								X	X	
R19	Risk Management	X									X	X	
R20	Performance Reporting					X						X	
R21	Financial Management			X	X								
R22				X									X
R23				X								X	
R24													
R25													
R26				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
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
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 Finance	Internal Audit	4	1	4												X	X
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to its.	Lack of resources. Inadequate procedures for raising accurate bills. Inappropriate methods to allow customers to pay bills. Over generous credit terms. Economic conditions increase the number of bad debtors. Procedures fail to identify non payments. Ineffective enforcement of credit control arrangements.	Financial loss. Unable to balance the budget.	Financial procedure rules. Performance indicators in place.	3	1	3	Regular monitoring that the income received is in line with that expected as per the Council's budget.	Assistant Director of Finance	Financial Resources Internal Audit	3	1	3	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 and death.	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. Litigation and adverse PR.	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	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating
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
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 Smart Cities	ICT Internal Audit	4	1	4
R41		ICT infrastructure is not resilient to 'disasters'.	Lack of planning for disasters (prevent or respond to). No adequate business continuity/disaster recovery ICT infrastructure in place. Lack of business continuity/disaster recovery plan which has been tested. Key employees not briefed as to their disaster recovery responsibilities.	Disruption to service provision impacting on delivery of priorities. Loss of productivity. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	Business continuity arrangements (ICT and in services).	4	2	8	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services.	Assistant Director Smart Cities All Assistant Directors	ICT Internal Audit Business continuity officer	4	1	4
R42	Cyber Security	The Council is exposed to vulnerabilities and threats, both internal and external, (e.g. hacking, phishing, denial of service attack) resulting in a loss of systems and/or confidential information.	Lack of appreciation by management of threat/risks of cybercrime to Council's operations. Low priority given to cybersecurity. Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness). Lack of monitoring of alerts/warnings, e.g. no Security and Incident and Event Management (SIEM) solution in place. Lack of investment in existing infrastructure increases level of vulnerability penetration testing vulnerability test results not actioned in suitable time scales. Lack of resources. Lack of understanding of what valuable data the Council holds. Increased cyber activity during Covid 19 outbreak.	Loss of public trust, customer confidence, finance and reputational damage. Fines / compensation. Loss of systems or data loss. Major business disruption.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan.	Assistant Director Smart Cities	ICT Internal Audit	4	2	8
R43	Information Governance / Security	Council's data is not accurately protected.	Lack of awareness of the importance of protecting the Council's data. Lack of compliance with data security arrangements. The Council is not aware of the data its holds or ensures that its is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data. Increased remote working brings increased risk to data held in homes.	Loss of public trust and reputational damage. Fines / compensation. Claims from those who have been adversely effected.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	3	2	6	Council has appropriate information governance and security arrangements in place which are complied with throughout the organisation.	Executive Director of Corporate Services All Assistant Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	3
R44	Business Continuity Management	The Council's business critical services cannot function in the event of an incident.	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes. Business continuity plans are not tested appropriately. A number of incidents impact at the same time e.g. Covid 19, Brexit, winter flu, adverse winter weather	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans. Response to the first wave of Covid 19 was successful with no failures to deliver critical services.	3	2	6	Business continuity plans are reviewed and tested on a regular basis and take into account the cumulative effects of concurring incidents.	Business Continuity Officer All Assistant Directors	Business Continuity Officer Internal Audit	4	1	4
R45		Lack of awareness of content of business continuity plans.	Lack of effective communication strategy. Lack of testing.	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals. Loss of reputation.	Corporate Business Continuity Group. Business Continuity plans. Successful response to Covid 19 outbreak.	4	1	4	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them.	All Assistant Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4
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
R47	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised.	Council does not "sweat" its assets to obtain the maximum returns. Fail to maintain property. Changes in size and direction of Council and services its provides. Lack of asset management planning. Changes in how services delivered. Changes in technology. Assets become uneconomic to run. Lack of investment in asset management planning. Council unaware of assets its owns.	Fail to increase council income. Fail to decrease costs.	Asset Management Plan.	3	3	9	The use of Council assets are monitored on an ongoing basis, particularly in response to changing staffing levels and changing service delivery models.	Assistant Director of Business and Property Services	Internal Audit	3	2	6
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 potentially resuling in a reduced service offering to the customer.	Anti fraud and corruption policy and procedures.	2	2	4	Managers are aware of the fraud risks within their area and maintained appropriate controls bearing in mind changes to service delivery and staffing levels.	All Assistant Directors	Governance questionnaire Internal Audit	2	2	4

ID	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
R39												X	
R40	ICT Infrastructure	X					X			X	X	X	
R41		X					X			X	X	X	
R42	Cyber Security						X				X	X	
R43	Information Governance / Security	X	X								X	X	
R44	Business Continuity Management	X								X	X	X	
R45		X								X		X	
R46	Programme / Project Management	X			X						X	X	X
R47	Asset Management										X	X	
R48													
R49	Anti Fraud and Corruption	X										X	

Appendix 4

Internal Audit coverage

Strategic Risk Profile

Key Risk Area	2017/18 Audits / Onions		2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		Overall Opinion
More and better jobs											
More and better housing							Housing Service Governance Arrangements	M			
							Housing Regulatory Framework	M			
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy											
A stronger City Centre with more businesses, housing and cultural opportunities											
A lower carbon City with greater digital connectivity for all									Programme Governance Arrangements - Smarter Cities		
Access to the same opportunities and life chances									Taxi Licensing		
More people living healthier longer lives									Public Health Grant	S	
People enjoying independent lives	Assessment and Management of Personal Budgets	S					Rollout of assistive technologies		Adults Safeguarding - MASH		
							Adults Safeguarding - MASH		Financial Safeguarding - CPAT	S	
							Blue Badges				
Cleaner and more attractive City and neighbourhoods					Environmental Services	M					
A City with great transport and travel links											
More creative and cultural businesses											
More residents participating in their communities											
More visitors visiting Sunderland and More residents participating in cultural events							Collections Management - Museums		Collections Management	M	
More people feel safe in their neighbourhoods and homes											
More resilient people											
Finance	Provision for significant financial liabilities	S									
Partnership Working					Partnership Arrangements						

Corporate Risk Profile

Key Risk Area	2017/18 Audits / Opinions		2018/19 Audits / Opinions		2019/20 Audits / Opinions		2020/21 Audits / Opinions		2021/22 Audits / Opinions		Overall Opinion
Strategic Planning	Service/Business Planning		Service/Business Planning	M							
	Service/Business Planning		Derwent Hill	S							
Commissioning	Commissioning	M									
Service Delivery Arrangements	Corporate Performance Management	S	Liquid Logic including business processes		Licencing		Financial Safeguarding/CPAT		Financial Safeguarding/CPAT Communications	S	
			Derwent Hill	S	Development Control		Bereavement Services				
					Environmental Services	M	Housing Service Governance Arrangements	M			
					Delivery of Council Restructure	M	Housing Regulatory Framework	M			
					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			Procurement Strategy	S	
	Revenue Procurement	M	Use of agency contract	M	Capital Procurement	M			Purchasing Cards		
	Homecare Payments	L	Catering consortium	M					Charging methodology - Highways	S	
									Use of agency framework	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	S				
	Together for Children Contract Monitoring	S			Contract Monitoring - Sunderland Homes					
Legality			Delegated Decision Making	M					Compliance with Operating Licence	
			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				Performance Monitoring - City Plan	
					Delivery of PEER Review Action Plan	S				
Financial Management	Provision for significant financial liabilities	S					Wave 3 Rocket Feasibility	S	BACS	S
							Disabled Facilities Grant	S	Budget Management	S
							Local Transport Capital Maintenance / Incentive Needs	S	Payroll	
							Local Transport Integrated Transport	S	Accounts Payable	
	Budget Setting and Management		Financial Reporting Arrangements				Nexus	S	Local Transport Capital Settlement - Capital Maintenance	S
							Pothole	S	Local Transport Integrated Transport	S
							Cycling to Sunderland		Nexus	S
	Budget Setting and Management		EFA Funding	S		S	Vaux Phase 1		Pothole Action Fund	S
	Payroll compliance testing	S	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management	S	Budget setting	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S
	BACS Compliance testing	S	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	Capital Asset Accounting	S	Disabled Facilities Grant	S
	Housing Benefit Assessment	S	Nexus (Combined Authority)	S	Payroll		BACS	S	Disabled Facilities Grant - Additional Monies	S
	Sport for Life Grant	S	Pothole Action Fund	S	Accounts Payable	M	Payroll	S	Cycleways	S
	EFA Funding	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding	S	Accounts Payable	S	Vaux Phase 1	
	Local Transport Capital Settlement	S	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S	COVID-19 Compliance and Enforcement Grant	S	SSTC3 Design and Development	
	Local Transport Integrated Transport	S	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S			Travel Demand Management	S
	Nexus (Combined Authority)	S	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S			Travel Demand Management - Top Up Monies	S
	Pothole Action Fund	S	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S			Home to School/College Transport - Second Half of Spring Term	S
	City Centre Cycle Permeability Scheme	S	A19 Ultra Low Carbon Enterprise Zone	S	Local Transport Capital Settlement - Incentive Element	S			Home to School/College Transport - Summer Term	S
	Disabled Facilities Grant	S	External Funding	S	Better Care Fund - DFG	S			Home to School/College Transport - 2020/21 Academic Year	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				
			Derwent Hill	S						
Income Collection (including CR/NNDR)	Cash Receipting, collection of Council Tax, NNDR, AR and PI	S	Cash Receipting	S	Cash Receipting, compliance	S	Business Rates Recovery		Business Rates Recovery	
	Business Rate Recovery	S	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing	S	Business Rates Valuation	S	Council Tax Recovery	
	Council Tax Recovery	S	Derwent Hill	S	Accounts Receivable - Recovery	S	Council Tax Valuation	S	Accounts Receivable Recovery and PI	
	AR Recovery	S			Council Tax Liability	S	Council Tax Recovery		Housing Rent Collection	
					Business Rates setting and billing	S	Accounts Receivable Recovery	S	Income Collection	S
					Business Rates Liability	S	Cash Receipting	S		
Capital Programme Management			Benefits Realisation		Project Management Benefits Realisation, including capital funding	M				
HR Management	Workforce Planning and Apprenticeship Scheme		Human Resource Management - updated SAP procedures		HR - SAP Optimisation		Recruitment and Selection		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		ICT Disaster Recover / 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	Cyber Security	M	Cyber Security		
					Mobile Device Management	S					
Information Governance/Security	Building Access Security Sites - Remote Sites	M	General Data Protection Regulation - Compliance	M	GDPR	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			Corporate Business Continuity Arrangements		
Programme/Project Management	SAP Procedure Update		Benefits Realisation		Project Management Benefits Realisation, including capital funding	M	ICT Disaster Recovery and Business Continuity		Programme Governance Arrangements - Smarter Cities		
Asset Management	Corporate Asset Management	L					Collections Management - Museums		Housing Asset Management		
									Collections Management	M	
Anti Fraud and Corruption	Revenue Procurement	M	Building Maintenance Financial Management	L	Payroll compliance Testing		Transaction Testing NFI	S	BACS	S	
	Homecare Payments	L	Revenue Procurement	S	BACS compliance testing	S	Blue Badges		Purchasing Cards		
	Payroll compliance Testing	S	Use of Agency Contract	M	Cash Receipting	S	Mileage Claims	S	Income Collection	S	
	BACS compliance testing	S	Payroll compliance testing	S	AR Recovery	S	Testing on grants issued re Covid-19	S	Accounts Receivable Recovery and PI		
	Cash Receipting	S	BACS	S	ICT Asset Management	M	BACS	S	Accounts Payable		
	Business Rate Recovery	S	Accounts Payable	S	Council Tax Setting and Billing	S	Cash Receipting	S	Business Rates Recovery		
	Council Tax Recovery	S	Cash Receipting	S	Council Tax Liability	S	Accounts Receivable Recovery	S	Council Tax Recovery		
	AR Recovery	S	Accounts Receivable/Periodic Income	S	Accounts Payable	M	Accounts Payable	S	Housing Rent Collection		
			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, 10 complete to date. 9 substantial, 1 moderate	S	20 schools in the plan, 17 complete to date. 15 substantial, 1 Moderate, 1 Limited		
Sunderland Care and Support	Establishment Visits/Supported Living	M	Unit Costing		Risk and Assurance Framework		Risk and Assurance Framework	S	Compliance with Financial Procedures in establishments	S	
	Unit Costing		Risk and Assurance Framework		DPO Checks	S	DPO checks	S	ICT Security within establishments		
	Procurement/Transaction Testing		Information Governance/GDPR	M	Unit Costing		Security of service users cash in transit	S	DPO Checks		
	Governance/Audit Committee		Compliance with Financial Procedures in Establishments	M	Compliance with financial procedures in establishments	S	Compliance with financial procedures in establishments		Workforce planning, resilience and wellbeing		
					Business Continuity (Telecare)	L	Collection of rental income	M			
					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	S	Troubled Families Grant Claim		
	Effectiveness of SLA Relationships	S	Budget Monitoring	S	Schools Financial Support Service	S	Administration Support Services	S	Staff Wellbeing		
	Financial Procedures - bank account/income	M	HR management / recruitment / agency workers / performance	S	Performance Management - Data Quality	S	Complaints Procedure		Next Steps		
	Information Governance/GDPR	L	Information Governance/GDPR	L	Purchase cards	M	Information Governance/GDPR		Nook Lodge - Compliance with Financial Procedures in Establishments	S	
			Next Steps	S	Achievement of cost savings		HR Case Management	M	Procurement of Independent Providers - Residential		
			Compliance with Financial Procedures within Establishments	S	Legal services		SEND Financial Framework	S	Counter Fraud		
					Designated Officer	S			National Assesment and Accreditation System Grant Claim	S	
			Liquid logic		Liquid logic	M	Purchase Cards	M			
Siglion LLP					Governance Arrangements	M	Contract/relationship management		Financial Management	S	
							Performance Management		Contract/relationship management		
							Procurement	M	Disposal of property		
							Operational Asset Management	S	Performance management		
							Financial Management				

Appendix 5

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2021/22

Efficiency and Effectiveness

Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	1) All key risk areas covered over a 3 year period 2) 90% 3) 85%	1) On target 2) Ahead of target – 100% 3) Ahead of target – 89%

Quality

Objectives	KPI's	Targets	Actual Performance
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 96% (excluding schools)

Client Satisfaction

Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.0 to date 2) No recent surveys undertaken 5 compliments 0 complaints

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE 4 February 2022

RISK AND ASSURANCE MAP - CONSULTATION FOR 2022/23

Report of the Assistant Director of Business and Property Services

1. Purpose of Report

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

1.2 The allocation of resources will continue to be flexible throughout the year. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2022/23. These are as follows:

- On-going audit work in relation to Council owned companies: Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities.
- Economic Development, including City Centre Developments, the International Advanced Manufacturing Park and the proposed River Wear Footbridge.
- Council's Smart Cities programme.
- Council's approach to Cyber Security.
- Arrangements for reviewing care packages when patients move from hospital to home.
- Business continuity for assistive technology (adult social care) devices.
- Information Governance/General Data Protection Regulations compliance.
- Compliance with the Asset Management Policy and Strategy.
- National Fraud Initiative and counter fraud work.
- Key corporate functions/systems, particularly where significant changes / budget reductions are planned or have occurred.

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

1.3 A discussion will be held at the Committee to seek its input for the Risk and Assurance Map, and the plans of work for Internal Audit and Risk and Assurance for 2022/23.

2. Recommendation

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

Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **4 February 2022**

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

Joint Report of the Chair and Executive Director of Corporate Services

1. Purpose of Report

1.1 The purpose of this report is to present the outcome of a review of the remit and effectiveness of the Audit and Governance Committee for discussion, amendment and agreement of members of the Committee.

2. Background

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

2.2 The format of the review has included an update of the previous self-assessment, based on CIPFA guidance issued in 2018, which is still current, a review of the Terms of Reference for the Committee and consideration of the Annual Reports on the Work of the Committee which have been prepared in the last three years. The review has been undertaken by the Chair and the Executive Director of Corporate Services and the results are presented to the Committee for discussion, amendment and agreement.

3. Self Assessment

3.1 The self assessment has been updated and is attached at Appendix 1. Members will see from the self-assessment that it is considered that the Council's arrangements comply with all of the CIPFA guidance. The only proposed action is that Council be reminded of the Terms of Reference for the Committee (attached at Appendix 2), as part of the Annual Report on the work of the Committee for 2021/22. There are no suggested changes to the Terms of Reference itself.

3.2 The self-assessment refers to the Annual Reports on the Work of the Audit and Governance Committee which show how the CIPFA guidance is being complied with. The reports are considered by the Committee and then presented to Council to demonstrate the impact of the Committee's work.

4. Recommendation

4.1 The Committee is asked to consider, comment upon and agree the self-assessment at Appendix 1.

Appendix 1

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
Purpose and Governance				
1. Have the committee's Terms of Reference been approved by full council?	X		Cabinet 12th April 2006 Council 17th May 2006 Updated September 2009, 2012, 2015, 2018	To include reminder of TofR in next Annual Report
2. Do the Terms of Reference follow the CIPFA guidance?	X		See Terms of Reference.	
3. Does the Audit and Governance committee report to Full Council?	X		Annual report on the work of the committee submitted to Full Council each year.	
Assurance Framework				
4. Does the committee consider the assurance framework, assurance documents and annual governance statement to ensure they reflect the risk environment and any action to improve it?	X		Committee receives quarterly reports on the Council and owned company's overall assurance position, in the Risk and Assurance Map. The year-end assurance position is reported along with a draft annual governance statement for inclusion within the statement of accounts and an action plan for suggested improvements to the governance arrangements.	
5. Does the committee monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the Authority's exposure to the risks of fraud and corruption?	X		Quarterly Risk and Assurance Map reports summarise the assurance regarding the overall system of internal control, fraud and corruption (separately identified on the Risk and Assurance Map), and ethics through relevant internal audits and assurance from the Assistant Director of Law and Governance and Assistant Director of People Management on codes of conduct for members and officers and compliance arrangements. Value for Money opinion reported by the External Auditor.	

Appendix 1

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
6. Does the committee consider the effectiveness of the Council's risk management arrangements and review assurances that risk related issues are being managed?	X		The quarterly Risk and Assurance Map update reports include the updated Strategic and Corporate Risk Profiles which show the current risk scores and the assurances gathered from various sources.	
7. Does the committee approve the internal audit strategy and operational annual plan, based on the Risk and Assurance Map?	X		Meetings in each year set out the Internal audit Strategy (where updated) and the plans of work for Internal Audit and Risk and assurance against the Strategic and Corporate Risk areas.	
8. Does the committee input into the internal audit operational annual plan?	X		Members consulted in February each year prior to the development of the Risk and Assurance Map and Internal Audit and Risk and Assurance team plans.	
9. Is the work of Internal Audit reviewed regularly?	X		Risk and Assurance Map update reports presented quarterly to the Committee plus an Annual Report presented which covers the work and performance of Internal Audit (included within the annual review of governance arrangements).	
10. Are summaries of quality questionnaires from managers reviewed?	X		Summary of the scores provided in the Risk and Assurance Map update reports and Annual Report.	
11. Is the annual report, from the head of internal audit, presented to the committee?	X		Included within the annual review of governance arrangements.	
12. Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	X		This is one of the Key Performance Indicators for Internal Audit – area is scrutinised by the Committee. Where necessary, senior managers have been called to the Committee.	

Appendix 1

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
13. Does the committee take a role in overseeing: • Risk management strategies • Internal control statements • Anti-fraud, corruption and whistle blowing policies	X		Included in the Terms of Reference and included in reports to the Committee.	
Financial Reporting				
14. Does the committee review the annual statement of accounts. Specifically, to consider whether concerns arising from the financial statements or from the audit need to be brought to the attention of the Council?	X		Draft and Audited Statement of Accounts are reviewed by members each year.	
15. Does the committee consider the external auditor's report on the statement of the accounts?	X		Reported each year once the statement of accounts have been signed off by the External Auditor.	
16. Does the committee review the annual governance statement prior to approval and inclusion within the accounts?	X		The Committee approves the AGS in April each year prior to being included in the draft statement of accounts.	
External Audit Process				
17. Are reports on the work of external audit and other inspection agencies presented to the committee?	X		Update reports from the External Auditor provided to each Committee meeting. Results of Inspection Reports summarised in the External Assurance column of the Risk and Assurance Map and detail	

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
			provided in update reports where appropriate. Officers are invited to the Committee to discuss external inspection reports where appropriate.	
18. Does the committee input into the external audit programme?	X		Members consulted in April each year where the External Auditor is present.	
Membership				
19. Has the membership of the committee been formally agreed and a quorum set?	X		Included in the Terms of Reference.	
20. Is the chair free of executive or scrutiny functions?	X		Chair is co-opted independent member of the committee.	
21. Are members sufficiently independent of the other key committees of the council?	X		Only one Cabinet Member on Committee – this maintains a link to the Executive.	
22. Have all members' skills and experiences been assessed and training given for identified gaps?	X		Members asked annually if they require refresher/training courses after considering the schedule of reports for the year. All new committee members receive induction training prior to attending their first meeting.	
23. Can the committee access other committees as necessary?	X		Included in the Terms of Reference.	
Meetings				
24. Does the committee meet regularly?	X		The Terms of Reference states "at least four times per year".	
25. Are separate, private meetings held	X		Where considered necessary, private meetings take	

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
with the external auditor and internal auditor?			place at the end of a committee meeting, these are not included as agenda items.	
26. Are meetings free and open without political influences being displayed?	X		Discussions recorded within the minutes.	
27. Are decisions reached promptly?	X		Minutes of meetings.	
28. Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	X		Deadlines in place and met.	
29. Does the committee have the benefit of attendance of appropriate officers at its meetings?	X		Section 151 officer, head of internal audit and external auditor are regular attendees along with other officers from finance/audit/legal plus those from service areas where appropriate.	
30. Do reports provide an appropriate level of detail to enable a level of challenge leading to sound decision making?	X		Reports include a summary of the Council's assurance position in the Risk and Assurance Map with appropriate narrative in the report. Appendices include an update on the Strategic and Corporate Risk Profiles, work of Internal Audit, performance of Internal Audit and the work of the Risk and Assurance team. Statement of Accounts provided along with a verbal update.	
Training				
31. Is induction training provided to members?	X		Sessions are held with new members appointed to the committee.	

Assessment of the Effectiveness of the Audit and Governance Committee 2021/22

Issue	Yes	No	Evidence	Proposed Improvement
32. Is more advanced training available as required?	X		Training on Treasury Management and International Financial Reporting Standards has been provided in the past, annual session on statement of accounts is offered. Updates regarding the Council's City Plan are also periodically provided to provide context.	
33. Does the training fulfil Member's needs?	X		Members are offered any training required and can ask questions as required.	
Effectiveness of the Committee				
34. Does the committee engage with a wide range of leaders and managers, including discussions of audit findings, risks and action plans with responsible officers?	X		Officers are invited to the committee where appropriate to provide information on specific issues identified within the Risk and Assurance Map reports. Examples include: • Response to the Covid Pandemic • Children's Safeguarding See Annual Reports on the work of the committee	
35. Does the committee promote the principles of good governance?	X		Reviews the annual governance statement and the assurances that underpin it.	
36. Does the committee contribute to the development of an effective internal control environment?	X		The committee actively monitors the implementation of audit recommendations and calls officers to provide explanations where performance is below that expected. Significant recommendations are specifically monitored to ensure that appropriate action is taken promptly.	

Terms of Reference – Audit and Governance Committee

Composition

Membership

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

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

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

Chairing the Committee

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

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

Statement of Purpose

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

- Provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment and reporting arrangements that underpin good governance and financial standards.
- Oversee the annual financial reporting and governance processes.
- Oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Functions

To carry out the following delegated functions from Council:

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

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

b) Review the council's corporate governance arrangements and consider the local code of governance.

c) Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

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

e) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

f) Receive and consider (but not direct) internal audit's strategy, plan and monitor performance, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

g) Receive and consider the external audit plan.

h) Review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary.

i) Consider the effectiveness of Internal Audit.

j) Receive and consider the reports providing assurances on the management of the Council's key risks.

k) To monitor progress in addressing risk-related issues reported to the committee.

l) Consider the reports of external audit and inspection agencies, including the Annual Audit Letter.

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

n) Review the external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

o) Review the adequacy of and compliance with, the Councils Treasury Management Policy.

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

Features of the Committee

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

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

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

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

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

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

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

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

Sunderland City Council

Item No. 7

AUDIT AND GOVERNANCE COMMITTEE **4 February 2022**

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2021/2022

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 third quarter of 2021/2022.

2. Description of Decision (Recommendations)

2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 3 of 2021/2022 (Appendix A).
- Note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2021/2022, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2021/2022 – Quarter 3

4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have reduced since the start of the financial year but continue to be volatile. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred following the emergence of the omicron variant and has taken out £100 million of new borrowing during the financial year to support the financing requirements of the Council's Capital Programme. These rates were considered opportune and will benefit the revenue budget over the longer term. The lower rate of borrowing has also meant that the Council's average rate of borrowing has reduced.

4.2 No refinancing of debt has been possible in 2021/2022 during the period as rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.54%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

4.3 Treasury Management Prudential Indicators are regularly reviewed, and the Council is within the limits set for all 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 £1,037.108m for 2021/2022. The Council's maximum external debt during the financial year to 31st December 2021 was £581.373m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.

4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.

4.5 As at 31st December 2021, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.16% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of -0.07% (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 above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.

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

4.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

5.1 Members are requested to note the Treasury Management performance for the third quarter of 2021/2022.

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

Appendix A

Detailed Treasury Management Performance – Quarter 3 2021/2022

1 Borrowing Strategy and Performance – 2021/2022

1.1 The Borrowing Strategy for 2021/2022 was reported to Cabinet on 9th February 2021 and approved by full Council on 3rd March 2021.

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 was that the 0.10% Bank of England (BoE) Base Rate would remain until March 2024 due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to Gross Domestic Product (GDP) ratio falling significantly. PWLB borrowing rates were expected to rise, albeit gently, during 2021/2022 across all periods but could be subject to exceptional levels of volatility.

1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) meeting on 16th December voted to raise the Base Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn. The financial markets had expected the rise in November but the BoE decided to wait until statistics were available to show how the economy had fared since the end of the furlough scheme on 30th September 2021.

1.4 The Office for National Statistics (ONS) estimates GDP grew by a disappointing 0.1% in October since the previous month and is 0.5% below its pre-Covid level in February 2020. This indicates economic growth had slowed significantly even before the emergence of the Omicron variant in late November. Early indicators suggest the data for November could be marginally better, but at such low growth levels the impact of the Government's "Plan B" restrictions could cause the economy to contract in December 2021.

1.5 ONS data shows the annualised Consumer Price Index (CPI) inflation rate at 5.4% in December 2021, up from 4.20% in October, confirming how inflationary pressures have been building rapidly. This rise occurred despite the Covid-19 Omicron variant causing a sharp fall in world oil and other commodity prices – with gas and electricity inflation typically accounting for 60% of the increase in inflation in advanced western economies. The BoE now expects inflation to peak at between 5% and 6% by April 2022, significantly higher than its 2% target, but believes much of the inflationary pressures are transitory and that inflation will fall sharply in the second half of 2022. For this reason they continue their view that only a modest tightening of monetary policy is required, and therefore the scale and number of further interest rate rises may be less that the financial markets currently anticipate. Adding to the uncertainty is the likelihood of further Covid mutations, and whether Government policy in dealing with the pandemic changes, as well as concerns on how trade with the EU will evolve post-pandemic now that the UK no longer has tariff-free access to EU markets.

1.6 Despite the increase in the BoE Base Rate, investment rates of return are likely to continue at low levels throughout 2021/2022. With short-term investment rates forecast to be materially below long-term borrowing rates, it continues to be 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 December 2021 in light of continued volatility in the financial markets and reaffirmed their previous projections. They forecast the BoE Base Rate will rise to 0.50% by June 2022 with further increases of 0.25% in March 2023, March 2024 and March 2025 by which time it will have reached 1.25%. 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 Quarters 1, 2 and 3.

2021/2022	**Qtr 1* (Apr - June) %**	**Qtr 2* (Jul – Sep) %**	**Qtr 3* (Oct – Dec) %**
7 days' notice	-0.08	-0.08	-0.06
1 year	0.81*	0.87*	1.11*
5 years	1.18*	1.15*	1.47*
10 years	1.68*	1.52*	1.75*
25 years	2.14*	1.90*	1.99*
50 years	1.94*	1.68*	1.68*

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (including the Council) that came into effect on 1st November 2012.

1.9 High levels of volatility in the financial markets have continued during 2021/2022 linked to ongoing Covid-19 infection rates, the emergence of new variants and how Government policy might change in dealing with the pandemic. This has depressed gilt yields as investors move 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 There is expected to be a gradual upward movement in PWLB rates over the next three years as world economies, including the UK, recover from the economic shock caused by the coronavirus pandemic and its variants. Link Asset Services predict a gradual rise in PWLB rates reaching 1.70%, 1.90%, 2.20% and 2.00% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 with further increases of between 0.30% and 0.40% across each duration by March 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

1.11 The strategy for 2021/2022 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 2.60% for long-term borrowing was set for 2021/2022 in light of the views prevalent at the time the Treasury Management policy was set in March 2021.

1.12 There have been high levels of volatility in the financial markets during 2021/2022. 50-year PWLB interest rates started the financial year in April 2021 at 2.23%

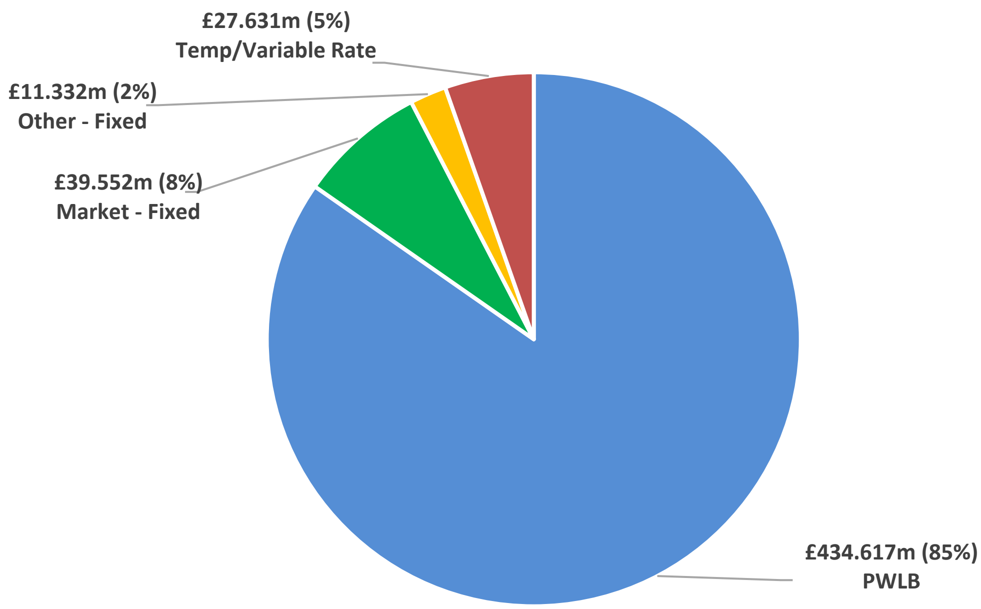
(excluding the 0.20% discount), dropping to 1.69% in August 2021 before reaching a peak of 2.37% on 11th October 2021. From then rates gradually fell to a low of 1.45% on 9th December 2021 before rising to end 2021 at 1.89%. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred and has taken out £100 million of new borrowing during the financial year. These rates were considered opportune, and the Treasury Management team continues to closely monitor PWLB rates in line with future capital programme requirements. The new borrowing is summarised in the following table.

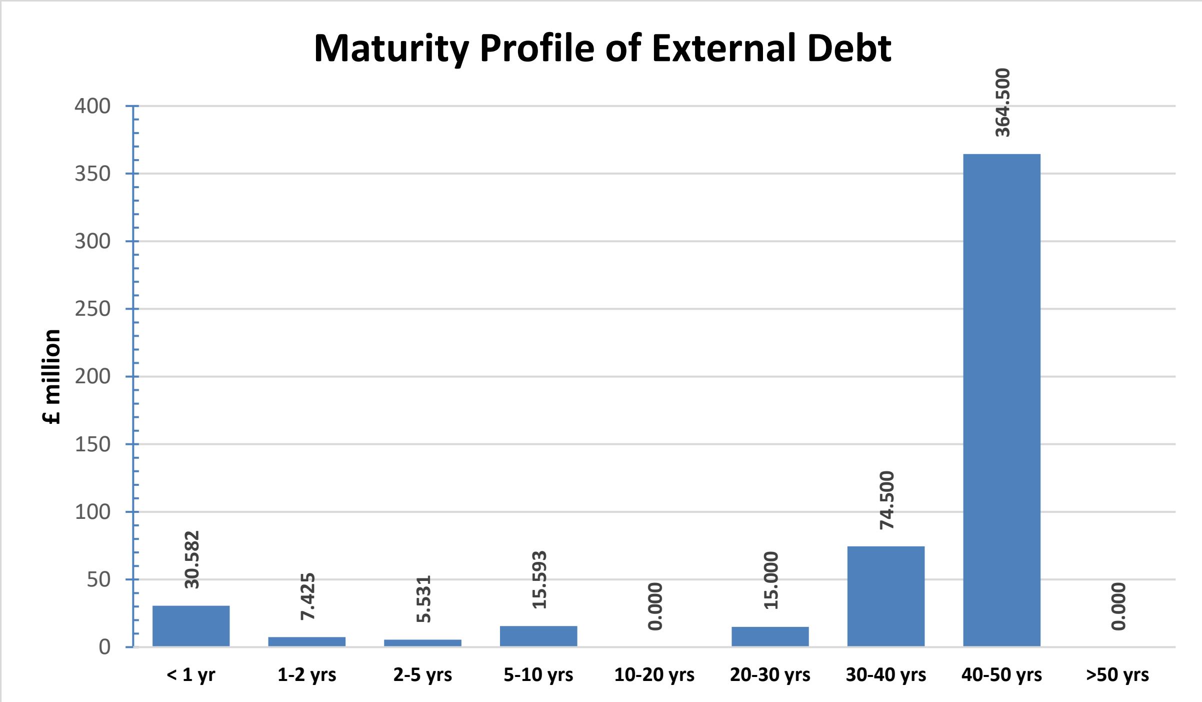
Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	30/11/2021	07/12/2021	07/12/2071	1.40*	100.0

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

1.13 The Council's treasury portfolio position at 31st December 2021 is set out below:

Borrowing Summary at:	31 December 2021		
	Principal	**Interest**	**Ave rate %**
Fixed			
PWLB	434,616,667	11,274,421	2.59
Market – Fixed	39,551,658	1,742,323	4.41
Other – Fixed	11,331,656	55	0.00
	485,499,981	13,016,799	2.68
Variable			
Temporary/Other – Variable	27,631,207	2,751	0.01
	27,631,207	2,751	0.01
TOTAL:	**513,131,188**	**13,019,550**	**2.54**





2 Prudential Indicators – 2021/2022

2.1 All external borrowing and investments undertaken in 2021/2022 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.

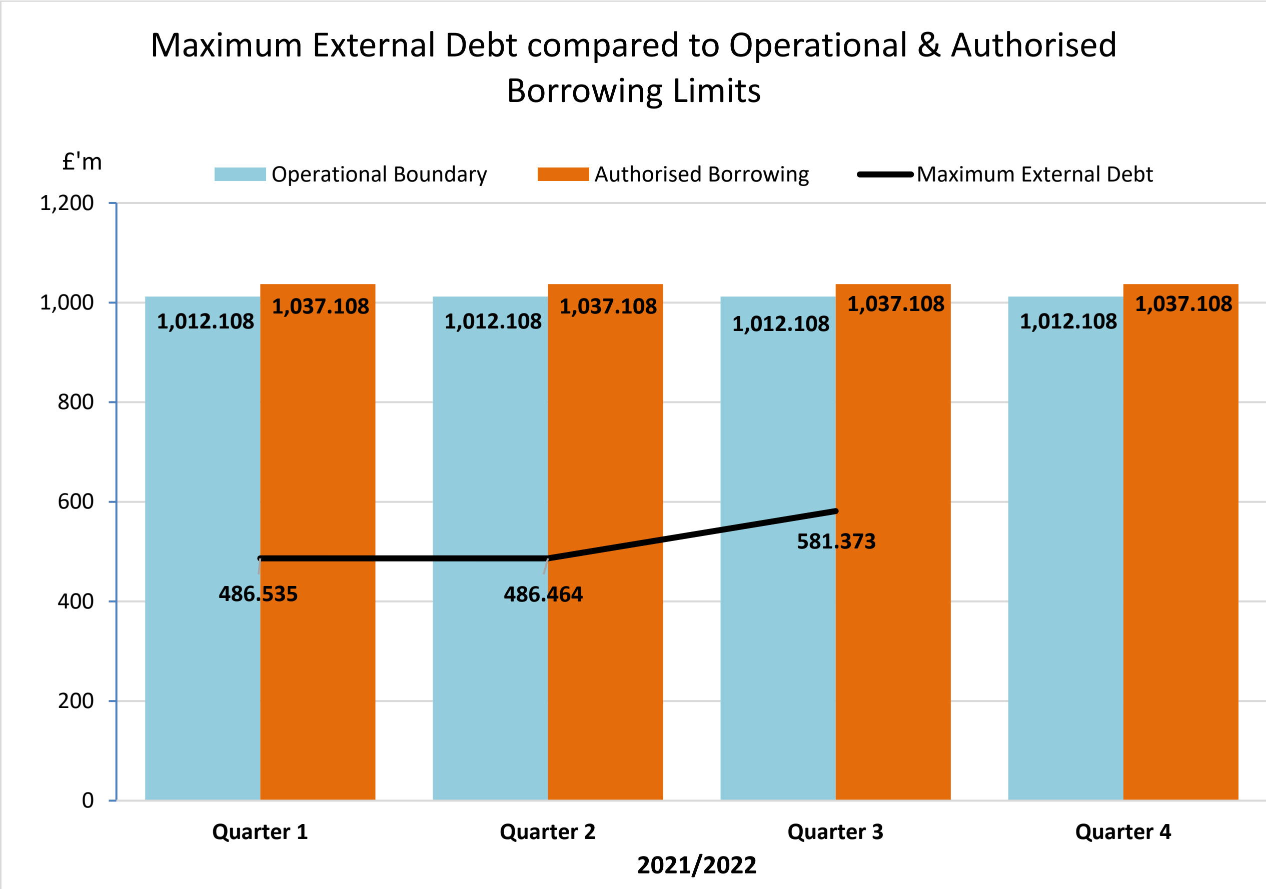
2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2021/2022 as follows:

	£m
Borrowing	911.927
Other Long-Term Liabilities	125.181
Total	**1,037.108**

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

	£m
Borrowing	886.927
Other Long-Term Liabilities	125.181
Total	**1,012.108**

The Council's maximum external debt in respect of 2021/2022 (to 31st December 2021) was £581.373m and is within the limits set by both these key indicators.



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

Prudential Indicators		2021/2022 (at 31/12/21) Limit	Actual
		Limit	Actual
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	8.89%
	12 months and within 24 months	60%	1.80%
	24 months and within 5 years	80%	1.34%
	5 years plus	100%	91.52%
	(A lower limit of 0% for all periods)		
P10	**Upper limit for total principal sums invested for over 365 days**	75,000	0

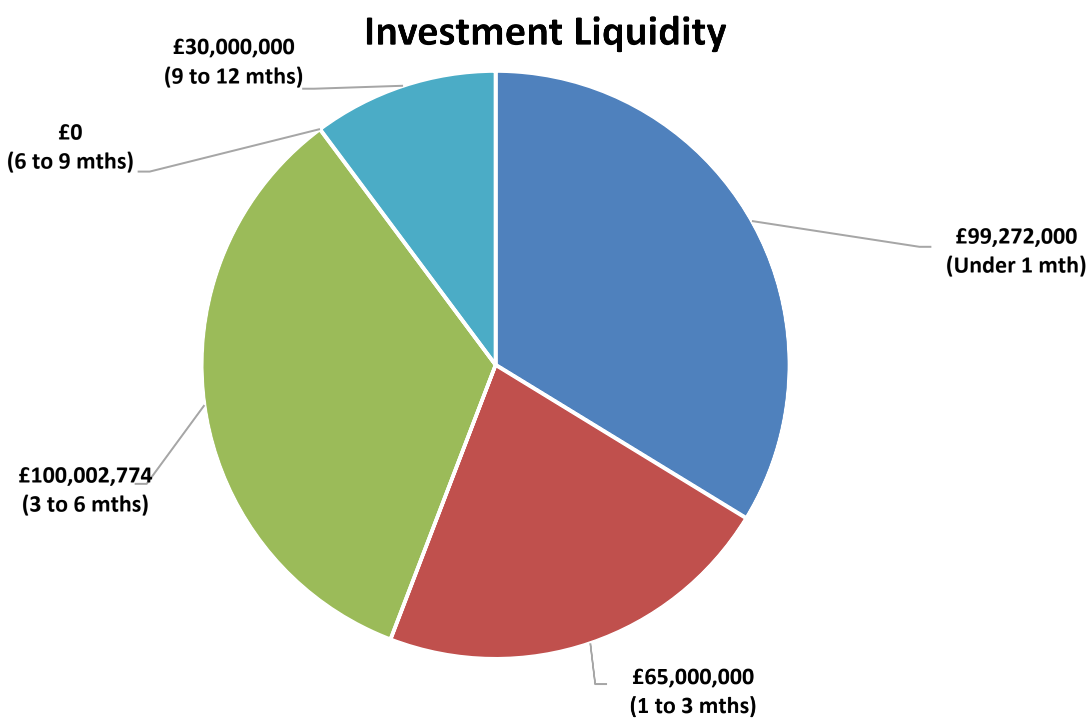
3 Investment Strategy – 2021/2022

3.1 The Investment Strategy for 2021/2022 was approved by Council on 3rd March 2021. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

(A) The **security** of capital;
(B) The **liquidity** of its investments and then;
(C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

3.2 As at 31st December 2021, the funds managed by the Council's in-house team amounted to £294.275 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 31 December 2021					
Borrower	**Duration**	**Amount of Loan**	**Rate (%)**	**Start Date**	**Maturity Date**
Call Accounts:					
NatWest SIBA	Overnight	56,050,000	0.010		Call
Prime MMF	Overnight	14,892,000	0.030		Call
Aberdeen Liquidity Fund	Overnight	8,330,000	0.047		Call
Santander UK Plc	95d Notice	25,000,000	0.250		95 Day Notice
Lloyds Banking Group Ltd	95d Notice	5,002,774	0.050		95 Day Notice
Sub-total:		**109,274,774**			
Fixed Term Deposits:					
Goldman Sachs Int Bank	193 days	10,000,000	0.150	25-Jun-21	04-Jan-22
Santander UK Plc	183 days	10,000,000	0.200	29-Jul-21	28-Jan-22
Standard Chartered Bank	92 days	25,000,000	0.080	11-Nov-21	11-Feb-22
Standard Chartered Bank	94 days	10,000,000	0.100	26-Nov-21	28-Feb-22
Standard Chartered Bank	120 days	10,000,000	0.150	11-Nov-21	11-Mar-22
Santander UK Plc	119 days	20,000,000	0.150	26-Nov-21	25-Mar-22
Goldman Sachs Int Bank	182 days	10,000,000	0.140	30-Sep-21	31-Mar-22
Santander UK Plc	181 days	10,000,000	0.300	26-Nov-21	26-May-22
Standard Chartered Bank	182 days	20,000,000	0.280	10-Dec-21	10-Jun-22
Yorkshire Building Society	182 days	30,000,000	0.250	10-Dec-21	10-Jun-22
Goldman Sachs Int Bank	364 days	30,000,000	0.770	10-Dec-21	09-Dec-22
Sub-total:		**185,000,000**			
TOTAL:		**294,274,774**			



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.

	2021/2022 Actual to 31/12/21 %	2021/2022 Benchmark to 31/12/21 %
Return on investments	0.16	-0.07*

*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 2021/2022 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. The BoE Monetary Policy Committee voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16th December 2021, the first rise in the Base Rate since 19th March 2020 when it fell to a historic low of 0.10%.

3.6 Due to the continuing 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.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+	A1+	Aa3	P-1	75	2 Years
A+	F1+ / F1	A-1	A1	P-1	70	365 days
A	F1	A-1	A2	P-1	65	365 days
A-	F1 / F2	A-1 / A-2	A3	P-1 / P-2	50	365 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies					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, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

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

Proposed group limits are set out in Appendix C.

Approved Lending List

Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A2	P-1	A-	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	Baa1	P-2	A-	A-2	0	
Co-Operative Bank Plc **	B+	B	**Ba3**	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	**A+**	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	**A+**	A-1	**70**	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **	-	-	Baa3	P-3	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							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								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	**AA-**	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	**A+**	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	**Aa2**	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV	-	-	Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	A	F1	A1	P-1	A+	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Strategic Partners

Cabinet, at its October 2020 meeting, endorsed an unsecured investment with Education Partnership North East (EPNE), based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan. As at the 31st December 2021 there have been no funds drawdown by EPNE.

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

*/** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Sunderland City Council

Item No. 8

AUDIT AND GOVERNANCE COMMITTEE **4 FEBRUARY 2022**

TREASURY MANAGEMENT POLICY AND STRATEGY 2022/2023, INCLUDING PRUDENTIAL INDICATORS FOR 2022/2023 TO 2025/2026

Report of the Executive Director of Corporate Services

1. Purpose of the Report

1.1 To inform the Audit and Governance Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2022/2023 and to note the Prudential 'Treasury Management' Indicators for 2022/2023 to 2025/2026 and to provide comments to Council on the proposed policy and indicators where appropriate.

2 Treasury Management

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

2.2 **Statutory requirements**

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

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

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

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

2.2.2 The Ministry of Housing, Communities & Local Government (MHCLG), now known as the Department for Levelling Up, Housing and Communities (DLUHC) 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice and Prudential Code in December 2021. The changes made to the Prudential Code apply with immediate effect, except that the new revised reporting requirements do not need to be introduced until 2023/2024 financial year. Unlike the Prudential Code, there is no effective date within the new edition of the Treasury Management Code. Changes to the MHCLG investment guidance focused particularly on non-treasury investments which are reported within the Commercial Activity – Investment Strategy section of the Capital Strategy rather than in the Treasury Management Strategy. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments. Code updates continue strong reinforcement that local authorities must not borrow to invest primarily for financial return.

2.3 CIPFA requirements

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

The primary requirements of the Code include that:

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

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

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

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

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

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

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

2.4 Treasury Management Strategy Statement for 2022/2023

2.4.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments in 2022/2023.

2.4.2 There are no major changes proposed to the overall Treasury Management Strategy in 2022/2023, which maintains the careful and prudent approach adopted by the Council in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Capital Programme, the availability of borrowing, and the current and forecast global and UK economic positions, in particular forecasts relating to interest rates and security of investments.

2.4.3 The proposed Treasury Management Strategy Statement for 2022/2023 is set out in Appendix 3 and has been informed by market data, market information and leading market forecasts and views provided by the Council's treasury adviser, Link Asset Services.

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

3 Recommendation

3.1 Committee is requested to:

3.1.1 Note the proposed:

- Annual Treasury Management Policy and Strategy for 2022/2023 (including specifically the Annual Borrowing and Investment Strategies) and;
- Prudential and Treasury Management indicators 2022/2023 to 2025/2026.

3.1.2 Provide and appropriate comments to Council on the proposals.

Prudential and Treasury Indicators 2022/2023 to 2025/2026

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

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

P1 Actual capital expenditure incurred in 2020/2021 was £96.620 million and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Estimated Capital Expenditure	189,414	295,541	206,160	107,858	18,042

The capital expenditure plans set out in Appendix 2 provide details of the service activity of the Council.

The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet its activity taking into account the estimated expenditure profile and any grant awards received.

P2 The fundamental objective in the consideration of the affordability of the Council's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the Council remains within sustainable limits. In considering the affordability of its capital plans the Council considers the resources currently available to it and estimated to be received in the future, together with the totality of its capital plans, income and expenditure forecasts.

The Council does not invest in commercial activity for financial return, and therefore receives no income linked to this type of investment.

The Council ensures that the revenue implications of capital finance, including financing costs, are properly taken into account within option appraisal processes, the Capital Programme and the Medium-Term Financial Plan (MTFP). In assessing affordability, the Council considers the council tax implications of its Capital Programme, borrowing decisions and investment decisions. The Council sets and monitors prudential indicators as key indicators of affordability.

Estimates of the proportion of financing costs to net revenue stream for the current and future years, and the actual figures for 2020/2021 are:

	Estimates of financing costs to net revenue stream				
2020/2021 Actual	**2021/2022 Estimate**	**2022/2023 Estimate**	**2023/2024 Estimate**	**2024/2025 Estimate**	**2025/2026 Estimate**
9.41%	10.34%	12.17%	14.08%	15.13%	15.81%

The estimates of financing costs include current commitments and the proposals in the revenue budget and capital programme reports. The forecasts provide an indication of the impact of the capital investment plans on the Council's overall finances. They show increases to the ratio as a result of additional planned prudential borrowing for strategic priorities approved in the Capital Programme. The indicators do not show additional revenue income that has been received, or that is forecast to be generated from the investments included in the Council's Capital Programme.

The level of financing costs is considered to be affordable and has been taken into account when assessing the MTFP.

P3 Estimates of the end of year Capital Financing Requirement for the Council for the current and future years and the actual Capital Financing Requirement at 31st March 2021 are:

Capital Financing Requirement

31/03/21 £'000 Actual	**31/03/22 £'000 Estimate**	**31/03/23 £'000 Estimate**	**31/03/24 £'000 Estimate**	**31/03/25 £'000 Estimate**	**31/03/26 £'000 Estimate**
501,093	686,120	854,336	1,012,615	1,083,922	1,072,208

The Capital Financing Requirement is the historic outstanding capital expenditure which has not yet been paid for from revenue or capital resources. It measures the Council's underlying need to borrow for a capital purpose. It does not increase indefinitely as it is decreased by the Minimum Revenue Provision which broadly reduces the borrowing need in line with assets lives. The increase in the Capital Financing Requirement reflects the underlying borrowing need in respect of funding proposals in the Capital Programme reports.

The Capital Financing Requirement includes other long-term liabilities e.g. Private Finance Initiative (PFI) schemes and leases which are impacted by the introduction of the accounting standard IFRS16. This accounting standard replaces IAS 17 and means that the majority of leases will now be accounted for in a similar way as a Finance lease under IAS 17, meaning that almost all of the Council's leases will need to be brought onto the balance sheet. Whilst this increases the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £69.857 million of such schemes included in its Capital Financing Requirement as at 31st March 2021.

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

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

The Council had no difficulty meeting this requirement in 2020/2021, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report and the report elsewhere on today's agenda on the Revenue Budget and Proposed Council Tax 2022/2023.

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

	Authorised Limit for External Debt				
	2021/2022 £'000	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**	**2025/2026 £'000**
Borrowing	911,927	939,926	954,649	1,041,983	1,036,747
Other long-term liabilities	125,181	142,732	137,316	132,176	125,698
Total	**1,037,108**	**1,082,658**	**1,091,965**	**1,174,159**	**1,162,445**

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

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

In taking its decisions on the Revenue Budget and Capital Programme for 2022/2023, the Council is asked to note that the authorised limit determined for 2022/2023 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

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

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

Operational Boundary for External Debt

	2021/2022 £'000	**2022/2023 £'000**	**2023/2024 £'000**	**2024/2025 £'000**	**2025/2026 £'000**
Borrowing	886,927	914,926	929,649	1,016,982	1,011,747
Other long-term liabilities	125,181	142,732	137,316	132,176	125,698
Total	**1,012,108**	**1,057,658**	**1,066,965**	**1,149,158**	**1,137,445**

P7 The Council's actual external debt at 31st March 2021 was £492.411 million and was made up of borrowing of £422.554 million and other long-term liabilities of £69.857 million.

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

P8 The Council is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However, the revised Code was adopted in 2017 by full Council and is re-affirmed annually. The additional reporting elements of the December 2021 code update which aren't required until 2023/2024 will be adhered to in that financial year.

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

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

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

(a) local strategic planning;

(b) local asset management planning; and

(c) proper option appraisal.

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

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2022/2023 to 2025/2026

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

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

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

P10 A maximum maturity limit of £75 million is set for each financial year (2022/2023, 2023/2024, 2024/2025 and 2025/2026) for long-term investments (those over 365 days), made by the Council. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The types of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 7).

At present the Council has £24.894m of long-term investments. This is £11.906m for the value of share capital held in NIAL Holdings PLC (a 18.87% share), a £12.350m equity investment in Siglion (a 100% share), a £0.500m equity share in Sunderland Lifestyle Partnership Ltd (a 50% share) and the Council also holds £0.018m in shares and unit trusts.

Treasury Management Policy Statement

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

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

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

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

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

The Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2022/2023 as it does every year.

Treasury Management Strategy Statement for 2022/2023

1. Introduction

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

The suggested strategy for 2022/2023 is set out below and is based upon the Executive Director of Corporate Services' views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Link Asset Services.

In December 2017, and more recently in December 2021 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 DLUHC revised their Guidance on Local Government Investments and also their Statutory Guidance on Minimum Revenue Provision. A particular focus of these revised codes is how to deal with local authority investments which are non-treasury type investments e.g. by investing in a property portfolio in order to generate income for the authority at a higher level than can be attained by vanilla treasury investments. This report deals solely with financial investments managed by the Council's Treasury Management function. Non-treasury investments are covered in the Capital Strategy which was approved by Council in November 2021. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments.

1.2 The treasury management strategy covers the:

- current treasury management position;
- treasury indicators and limits;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling
- policy on debt rescheduling;
- investment policy and strategy;
- creditworthiness policy; and
- policy on use of external service providers.

As noted, CIPFA published revised codes for Treasury Management and Prudential Borrowing on 20th December 2021. The changes made to the Prudential Code apply with immediate effect, except that the new revised reporting requirements do not need to be introduced until 2023/2024 financial year. Unlike the Prudential Code, there is no effective date within the new edition of the Treasury Management Code, which is market guidance and has no statutory underpinning. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and the Annual Investment Strategy. In summary, the revised codes have the following implications:

Prudential Code

- Strong reinforcement that local authorities must not borrow to invest primarily for financial return, this applies with immediate effect;
- Objectives continue to focus on; Capital plans and investments plans must be affordable and proportionate, all borrowing / other long-term liabilities are within prudent and sustainable levels; risks associated with investments are proportionate to financial capacity and treasury management decisions are in accordance with good professional practice;
- Further strengthening on matters to be taken into account when setting and revising prudential indicators. In particular decision making on capital investment, determining a capital strategy, prudence and affordability;
- Expansion of Environmental, Social and Governance (ESG) within the Capital Strategy, addressing environmental sustainability in a manner which is consistent with the Council's policies on the issue. This will be addressed when the Capital Strategy is refreshed later in 2022;
- Investment in commercial properties, the code makes clear that the Council's historical asset base is not impacted by the restrictions now in place and any plans to divest should be part of an annual review.
- CIPFA leaves any decision to maintain long term Treasury Investments to each local authority to justify and any longer term Treasury Investment to be linked to the Business Model; and
- The gross debt and the capital financing requirement remain key indicators with a small change which means the inclusion of Heritage Assets. It has been noted that the CFR can be a negative figure.

Treasury Management Code

- Investment Management Practices (IMPs) have now been introduced for Non-Treasury Investment and are expected to follow the same format used for Treasury Management Practices (TMPs);
- The requirement for TMP10 has been strengthened and a requirement to retain an aims and objectives schedule included;
- Reporting should set out Service and Commercial investment risks especially where this is supported by borrowing / leverage, with a proportionate level of any borrowing which is a decision for the S151 Officer. Emphasis also placed on "Local Authorities" so that they must not borrow to invest primarily for the purpose of financial return;
- Treasury Management reports to be produced annually before the financial year, mid-year and after the year-end; and
- The introduction of a Liability Benchmark, which will be included in updated reporting for 2023/2024.

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury Management

Arising from the organisations cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

<u>Service Delivery</u>
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

<u>Commercial Return</u>
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Council currently adheres to the majority of the above amendments, and will comply with the remaining new reporting standards by the prescribed date of 2023/2024.

2. Treasury Management Strategy

2.1 Borrowing

2.1.1 Current Treasury Management Position

The Council's treasury portfolio position at 31st December 2021 comprised:		**Principal (£m)**	**Total (£m)**	**Average Rate (%)**
Treasury external borrowing				
Fixed Rate Funding	PWLB	434.6		
	Market	39.6		
	Other	11.3	485.54	2.68
Variable Rate Funding	Temporary / Other		27.6	0.72
Total external borrowing			**513.1**	**2.54**
Total treasury investments				
	In house – short term		**294.3**	**0.16**
Net treasury borrowing			**218.8**	

The Council currently has a net deficit of £218.8m which represents the difference between gross debt and total investments and is significantly lower that the Council's capital financing requirement (capital borrowing need).

2.1.2 Treasury Indicators and Limits

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

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

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

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

The requirement for the Council to indicate it has adopted the CIPFA Code of Practice on Treasury Management was removed in the revised 2017 edition of the code. However, this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002. The Council reaffirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 6). The additional reporting elements of the December 2021 code which aren't required until 2023/2024 will be adhered to in that financial year.

2.1.3 Prospects for Interest Rates

Over the last two years, the coronavirus outbreak has resulted in significant economic damage to the UK and to economies around the world. After the Bank of England's Monetary Policy Committee (MPC) took emergency action in March 2020 to cut the Bank Rate to 0.10%, it left the rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 primarily in response to rising inflation.

As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that the Bank Rate would be raised "in the coming months". This may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of Quantitative Easing (gilts purchased by the Bank would not be replaced when they mature).

Since the start of 2021, there has been significant volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates below shows, there is forecast to be a steady, but slow, rise in rates during the forecast period to March 2025, though there will doubtless be unpredictable volatility during this forecast period.

The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 12th January 2022.

2021/2022	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Sep) %**	**Qtr 3* (Oct – Dec) %**	**Qtr 4* (rates to 12th Jan 2022) %**
7 days notice	-0.08	-0.08	-0.06	-0.06
1 year	0.81*	0.87*	1.11*	1.36*
5 year	1.18*	1.15*	1.47*	1.73*
10 year	1.68*	1.52*	1.75*	1.94*
25 year	2.14*	1.90*	1.99*	2.12*
50 year	1.94*	1.68*	1.68*	1.79*

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

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

Date	**Bank Rate %**	**PWLB Borrowing Rates (including certainty rate adjustment) %**		
		5 year	**25 year**	**50 year**
March 2022	0.25	1.50	1.90	1.70
June 2022	0.50	1.50	2.00	1.80
Sept 2022	0.50	1.60	2.10	1.90
Dec 2022	0.50	1.60	2.10	1.90
March 2023	0.75	1.70	2.20	2.00
June 2023	0.75	1.80	2.20	2.00
Sept 2023	0.75	1.80	2.20	2.00
Dec 2023	0.75	1.80	2.30	2.10
March 2024	1.00	1.90	2.30	2.10
June 2024	1.00	1.90	2.40	2.20
Sept 2024	1.00	1.90	2.40	2.20
Dec 2024	1.00	2.00	2.50	2.30
March 2025	1.25	2.00	2.50	2.30

The main sensitivities of the forecast are likely to be, if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the US and UK, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still lower than they will be in the next few years.

2.1.4 **Borrowing Strategy**

The Council's strategy for 2021/2022 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 2.6% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2021.

The basis of the agreed Borrowing Strategy is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable;
- current (January 2021) long term PWLB rates (50 years) are around 1.80%. It is forecast that this will rise over the financial year 2021/22 with target rates being, 1.80% Q1, 1.90% Q2, 1.90% Q3 and 2.00% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity. The current average interest rates forecast across this financial year for various borrowing periods are as follows:
  - 10 years – 1.85%
  - 25 years – 2.10%
  - 50 years – 1.90%

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

Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement – CFR), new borrowing of £100m was undertaken in December from the PWLB at a historically low rate of 1.4%. Borrowing at this low rate has reduced the average cost of borrowing across the portfolio.

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

The Council has seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and the Council can either accept the new rate or repay the loan without penalty. The following table shows the four LOBOs that were subject to a potential rollover in 2021/2022. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	**Lender**	**Amount £m**	**Rate %**	**Roll Over Periods**
21/04/2021 and 21/10/2021	Barclays	5.0	4.37	Every 6 months
29/09/2021	Dexia Credit Local	5.0	4.45	Every 3 years
03/02/2022	Dexia Credit Local	5.0	4.37	Every 3 years
22/02/2022	Dexia Credit Local	5.0	4.38	Every 3 years
Total		**20.0**		

The capital expenditure plans set out in Appendix 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

The Council's potential borrowing requirement is as follows**:**

		2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
1.	Capital Programme Borrowing	**183.6**	**176.2**	**86.6**	**11.8**
2.	Replacement borrowing (PWLB)	**5.0**	**0.0**	**0.0**	**0.0**
3.	Replacement LOBO	**10.0**	**19.5**	**20.0**	**10.0**
TOTAL:		**198.6**	**195.7**	**106.6**	**21.8**

The Council currently has net treasury borrowing of £218.8m which represents the difference between gross debt and total investments. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and it also reduces counterparty risk. Consideration will be given to continue utilising some investment balances to fund the borrowing requirement in 2022/2023. This policy has served the Council well over the last few years as investment returns continue to be low. As a result, the Council is currently maintaining an under-borrowed position. This position will be carefully reviewed to avoid incurring higher borrowing costs over the long term whilst ensuring that financing is available to support capital expenditure plans.

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

Benefits of having a high level of investments are:

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

Risks associated with holding a high level of investments are:

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

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

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

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

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

Taking into account potential market volatility and the advice of the Council's treasury adviser, alongside potential Bank of England base rate increases, a benchmark financing rate of 3.00% for any further long-term borrowing for 2022/2023 is considered to be appropriate.

2.1.5 Policy on borrowing in advance of need

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

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

2.1.6 Debt Rescheduling

The reasons for any rescheduling of debt will include:

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

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

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

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

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

2.2 Annual Investment Policy and Strategy

2.2.1 Investment Policy and Management of Risk

When considering its investment policy and objectives, the Council has regard to the DLUHC Guidance on Local Government Investments (“the Guidance”), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the CIPFA TM Code”). consideration has also been given to the refreshed Code published in December 2021, full adoption is required by 2023/2024.

The DLUHC and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the Council’s Treasury Management function). Non-financial investments, essentially the purchase of income yielding assets, are covered within the Capital Strategy approved by Council in November 2021.

The Council’s investment objectives are:

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

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

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

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

- apply minimum acceptable credit criteria (detailed in Annex B) in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Council is regarded as low in order to give priority to security of its investments;
- monitor credit ratings daily. The Council has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services’ counterparty service. If a counterparty’s rating is downgraded with the result that it no longer meets the Council’s minimum criteria, the Council will cease to place funds with that counterparty. If a counterparty’s rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty’s authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty’s investment limit and vice versa;
- not use ratings as the sole determinant of the quality of an institution. The Council will continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing such as “credit default swaps” and overlay that information on top of the credit ratings provided;

- use other information source including the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties;
- define the type of investment instrument that the treasury management team are authorised to use. The Council is allowed to invest in two types of investment, namely Specified Investments and Non-Specified Investments:
    - Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Council has set additional criteria to limit the time and amount of monies that will be invested with these bodies;
    - Non-Specified Investments are any investments which are not classified as Specified Investments. As the Council only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-Specified Investments. A limit on the amount of investments which are can be invested for longer than 365 days is set in the Council's creditworthiness policy. In addition to investments in high credit rated companies the Council has agreed to provide an unsecured investment to Education Partnership North East (EPNE) (which is the group brand for Sunderland College, Northumberland College and Hartlepool Sixth Form College) in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.
- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, variable term deposits, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local authority bonds, bond funds, gilt funds, and gilt-edged securities and will follow the criteria as set out in Annex B;
- assess the risk of default and if any of the Council's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This Council mitigates this risk with its prudent investment policy;
- set an approved lending list which shows lending limits and the maximum duration of any investment for each counterparty (detailed in Annex C). These are set using the agreed lending list criteria (detailed in Annex B);
- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Annex B). Should the UK Government AA- sovereign rating be withdrawn the Council's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to Cabinet; and

- engage external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

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

2.2.2 Creditworthiness policy

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

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

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

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

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

One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the Council's Counterparty criteria set out in Annex B. Given the need for increased PWLB borrowing to fund the Capital Financing Requirement and the associated cash holding requirement, the Money Market Funds limit within Annex B has been increased from £120m to £250m.

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

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

2.2.3 Outlook and Proposed Treasury Investment Strategy

Based on its cash flow forecasts, the Council anticipates its fund balances in 2022/2023 are likely to range between £50 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2021/2022 short-term interest rates have been materially below long-term rates and some investment balances have been used to fund some long-term borrowing requirements. It is likely that this will continue into 2022/2023 with investment balances being used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

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

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

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

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

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

The Council is not committed to any investments which are due to commence in 2022/2023 (i.e. it has not agreed any forward deals).

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

During 2021/2022 the Council did not employ any external fund managers; all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below and compares this with the relevant benchmarks and performance from the previous year:

Return	**2020/21 Benchmark %**	**2020/21 Return %**	**To date 2021/22 Benchmark %**	**To date 2021/22 %**
Council	-0.07	0.45	-0.07*	0.16

* the Benchmark 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 in 2020/21 has become negative.

Investment returns are likely to remain low during 2021/22 and are likely to remain very low until the Bank base rate increases.

During 2022/2023 the Council will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Council uses the 7-day London Interbank Bid (LIBID) rate as a benchmark for its investments. 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. The Council's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients.

2.2.4 **Policy on the use of external service providers**

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

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

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

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

2.2.5 Non - Treasury Investments

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

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

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

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

Cabinet at its October 2020 meeting endorsed an unsecured investment with EPNE, based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.

The Council's approach to non-treasury investments are covered within the Capital Strategy approved by Council in November 2021 and complies with the guidance that Local Authorities will not use PWLB borrowing primarily for yield.

3. **Scheme of delegation**

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

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

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement	Full Council	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy –updates or revisions at other times	Full Council	As appropriate
Treasury Management Monitoring Reports	Executive Director of Corporate Services	Monthly
Treasury Management Practices	Executive Director of Corporate Services	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Cabinet / Audit and Governance	Annually by 30/9 after the end of the financial year

4. **The Treasury Management Role of the Section 151 Officer**

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

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;

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

1. Interest Rate Forecasts

1.1 The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy). PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 11th January 2022.

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

Link Group Interest Ra 20.12.21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

2. Survey of Economic Forecasts

2.1 HM Treasury November 2021

The current 2021 base rate forecasts are based on samples of both City and non-City forecasters included in the HM Treasury November 2021 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2021	Ave. 2022	Ave. 2023	Ave. 2024	Ave. 2025
Average	0.13%	0.43%	0.98%	1.30%	1.45%
Highest	0.30%	1.50%	4.50%	5.00%	4.00%
Lowest	0.10%	0.10%	0.16%	0.50%	0.75%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2021 (No.412, Table M4)

Annex B

Lending List Criteria

1. Counterparty Criteria

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

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

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

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

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

2. Country Limit

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

2.2 It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit (excluding money market funds) of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non-UK	50

3. Sector Limit

3.1 The Code recommends that a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

4. Group Limit

4.1 Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

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

4.2 Proposed group limits are set out in Annex C.

Annex C

Approved Lending List

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A2	P-1	A-	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	Baa1	P-2	A-	A-2	0	
Co-Operative Bank Plc **	B+	B	Ba3	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
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 **			Baa3	P-3	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							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								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	A	F1	A1	P-1	A+	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Strategic Partners

Cabinet in its October 2020 meeting endorsed an unsecured investment with EPNE, based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan.

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Audit progress report

Sunderland City Council

January 2022

Item No. 9

mazars

1. Audit progress
2. National publications

01

Section 01:

Audit progress

Audit progress

Purpose of this report

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

2020/21 statutory audit

- **Value for Money and Auditor's Annual Report 2020/21:** we are completing our value for money work and will be issuing our Auditor's Annual Report to complete 2020/21 shortly. There are no significant matters to report to you at this stage.
- **Whole of Government Accounts (WGA) 2020/21 and overall certificate:** we are required to carry out specific work on the Council's 'whole of government accounts' consolidation schedules once they are available. As of mid-January 2022, the guidance for both councils and auditors has not been produced by the National Audit Office. We are, therefore, unable to issue our formal certificate on the 2020/21 audit until the WGA work has been completed.

2020/21 non-audit work

- **Housing benefits subsidy return 2020/21:** we have been engaged again by the Council to carry out 'agreed upon procedures' on its return to the Department of Work and Pensions. This work is on-going at the time of writing this report.
- **Housing Benefits subsidy return additional 'Module X' work for the return 2019/20:** alongside the 2020/21 return, we are also carrying out additional specified testing on an error identified in our work on the 2019/20 return.

2021/22 audit

- We have held an initial planning meeting with officers in respect of the 2021/22 audit and timing of work.
- We are running virtual accounts workshops for our local government clients, to be held in February 2022; these workshops will highlight emerging issues and also consider any areas from the prior year's audits.
- We will complete our planning in this quarter, including our walkthrough of key information systems. We will bring our formal 2021/22 Audit Strategy Memorandum to the next Audit and Governance Committee. A summary of the planned work is set out in the diagram on the next page.

Audit progress

2021/22 audit

Planning February-March 2022

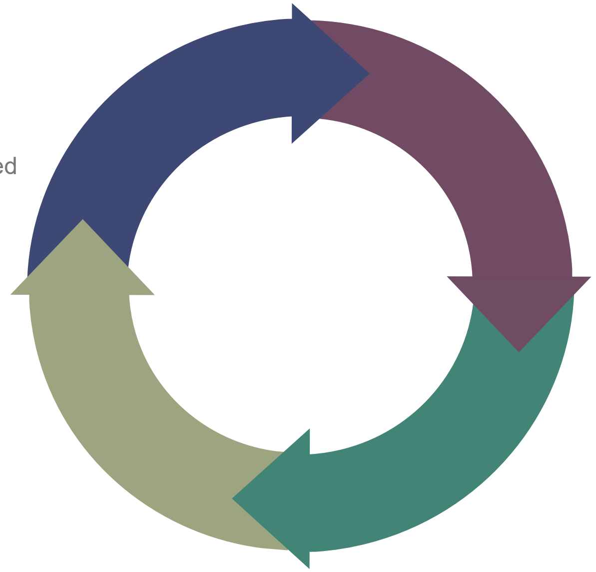
- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion July-September 2022**

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Accounting and Technical Service review of the financial statements
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

**subject to receipt of Pension Fund auditor assurance and also the accounts being available for 1st July.

We note the proposed change to the deadline for audited 2021/22 accounts to 30 November 2022.



Interim February-April 2022

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork July-September 2022**

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

* as per comments to the left

02

Section 02:

National publications

National publications

	Publication/update	Key points
Department of Levelling Up, Housing and Communities		
1.	Measures to improve local audit delays	This publication sets out the package of measures to support the improved timeliness of local audit.
Chartered Institute of Public Finance and Accountability (CIPFA)		
2.	CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes	The consultations followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments.
National Audit Office (NAO)		
3.	Financial sustainability of schools	Report on the financial sustainability of schools, including academies.
4.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	Lessons learned report.
5.	Cyber and Information Security: good practice guide	Provides a good practice guide for audit committees on cyber security arrangements.
6.	The local government finance system in England: overview and challenges	Looks at what local government in England spends, how this spending is funded and the effect of changes in recent years.
NHS England Improvement		
7.	NHS 2022/23 priorities and operational planning guidance	The guidance, issued in December 2021, clarified arrangements around the new Integrated Care Boards, which will be in place from 1 April 2022, subject to the passage of legislation and CCGs retaining their statutory responsibilities until 1 July 2022.

continued overleaf

National publications

	Publication/update	Key points
Financial Reporting Council		
8.	Inspection findings into the quality of major local body audits	Sets out the findings of FRC's most recent quality inspection of major local audits.
Mazars LLP		
9.	2020-21 Transparency Report	Sets out the steps we take to enhance the quality of our audit work and ensure consistency of quality.

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

1. Measures to improve local audit delays

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local government.

Challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his review. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays.

As the National Audit Office (NAO) outlined in its 2020 report (in respect of the 2019/20 year) Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays.

Recruitment and turnover
Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.

Workload and regulatory pressures on auditors
In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

Staffing pressures
In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.

NATIONAL PUBLICATIONS
Department for Levelling Up, Housing and Communities

1. Measures to improve local audit delays (continued)

The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. An additional £15 million in funding has been made available to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.

In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. Therefore, subject to consultation, secondary legislation will be introduced to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 5 years from until 2027/28, and be reviewed at that point.

Subject to consultation, it is proposed that the deadline for preparing draft accounts remains at 31 May, as the majority of local authorities are continuing to meet this requirement and any changes would have implications for the Whole of Government Accounts.

The full publication can be seen at this link: [Measures to improve local audit delays - GOV.UK (www.gov.uk)]

NATIONAL PUBLICATIONS
CIPFA

2. CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes, September 2021

The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. The Prudential Code is a professional code that ensures that capital finance decisions are prudent and sustainable.

The Treasury Management Code, which sits alongside the Prudential Code, provides a framework for effective, risk-managed treasury management in public sector organisations.

CIPFA has set out that: "The key changes being brought forward in these consultations, especially those in the Prudential Code, clarify and update CIPFA's position on local authority commercial investment. The **revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.**

The full publication can be seen at this link: [The Prudential Code for Capital Finance in Local Authorities | CIPFA]

NATIONAL PUBLICATIONS
National Audit Office

3. Financial sustainability of schools, December 2021

The report concludes that the financial health of the mainstream school system has held up well despite the funding and cost pressures that schools have faced in recent years, although the data do not yet reflect the impact that the COVID-19 pandemic may have had. Most maintained schools and academy trusts are in surplus, but there are significant pressures on some maintained secondary schools. The concern in relation to the academy sector is that a sizeable minority of academy trusts are building up substantial reserves, meaning they are spending less than their annual income on their pupils. Ofsted inspection ratings suggest that mainstream schools have generally maintained educational quality, although there are indications that the steps schools are taking in response to financial pressures may adversely affect aspects of their provision.

Since the NAO last reported in 2016, the Department has implemented a range of sensible programmes to support schools to improve their resource management and achieve savings, which have generally been well received by the sector. The programmes have added value and helped schools to achieve savings. We found, however, that the Department's data have not been sufficiently complete or reliable to assess whether the programmes are having the impact it intended or achieving value for money. The Department has started to improve its data but, until it has better information, it cannot make fully informed decisions about the support it offers to schools and how continuously to improve it.

The full report can be seen at this link: https://www.nao.org.uk/report/financial-sustainability-of-schools-in-england/

National Audit Office

4. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

This report sets out the facts on:

- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/

NATIONAL PUBLICATIONS
National Audit Office

5. Cyber and Information Security: good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- the overall approach to cyber security and risk management;
- capability needed to manage cyber security; and
- specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and its detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

National Audit Office

6. The local government finance system in England: overview and challenges, September 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England, covering three main areas, summarised below.

An introduction to local government funding

Government policy and actions since 2010

Since 2010 successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit, while making a range of changes to provide local authorities with greater flexibility and local accountability over their income. This part of the overview sets out:

- the extent of government funding reductions since 2010;
- policy developments intended to provide flexibility and local accountability;
- actions government has taken to support funding challenges including COVID-19; and
- key intended reforms to the local government finance system that have been delayed and remain undelivered.

Some results or consequences of these changes

The changes implemented by government have impacted on local authorities and caused behaviour change with greater reliance on local sources of income. This part of the overview sets out:

- the impact of funding reductions on patterns of local government spending;
- the impact of increased reliance on locally generated funding, including commercial investment;
- the impact on local authority finance of delays to reform; and
- evidence of strain on the financial resilience of local authorities and the mechanisms established to protect them.

The full report can be seen at this link: https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/#

NATIONAL PUBLICATIONS
NHS England Improvement

7. NHS 2022/23 priorities and operational planning guidance, December 2021

The objectives set out in this document are based on a scenario where COVID-19 returns to a low level and the NHS is able to make significant progress in the first part of next year as we continue to rise to the challenge of restoring services and reducing the COVID backlogs.

Building on the excellent progress seen during 2021/22, this means significantly increasing the number of people the NHS can diagnose, treat and care for in a timely way. This will depend on the NHS doing things differently, accelerating partnership working through integrated care systems (ICSs) to make the most effective use of the resources available to it across health and social care, and ensure reducing inequalities in access is embedded in its approach. As part of this, and when the context allows it, the NHS will need to find ways to eliminate the loss in non-COVID output caused by the pandemic.

Securing a sustainable recovery will depend on a continued focus on the health, wellbeing and safety of our staff. ICSs will also need to look beyond the immediate operational priorities and drive the shift to managing the health of populations by targeting interventions at those groups most at risk and focusing on prevention as well as treatment. Significant progress has been made in preparing for the proposed establishment of statutory Integrated Care Systems. To allow sufficient time for the remaining parliamentary stages, a new target date of 1 July 2022 has been agreed for statutory arrangements to take effect and Integrated Care Boards to be legally and operationally established. The ICB will be established as a statutory body from 1 April 2022, subject to the legislation being passed, with the Clinical Commissioning Groups retaining their statutory responsibilities until at least 1 July 2022.

The publication can be seen at this link: https://www.england.nhs.uk/publication/2022-23-priorities-and-operational-planning-guidance/

NATIONAL PUBLICATIONS
Financial Reporting Council

8. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins

Mazars LLP

9. 2020/21 Transparency Report

This report sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.

It sets out the following:

Inspiring stakeholder confidence in audit quality

- Investing in our people to drive purpose, pride and quality
- Delivering audit quality
- Quality monitoring
- Audit quality indicators
- Investor and audit committee dialogue
- Ensuring our objectivity and independence

Our risks

- Our approach to risk management

Our structure, leadership and governance

- Our unique business structure
- Leadership and Governance

The full report can be seen at this link: https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-transparency-report-2020-2021

Contact

Mazars

Partner: Cameron Waddell

Email: cameron.waddell@mazars.co.uk

Senior Manager: Diane Harold

Email: diane.harold@mazars.co.uk

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF
0191 383 6300

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Sunderland City Council

Item No. 10

AUDIT AND GOVERNANCE COMMITTEE 4 February 2022

DECISION TO OPT-IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS MANAGED BY PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA)

Report of the Executive Director of Corporate Services

1. Purpose of Report

1.1 This report seeks Members' approval to accept the invitation from Public Sector Audit Appointments (PSAA) to opt-in to the national sector-led arrangement for the appointment of external auditors with effect from 1 April 2023.

2. Introduction

2.1 The current auditor appointment arrangement covers the period up to and including the audit of the 2022/23 accounts, after which they expire.

2.2 In January 2017, the Council agreed to opt into the 'appointing person' national auditor appointment arrangements, established by PSAA for the period covering the accounts for 2018/19 to 2022/23.

2.3 PSAA is currently undertaking a procurement for the next appointing period, covering audits for five financial years from 2023/24 to 2027/28.

2.4 The council must now make a decision about its external audit arrangements from 2023/24 onwards.

2.5 Options for the council include arranging to carry out its own procurement process to appoint its external auditor, or do so in conjunction with other bodies, or join, and take advantage of, the national collective scheme administered by PSAA.

2.6 This report recommends that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the council than a procurement undertaken locally for the following reasons:

- collective procurement should reduce costs for the sector and for Individual authorities compared to a multiplicity of smaller local procurements;

- if it does not use the national appointment arrangements, the council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

2.7 Should the council wish to take advantage of the national auditor appointment arrangements, under the local audit regulations, a decision is required to be agreed by full Council. The opt-in period started on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the council needs to return completed opt-in documents to PSAA by 11 March 2022, backed by a Council resolution to support these arrangements.

3. Background

3.1 Under the Local Government Audit and Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options:

- to appoint its own auditor, which requires it to follow the procedure set out in the Act;

- to act jointly with other authorities to procure an auditor following the procedures in the Act; or

- to opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is PSAA.

3.2 To opt into the national scheme, the council must make a decision at a meeting of the Full Council.

4. The Appointed Auditor

4.1 The auditor appointed at the end of the procurement process will undertake the statutory audit of the councils Statement of Accounts (including any associated specific grant returns) and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

4.2 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

4.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) who employ authorised Key Audit Partners to oversee the work. There is a currently a shortage of registered firms and Key Audit Partners.

4.4 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

4.5 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

5. Options for the council to appoint itself or via a joint arrangement

5.1 Should the council wish to appoint its own external auditor under the Act, it would need to:

- establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the council itself, and the members of the panel would have to be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members would not have a majority input to assessing bids and choosing to which audit firm to award a contract for the council's external audit.

- manage the contract for its duration, overseen by the auditor panel.

5.2 Alternatively, the Act enables the council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each authority under the Act and the council would need to liaise with other local authorities to assess the appetite for such an arrangement.

5.3 These two options would be more resource-intensive and without the bulk buying power of the sector-led procurement service, would likely result in a more costly process for the council to implement. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council would not be able to influence the scope of the audit and the regulatory regime would inhibit the council's ability to affect quality.

5.4 The council and its audit panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

6. The national auditor appointment scheme

6.1 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23.

It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services.

6.2 PSAA is a not-for-profit organisation whose costs are around 4% of the scheme. Any surplus generated is distributed back to scheme members.

6.3 The benefits of opting into the national scheme are as follows:

- the appointment of a suitably qualified audit firm to conduct audits for five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

6.4 The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

7. Pressures in the current local audit market and delays in issuing opinions

7.1 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements and local audit fees had been reducing over a long period. 98% of bodies who were eligible, opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

7.2 During 2018, a series of financial crises and failures in the private sector led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

7.3 The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

7.4 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible.

7.5 To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

7.6 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with COVID-19 creating further significant pressure for finance and audit teams.

7.7 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the last two years.

8. The invitation

8.1 PSAA is now inviting the council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins, it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the council's auditor. A copy of the PSAA invitation to the council is provided in Appendix 1 to this report.

9. The next audit procurement

9.1 The prices submitted by bidders through the procurement exercise will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties. Pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process - a key tenet of the national collective scheme;
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. (In 2019 it returned a total £3.5 million to relevant bodies and returned a further £5.6 million in 2021).

9.2 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train, which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

9.3 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/ LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

9.4 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

10. Conclusion

10.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of full Council (meeting as a whole), except where the authority is a corporation sole (e.g. Police and Crime Commissioner) in which case this decision can be taken by the holder of that office.

10.2 The closing date to provide formal acceptance of the invitation to PSAA is 11 March 2022.

10.3 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022, then consult with authorities on the appointment of auditors in order to make appointments by the statutory deadline of 31 December 2022.

11. Recommendation

11.1 If Members are in agreement, it is intended that this report will be presented to full Council at its meeting on 2 March 2022, where it will be recommended that Members agree to become an opted-in authority.

Appendix 1

Opt-in invitation issued by PSAA

Appointing Period 2023/24 to 2027/28

Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: ap2@psaa.co.uk

Subject: **Sunderland City Council** **Notice of acceptance of the invitation to become an opted-in authority**

This email is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **Sunderland City Council** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision- making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[insert name of signatory]**

Title: **[insert role of signatory]** (authorised officer)

For and on behalf of: **Sunderland City Council**

Date: **[insert date completed]**