

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 22 July 2022**

**Present:**

Mr G N Cook in the Chair

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

**In Attendance:**

Jon Ritchie (Executive Director of Corporate Services) Paul Wilson (Assistant Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Catherine Auld (Assistant Director of Economic Regeneration), Nick Humphreys (Data Protection Officer), Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

There were no apologies for absence.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 29 April 2022 be confirmed as a correct record.

**Risk and Assurance Map 2022/2023**

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

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

Following on from discussion at the meeting on 4 February 2022 regarding the high risk score for 'Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2040', Catherine Auld, the Assistant Director of Economic Regeneration was in attendance to deliver a presentation on the City's approach to low carbon.

The Council had set a target to be carbon neutral by 2030 and for the city as a whole to achieve this by 2040. The Council and its partners had agreed to monitor the position on a quarterly basis and this information was published on the Council website. Annual data reports were produced and emissions were also disclosed through the Carbon Disclosure Project.

The city was on target to achieve the five year reduction target of 16.1% for carbon emissions from 2016-2020, however from 2020 emissions had to be reduced by 14.4% every year. The strategic priorities to achieve this were in relation to seven areas: -

1. Our behaviour
2. Policies and operational practices
3. An energy efficient built environment
4. Renewable energy generation and storage
5. Low carbon and active transport
6. Green economy
7. Consumption and waste

There were a large number of projects and actions sitting under each priority including using public transport, cycling and walking rather than driving, a strong focus on green infrastructure and urban greening, installation of LED lighting and air source heat pumps in Council buildings, the Sunderland Energy Storage and Efficiency Project and local community growing projects.

Councillor Stewart said that it was helpful to see the overview and asked which strategic priorities were ahead or behind schedule, and queried how those which were behind could be resolved.

The Assistant Director of Economic Regeneration explained that, based on the data, from a Council perspective reducing the reliance on gas in buildings and changes to the fleet were moving slowly. She felt that this was where the biggest challenge lay currently but over the last year there had been a lot of engagement and good conversations with Procurement on these matters. The built environment was a huge area and energy costs had to be considered as well as de-carbonisation.

Councillor Trueman commented that low carbon was a large, important and difficult agenda and he did not think the car industry was helping with this as the costs of electric vehicles could be prohibitive. He also felt that there should be Government initiatives to force developers to build housing on brownfield sites. The Chair noted that the whole region would need to work together to achieve this aim.

Turning to the Risk and Assurance Map update, the Map and the Strategic and Corporate Risk Profiles had been agreed by the Committee in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk

Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies.

Risk scores marked as Red on the Map reflected a whole range of issues, many of which were out of the Council's control and the Assistant Director of Assurance and Property Services highlighted the Cumulative Assurance Position was the most important column as this gave a summary position; all of these were rated as Green or Amber which was positive. Within the first, second and third lines of assurance, a cross denoted where it was planned to get assurance from and these were currently all Green and Amber.

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

- The risk score in relation to R011 '*Unable to control variants of the Covid virus, which could increase the spread of the infection across Sunderland.*' had reduced from 16 (Red) to 12 (Red). This was because although the Covid rates continued to fluctuate the impact of hospitalisations was reducing.
- The risk description in relation to R013 had changed to '*Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment*'.
- It was proposed to close R016 as this risk was now covered in R018 and the development of the new Cultural Strategy.
- The risk score for R021 '*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.*' had increased from 8 (Amber) to 16 (Red).
- The risk description in relation to R022 had changed from '*Delivery of the City Plan is restricted by financial pressures.*' to '*Aspirations to develop the City Plan may be restricted by financial pressures*'. This was to reflect the fact the Council's budgeting process and development of the City Plan were aligned.

There had been one change to the Corporate Risk Profile since the last report with the risk score for R06 reducing from 12 (Red) to 8 (Amber) due to a new service planning process being introduced.

The audits to be carried out during this year and the detailed results of completed Internal Audit work were shown at Appendix 4 and the Committee were informed that there were eight significant risk recommendations made over three audits in the 2021/2022 Internal Audit Plan. These were summarised as: -

- Corporate Business Continuity Arrangements  
This audit focussed specifically on the ability of the Council's business critical services to function in the event of a failure in the ICT provision. Two significant risk recommendations were made to improve the business continuity planning process in relation to identifying actions that would be taken by business critical

services should ICT not be available for a significant length of time. Work with these services was already ongoing and should be complete by the agreed timescale. The overall risk rating for this audit was Amber.

- **Cyber Security – Vulnerability Management**  
Following an external review by the National Cyber Security Centre and Department of Levelling Up, Housing and Communities a report and cyber treatment plan were issued to and agreed by the Council in January 2022. The report and cyber treatment plan made a number of high priority recommendations and funding had been made available to implement the plan. The Internal Audit report made three significant risk recommendations in relation to implement the cyber treatment plan and the update of policies and procedures as a result of this. The overall assurance rating for this Audit was Amber.
- **IT Disaster Recovery**  
The cyber treatment plan mentioned in the point above also made recommendations with regard to IT Disaster Recovery. Internal Audit made three significant risk recommendations in relation to these issues which were agreed and were being progressed. The overall assurance rating for this audit was Red.

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

Mr Knowles commented that he felt it was correct that the risk in relation to Covid should still be Red as health services were still struggling due to staff absences. With regard to the significant risk recommendations by Internal Audit, he asked if there was an issue with resources or any particular theme.

The Executive Director of Corporate Services highlighted that the threat in relation to cyber issues continued to change and the resource related to that work had to change too. In relation to Covid risks, it took a while for different ways of working to come in and this had been taken into the context of the Medium Term Financial Plan.

Councillor Wood referred to the cost of living crisis and the extent to which inflation was having an impact.

The Executive Director of Corporate Services said that this was starting to have an effect and was reflected in the latest budget monitoring update to the Council. Utility costs were more than twice what they were a few years ago and the costs of materials had an impact on the Capital Programme and investment proposals. The situation was being managed as closely as possible, additional contingencies had been put in place and the Council was as well positioned as it could be in an increasingly challenging environment. He added that Government support for people and businesses often came through the Council and required a significant resource of staff time.

Councillor Stewart noted that the Strategic Risk Profile mentioned a cost of living task force and asked when that would report, and he highlighted that external assurance was Red in relation to service delivery arrangements.

The Executive Director of Corporate Services explained that the task force was a work in progress and being led by the Executive Director of Health, Housing and Communities. He would try to get an update on the development of the work.

The Assistant Director of Assurance and Property Services advised that the Red marker for service delivery was related to a previous Ofsted inspection and should now be Green.

2. RESOLVED that the report be noted.

### **Annual Report on the Work of the Committee**

The Executive Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2021/2022 and the outcome of the work. The report was designed to demonstrate how the Committee had fulfilled its role and would be presented to the Council once agreed by the Committee.

The report summarised the matters considered during the year including the Risk and Assurance Map, External Auditor reports, the Annual Governance Review, Treasury Management, the Statement of Accounts, the Council's status as a going concern and the Data Protection Annual Report.

The report showed that the work of the Committee was wide ranging with Members monitoring performance more closely in those areas where it was deemed appropriate, including the impact of the Covid pandemic.

Having noted the positive report, it was: -

3. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

### **Treasury Management Review of Performance 2021/2022**

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2021/2022 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 3 March 2021.

The Council's Treasury Management function continued to perform well with an average interest rate on borrowing at 2.55%, which compared favourably with other local authorities as did the 0.22% rate of return achieved on investments. The investment rate and rate of return had reduced from 2020/2021 which was reflective of the market in which the Council was operating.

Members were reminded of the basis for the agreed Borrowing Strategy for 2021/2022 and that it had been reviewed in July and October 2021 and February 2022 and was updated where necessary to reflect changing circumstances. The strategy for 2021/2022 had been 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 2.60% 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.

There had been high levels of volatility in financial markets during 2021/2022 and PWLB rates had started the year at 2.03%, dropping to 1.49% in August 2021 before reaching a peak of 2.17% in October 2021. From then rates gradually fell to a low of 1.25% during December 2021 before steadily rising to end the financial year at 2.39%. The Council took advantage of low borrowing rates to take out £100million of new borrowing during the financial year at a rate of 1.4%.

The Authorised Borrowing Limit for External Debt had been set at £911.927m for 2021/2022 and the Operational Boundary for External Debt was set at £886.927m and the authority was well within the tolerances for these.

The Investment Strategy for 2021/2022 was also approved by the Council on 3 March 2021 and had a general policy objective of the prudent investment of its treasury balances. The investment policy was regularly monitored and reviewed to ensure it had the flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The funds managed by the Council's in-house team amounted to £298.790 million and all investments complied with the Annual Investment Strategy.

Following consideration of the report, the Committee:-

4. RESOLVED that the positive Treasury Management performance for 2021/2022 be noted.

### **Treasury Management First Quarterly Review 2022/2023**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the first quarter of 2022/2023 and setting out the Lending List Criteria and Approved Lending List.

The Chief Accountant highlighted that since February 2022 there had been significant activity in the global economy, as a result of the impact of the pandemic and then the war in Ukraine. This had led to increases in food, utilities and fuel prices, as well as other supplies, which was driving increases in inflation. The Bank of England had increased the base rate of interest in an attempt to control the UK economy and it was within this context that Treasury Management was operating.

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 delays in capital programme expenditure and some temporary use of reserves to fund the Capital Programme no new borrowing had been required to date during 2022/2023 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 1.02% compared with a benchmark of 0.89%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

It was currently forecast that the Bank of England Base Rate would peak at 2.75% in March 2023 and then gradually fall back. It was expected that there would be an increase in PWLB rates with a peak at 3.5% later in the year. The Chief Accountant directed the Committee to paragraph 3.2, Appendix A which showed the investment position at the end of June and he advised that a rate of 2.4% had been secured from Standard Chartered during the previous week.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Mr Knowles commented that international and domestic situation was giving a cause for concern and noted that tax cuts may lead to increased interest rates. The Chief Accountant agreed that it was a fluid situation and that the team continued to work closely with Treasury Management advisors on this and also actively monitored and tried to secure funds at an opportune time.

Councillor Stewart asked if there had been any modelling done about the impact on mortgages and householders. The Chief Accountant advised that the Monetary Policy Committee would be mindful of this but he was not aware of any specific modelling being carried out.

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

5. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 1 of 2022/2023 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **The Council's Going Concern Status Report**

The Executive Director of Corporate Services submitted a report inviting the Committee to consider the Council's status as a going concern.

Local Authorities were created and abolished only by statutory changes and as such there was an underlying assumption in the 2021/2022 CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting Code) that their accounts would be prepared on a going concern basis.

Authorities were required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector meant that the Chief Finance Officer (section 151 officer) may need to consider whether action was required under section 114 of the 1988 Act, where the section 151 officer must report, following consultation with the council's monitoring officer, to all authority's Councillors if they believed expenditure was likely to exceed incoming resources in the current or in any future year.

The report outlined the assessment of the Council's status as a going concern in line with best practice and in doing so, detailed the 2021/2022 year end position which showed a small underspend of £0.037m. The Executive Director of Corporate Services highlighted that the Capital Programme had continued to be delivered with some re-profiling during the course of the year which was normal.

The General Fund Balance was unchanged at £12.000m and usable revenue reserves had increased to £144.200m. Overall Net Assets had also increased from £191m to £319m and underlying reserves were good.

The budget for 2022/2023 had been set with an increase in council tax of 2.99% and councillors and officers continue to work together to monitor and manage budgets throughout the year.

The Council's Executive Director of Corporate Services' (Section 151 officer) view was that the Council was aware of the challenges it faced and was prepared to deliver its services in the future taking account of the known risks. Any transition required to deliver savings could be supported by transitional reserves, therefore the Council was a going concern and the Statement of Accounts would be prepared on that basis.

Accordingly the Committee: -

6. RESOLVED that the Council was considered to be a going concern based on the assessment in the report and that the accounts should be prepared and approved on that basis.

## **Data Protection Annual Report**

The Data Protection Officer submitted a report presenting information about the work and findings of the Council's Data Protection Office during the past year.

The Committee was asked to consider: -

- the Data Protection arrangements outlined in the report; and
- performance against Data Protection standards in the 2021/2022 year.



The Council had designated a Data Protection Officer (DPO) as required by Data Protection law, to advise on its data protection compliance responsibilities and act as its point of contact with the Information Commissioner's Office (ICO). The Council had historically received support with Data Protection compliance from the Council's Data Protection Office, a Strategic Information Governance Group made up of senior officers and chaired by the Executive Director for Corporate Services in the role of Senior Information Risk Officer (SIRO). The Data Protection Office also provided a DPO service under service level agreements to connected organisations, including the Council's wholly owned companies, NECA and those schools and academies which subscribed to the service.

Following the appointment of a new DPO in March 2021, a revised Information Management Policy and Strategy (IMPS) was approved by Chief Officer Group in October 2021. The IMPS was designed to reflect changes to working arrangements and priorities imposed by the Council's response to Covid, the migration to the Office 365 Microsoft Teams environment and the move to City Hall.

During 2021/22, the DPO team had been part of the Corporate Support Review, which has led to the development of comprehensive new Information, Advice and Guidance materials and training packages to support Information Asset Owners (IAOs) and staff, allowing them to 'self-serve' in line with the Thinking Operating Model.

The attention of the Committee was drawn to the General Data Protection Regulation which was underpinned by the two key principles of transparency and accountability. The Council took a 'Data Protection by Design' approach to the planning, implementation and management of business systems and operational arrangements. It was now mandatory to carry out a Data Protection Impact Assessment (DPIA) for high risk initiatives and to seek advice from the Data Protection Office with regard to their completion. During the year, the Data Protection Office had supported the Council and companies to develop 18 DPIAs for a range of projects, initiatives, and business process reviews.

Turning to subject access requests, 163 cases were closed in-year of which 94 were responded to within the statutory timescale of one calendar month and 69 cases exceeded the timescale. This compared to 61 being in-time and 79 exceeding timescales in 2020/21. The upturn could be substantially attributed to the changes to working practices, especially the adoption of new digital processes and the reversion to regular physical access to records held in the City Hall which had been previously unavailable due to lockdown.

Subject access requests could be challenging work with a large volume of records to be reviewed and delays could incur when Health and other professionals were asked to give their view before the release of records originating from their area of work.

The attention of the Committee was drawn to Appendix A of the report which detailed the numbers and gradings of data breaches reported for the period from 1 April 2021 to 31 March 2022 and Appendix B which provided information about the types and distribution of breach reports across the Council's Directorates and companies.

There had been fewer data breaches in 2021/2022 with 96 being reported against 136 in 2020/2021, however four breaches had been reported to the Information Commissioner's Office in the course of the year. The Council reported three breaches directly to the ICO; two were around children's safeguarding and one a case of missing paper records highlighted during the bulk migration of paper records to a new provider.

There had been no formal enforcement action taken in relation to the breaches or with the Council's, and its connected organisations', general compliance with their data protection responsibilities. Where the ICO made recommendations, these had been accepted and implemented within the service areas.

Throughout 2021/2022, the Data Protection Office had supported the Council and its partners in the roll-out of the suite of products under Windows 10 and Office 365 and had supported the developing proposals for the design and occupation of City Hall, the agile working arrangements and the closure of the Civic Centre, particularly the migration, archiving and secure disposal of paper and electronic records.

The Data Protection Office has developed a revised Service Plan for 2022/22. The plan built on the Information Management Policy and Strategy and Corporate Support Review to implement a suite of Data Protection Protocols and to update the Performance and Reporting Framework.

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

7. RESOLVED that the Data Protection Annual Report 2021/2022 be noted

### **External Auditor's Progress Report**

Diane advised that there was not a written report for the Committee on this occasion but she reported that Mazars had received the Statement of Accounts from the Council and had started their audit work.

8. RESOLVED that the update be noted.

### **Jon Ritchie, Executive Director of Corporate Services**

The Chair paid tribute to Jon Ritchie on his last meeting of the Committee before leaving Sunderland City Council for a new role in another local authority. He expressed thanks on behalf of Members for all the support and assistance Jon had provided to the Committee during his time as Executive Director.

(Signed) G N COOK  
Chair