

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 7 February 2020**

**Present:**

Mr G N Cook

Councillors Crosby, Lawson, Stewart and Wood together with Mr M Knowles.

**In Attendance:**

Jon Ritchie (Executive Director of Corporate Services), Paul Davies, Assistant Director of Business and Property Services, Tracy Davis (Senior Manager Assurance), James Magog (Chief Accountant), Cameron Waddell and Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer)

**Declarations of Interest**

Councillor Lawson declared an interest in item 4 'Risk and Assurance Map Update 2019/2020' as a Director of Sunderland Care and Support Limited.

**Apologies for Absence**

There were no apologies for absence.

**Minutes**

14. RESOLVED that the minutes of the meeting of the Committee held on 27 September 2019 be confirmed as a correct record.

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

The Assistant Head 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; and
- the performance of Internal Audit.

Members were reminded that the refreshed Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2019/2020 had been agreed in September 2019 after they had been updated in line with the newly developed City Plan.

Turning to the Risk and Assurance Map, the Strategic Risk Areas were tied to the priorities of the city and the Cumulative Assurance Position for each area was shown as Amber or Green with the exception of 'Access to the same opportunities and life chances'. This was rated 'Red' resulting from the Ofsted Inspection of Children's Safeguarding. The Corporate Risk Areas were all judged to be Green or Amber.

In relation to the Council owned companies, Together for Children was judged to have limited assurance due to the adverse Ofsted inspection. Sunderland Homes Limited was largely inactive and the Council was now looking towards developing its own internal housing service which would be audited in the usual way. The Council had taken ownership of Siglion LLP in the last year and a governance audit was currently being undertaken with the opinion due to be reported at the next committee meeting.

It was highlighted that all of the other internal and external assurance activity was Green or Amber with the exception of the external assurance for Children's Safeguarding.

The work of the Risk and Assurance Team over the last quarter was summarised within the report and included major capital schemes such as the delivery stage of the SSTC Phase 3 and the International Advanced Manufacturing Park, corporate projects including the introduction of Office 365, the move to the new City Hall and risk management arrangements in relation to the North East Combined Authority and the North East Joint Transport Committee.

The Risk and Assurance Map, Strategic and Corporate Risk Profiles had recently been considered by the Chief Officer Group and they were aware of any issues. Performance Indicators were all on target and it was noted that the implementation rate for medium risk actions for Council services was 100%.

Councillor Crosby asked about the new Riverside Sunderland project, which would involve £100m private investment, and where this would sit in relation to audit.

The Executive Director of Corporate Services explained that the Siglion was in two parts; the new City Hall development and then a separate private investment. Legal and General would take the risk on their speculative development. The lease payments would appear in the Council's accounts, as would the legal contract.

Councillor Wood referred to the recent audit of Children's Safeguarding and that this had been positive and shown improved financial management. He asked how much further improvement would be required to change the assurance position. The Executive Director of Corporate Services advised that the leadership of the Company had improved under the Chief Executive and Director of Finance and the financial arrangements were better, but the budget was still showing an overspend. The direction of travel was good, communications were good but there were still challenges and Together for Children was treated in the same way as any other Council department.

The Committee having considered the report: -

15. RESOLVED that the report be noted.

### **Risk and Assurance Map – Consultation for 2020/2021**

The Assistant Director of Business and Property Services submitted a report which sought to consult the Committee on the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year and to give Members the opportunity to raise any issues which they feel should be considered.

The areas expected to be a priority for 2020/2021 were as follows: -

- Ongoing audit work in relation to Council owned companies, e.g. Siglion;
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities;
- Economic Development, including SSTC Phase 3 and work on the International Advanced Manufacturing Park;
- Construction of the new City Hall;
- Development of the new Housing Service;
- Corporate projects, including the introduction of Office 365 and the move to Cloud technology, including new ways of working in preparation for the move to City Hall;
- National Fraud Initiative and counter fraud work; and
- Key corporate functions/systems, particularly where significant changes/budget reductions are planned or have occurred.

The Assistant Director of Business and Property Services advised that he would be speaking to Directors and Assistant Directors and the full plans of work would be agreed in April.

Councillor Lawson referred to the National Fraud Initiative and working with partners and asked if the Authority had to be aware that the risk management of other bodies may not be as good as that in the Council. The Assistant Director of Business and Property Services advised that the National Fraud Initiative was a data matching exercise where the information was sent to them, queries returned and then followed up. It was a statutory requirement for the Council to take part in the initiative and this was carried out on a biannual basis.

If the Council was working with partners then it did consider their risks, for example the VCS Alliance. Where funding was contributed, the way in which partners managed risk would be considered.

Mr Knowles commented that the latest Government guidance on Integrated Care Systems suggested that there was likely to be money involved and this was something which might feature in horizon scanning going forward.

The Committee accordingly: -

16. RESOLVED that the proposed areas of work for the Internal Audit and Risk and Assurance teams for the forthcoming year be noted.

### **Treasury Management – Third Quarterly Review 2019/2020**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the third quarter of 2019/2020 and setting out the Lending List Criteria and Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. The Committee were advised that the Government had decided to increase the interest rate for the PWLB by 1% without giving notice of the change. There had been ongoing lobbying with regard to this matter but there had been no sign of a reversal of approach. The Council had no immediate plans to borrow but would consider options going forward.

The Council's interest rate on borrowing was low, currently 2.89%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 1.01% compared with a benchmark of 0.57%.

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 Chief Accountant drew Members' attention to section 3.2 of Appendix A which showed the Council's investments and their liquidity.

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 Approved Lending List was attached as Appendix C to the report for information and had not been amended in this quarter. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Councillor Wood asked about the predictions for interest rates, how realistic these were likely to be and how much cognisance the Council would take of them. He also noted that in relation to PWLB loans it appeared to be cheaper to borrow over 50 years than 25.

The Chief Accountant said that there was always a degree of uncertainty in relation to interest rates; the information was considered in the forward forecast, but it was recognised that there was an element of guesswork involved. He stated that Councillor Wood was correct in his understanding and it was a very unusual situation with the PWLB. He added that Link Asset Services, the Council's treasury advisors, would be delivering a Member briefing in the future and this could be a suggested topic.

17. RESOLVED that: -

- (i) the Treasury Management performance for the third quarter of 2019/2020 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **Treasury Management Policy and Strategy 2020/2021, including Prudential Indicators for 2020/2021 to 2023/2024**

The Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2020/2021. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2020/2021 to 2023/2024 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable. The Prudential Indicators were set out in Appendix 1 of the report and these reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable. It was highlighted that the Authorised Limit for External Debt and the Operational Boundary for External Debt increased significantly over the period in order to accommodate the ambitious capital plan for the city.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments, and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2017. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. Members of the Committee were directed to the Council's potential borrowing requirement set out within the Treasury Management Strategy and it was highlighted that borrowing would be phased depending on capital spend and the reserves position.

Appendix 4 of the report set out interest rate forecasts based on a range of intelligence sources. The Lending List Criteria and Approved Lending List were shown at Appendix 5 and 6 of the report.

Councillor Stewart asked for further detail about the long-term liability changes and rationale behind the changes to the Authorised Limit for External Debt. The Chief

Accountant explained that this limit included financial leases and the new City Hall development. The other long-term liabilities included PFI schemes such as street lighting and the Sandhill Centre.

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

18. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2020/2021 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2020/2021 to 2023/2024 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **External Auditor Progress Report**

Mazars, the Council's external auditors, had submitted their regular Audit Progress Report covering the period up to January 2020.

Diane Harold advised that Audit Strategy Memorandum was being developed and would be brought to the Committee in April. There would not be significant changes to the strategy or identified risks.

The Committee were advised that the work Mazars carried out on the housing benefits subsidy assurance had now been completed and no major issues had been found. It was understood that the DWP had now responded to this report and had no resulting actions. Other non-audit work which had been completed was the Teachers' Pensions assurance and the Education and Skills Funding Agency 2018/2019 external assurance on subcontracting controls.

The report highlighted the publication and update of the following documents: -

- Local Government Financial Resilience Index, CIPFA
- Financial Management Code, CIPFA
- Prudential Property Investment, CIPFA
- Behavioural Insights Programme, LGA
- Probity in planning: advice for councillors and officers making planning decisions, LGA
- Chief Executives 'must know' for children's services, LGA
- A Councillors' guide to procurement, LGA
- Reaching out, LGA
- A Councillor's guide to digital connectivity, LGA
- Annual Transparency Report, Mazars
- Mazars' response to the Brydon Review, Mazars

Cameron Waddell referred to Sunderland's status as a public interest entity and that there was a new ethical standard coming into force on 15 March which was more prescriptive about what auditors could do for Councils, including not being able to act for subsidiaries.

There was also a new Code of Audit Practice for the 2020/2021 audit which involved changes around the Value for Money Assessment. There would be some amendments to what external auditors would assess against and there would be a narrative conclusion rather than the judgement being qualified or unqualified. Auditors were awaiting training on the new code and would come to a future meeting to give more detail on the changes.

Accordingly, the Committee: -

19. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK  
Chair

