Sunderland City Council

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 7 February 2020 at 1.30pm

For further information and assistance, please contact:

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ELAINE WAUGH
Assistant Director of Law and Governance

Civic Centre
Sunderland

30 January 2020

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 September 2019

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), Tracy Davis (Senior Manager Assurance), James Magog (Chief Accountant), 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 Refresh 2019/2020' as a Director of Sunderland Care and Support Limited.

Apologies for Absence

Apologies for absence were received from Councillor Scullion.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 26 July 2019 be confirmed as a correct record subject to the following amendments: -

   (i) Councillor Wood's apologies to be recorded;

   (ii) the fifth paragraph on page 5 be amended to show that Councillor Crosby asked the question regarding the shares in the Airport and Siglion; and

   (iii) the third paragraph on page 9 be amended to show that Councillor Crosby asked the question about the new Office 365 system.

Councillor Wood asked when the Annual Report on the Work of the Committee would be presented to the Council and was advised that this would be on the agenda for the 20 November meeting.

Risk and Assurance Map Refresh 2019/2020

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

- the refreshed Risk and Assurance Map based on the priority areas within the Council's new City Plan;
- the refreshed Strategic Risk Profile updated on the new priorities within the City Plan;
- the refreshed Corporate Risk Profile which had been updated based on the operational risks facing the Council currently;
- work undertaken by the audit, risk and assurance service during the year; and
- the performance of Internal Audit.

Members were advised that the Strategic Risk Profile considered the risks to the achievement of the Council's priorities and therefore needed to reflect the current position and new priorities for the City. The Corporate Risk Profile represented the risks which the organisation faced during its operational activity to deliver priorities and it was also appropriate to review this in the light of the Council's current priorities.

The Committee was directed to the Risk and Assurance Map which had been updated to reflect the new strategic risk areas and updated corporate risk areas. The strategic risk areas had been expanded and reflected the three themes of the City Plan; Dynamic City; Healthy City; and Vibrant City. There were a number of crosses in the Risk and Assurance column to show planned work as the new strategic risk areas would begin to be completed from the next quarter. There were still Red ratings in relation to Children's Safeguarding and Direct Payments which had been fully set out to the Committee at previous meetings.

The Senior Manager, Assurance highlighted that the risk criteria were shown at Appendix 6 to the report and set out the risk scoring matrix. The corporate risk areas were very much as they were previously, however some risks had been amalgamated. It was highlighted that the risk score for Relationship and Contract Management and Health and Safety had changed from Red to Amber; however, Programme and Project Management had changed from Amber to Red which reflected that although project management arrangements within the Council were appropriate there was more work to be done in relation to documenting the achievement of benefits from projects.

Siglion had been added to the Council owned companies and work was planned for the year ahead. The results of completed Internal Audit work was shown at Appendix 4 and there were a number of current audits ongoing in relation to Environmental Services, Treasury Management, Council Tax Setting and Liability, ICT Asset Management, Capital Procurement and Liquid Logic – Adults.

Performance in relation to Internal Audit was on target except for the percentage of significant risk actions implemented which stood at 95% against a target of 100%. This 5% related to the audit of Adults Social Care Personal Budgets; significant progress had been made with the implementation of the actions with a small number remaining outstanding. The percentage of medium risk actions implemented was 100% for Council services and 87% for schools against a target of 90%.

Councillor Crosby queried if Sunderland Care and Support would be revisited now that the Community Support Service had been rated as 'requires improvement'. The Senior Manager, Assurance advised that this inspection outcome would be factored into the annual audit of the company.

Mr Knowles asked if there were any updates in relation to Together for Children and the Senior Manager, Assurance commented that there had been good outcomes from audits which had been recently undertaken with the company. The Executive Director of Corporate Services advised that there was better financial control within the company and he was assured that the continued issues were due to demand rather than a lack of internal control.

10. RESOLVED that the report be noted.

Treasury Management – Second Quarterly Review 2019/2020

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

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 it had been a volatile quarter and PWLB rates had bottomed out, therefore the Council had taken the opportunity to take out £50m of new borrowing in two tranches. The low rates of borrowing would benefit the revenue budget over the longer term.

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 1.02% 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. Appendix A provided further insight around the borrowing and investment strategy and the current economic climate. There remained a caveat on all economic data in respect of the final outcome of Brexit discussions.

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 since the first quarter. There had been no changes to the Lending List Criteria which were set out at Appendix B.

The Risk Management Review of Treasury Management was attached as Appendix D to the report and set out the risks that the Council faced as a result of carrying out Treasury Management functions and the controls which were in place to mitigate these risks.

Councillor Stewart referred to the Council being able to access PWLB loans at a discount of 0.20% and noted that this facility was coming to an end. The Chief Accountant advised that a submission had been made to have this extended and the discount was likely to continue.

11. RESOLVED that: -

(i) the Treasury Management performance for the second quarter of 2019/2020 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.

Annual Audit Letter 2018/2019

The Executive Director of Corporate Services submitted a report detailing the external auditor's Annual Audit Letter covering the year 2018/2019. The Annual Audit Letter would be referred to the Council in November for information.

The Annual Audit Letter summarised the findings of the 2018/2019 audit and was positive overall, highlighting the following key findings from the work: -

- the financial statements give a true and fair view of the Council and the Group's financial position as at 31 March 2019;
- the financial statements had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/2019;
- all other information in the Statement of Accounts is consistent with the audited financial statements;
- that the Council's Whole of Government Accounts Assurance Statement was completed by 13 September 2019 in line with requirements; and
- that the auditors did not use powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

The Letter also highlighted the unqualified opinion which had been given on the Financial Statements and the reasons for the 'except for' qualification in relation to the Value for Money Conclusion.

The Executive Director highlighted that a number of local authorities had missed the accounting deadline and over 40% of audits had been late. He conveyed his appreciation for the hard work of the team and Mazars which had enabled

Sunderland City Council to meet all of the deadlines. The Chair echoed this comment and congratulated the officers and external auditors on their efforts.

12. RESOLVED that the contents of the Annual Audit Letter be noted.

External Auditor Progress Report

Mazars, the Council's external auditors, had submitted their regular Audit Progress Report covering the period up to November 2019.

Diane Harold advised that it was a relatively quiet time of year, however work in the next quarter would include assurance work in respect of the 2018/2019 Housing Benefits Subsidy Return. Mazars also anticipated that they would be carrying out work in respect of the 2018/2019 Teachers' Pensions return.

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

- Whole of Government Accounts 2017/2018, NAO
- Consultation – new Code of Audit Practice from 2020, NAO
- Local audit quality forum, PSAA Ltd
- A practical guide for Local Authorities on Income Generation (2019 edition), PSAA Ltd
- Rethinking Social Value: Unlocking Resources to Improve Lives, Mazars
- Spending Round 2019: on the day briefing, LGA

Diane made reference to the Whole of Government Accounts and these had been qualified again. She also highlighted that some useful slides had been made available from the local audit quality forum which had taken place in June.

Accordingly, the Committee: -

13. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair

Sunderland City Council

Item No. 4

AUDIT AND GOVERNANCE COMMITTEE **7 February 2020**

RISK AND ASSURANCE MAP UPDATE – 2019/2020

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; 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 September 2019 the Committee agreed the refreshed Risk and Assurance Map and Strategic and Corporate Risk Profiles for 2019/20 which had been updated in line with the Council's newly developed City Plan. The Strategic Risk Areas included on the Risk and Assurance Map had changed considerably from the previous version therefore very little assurance was able to be provided in relation to delivering the mitigating actions at that time. A full review of the Strategic Risk Profile has since been undertaken and the resultant assurance levels have been included within the Risk and Assurance Map. 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 As mentioned above, the Risk and Assurance Map has been updated following a full review of the Strategic Risk Profile in consultation with Chief and other key officers and is attached at Appendix 1. In relation to the Strategic Risk areas all of the new assurance levels are either Green or Amber, with the exception of the 'Red' overall assurance rating in relation to '*Access to the same opportunities and life chances'* resulting from the

OFSTED Inspection of Children's Safeguarding which has been discussed at length previously by the Committee. It is however acknowledged that in relation to Together for Children Ltd. overall the results of recent audit work have been positive and the financial management arrangements are improved. The Company is engaging in a programme of activity aimed at reducing costs and improving outcomes for Children. The assurance from the Business Continuity Officer for TFC has also moved from Amber to Green.

4.2 There has been no change to the Risk and Assurance Map in relation to the Corporate Risk Areas.

Strategic Risk Areas

4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile, attached at Appendix 2. There have been no changes to the risk scores in the Strategic Risk Profile, however the current controls and mitigating actions have been updated where delivery plans are being developed and progressed.

Corporate Risk Areas

4.4 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 risk scores or assurance levels.

Council Owned Companies

4.5 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.

4.6 As the Council is developing arrangements for a new internal housing service the audit work which would have been undertaken under Sunderland Homes Ltd will move into the Council's audit plan. The Risk and Assurance team are involved in the development of those arrangements.

4.7 Audit work in relation to the governance arrangements for Siglion LLP is currently ongoing.

Assurance from Internal Audit

4.8 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.

4.9 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the new Strategic and Corporate Risk Areas and Council Owned

Companies. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time.

Assurance from Risk and Assurance Team

4.10 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:

- 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 and the move to Cloud technology, SAP self-service arrangements for HR and procurement.
- Move to the new City Hall, including construction and new ways of working.
- Development of the new Housing Service.
- Risks in relation to information governance and security.
- National Fraud Initiative data matching exercise.
- Arrangements in relation to anti-money laundering.
- Risk management arrangements in relation to the North East Combined Authority and the North East Joint Transport Committee.

Assurance from others within the Council

4.11 Assurance provided from others within the Council is shown in the Risk and Assurance Map. The only change is in relation to Assurance from the Business Continuity Officer in relation to Together for Children Ltd which has moved from Amber to Green.

Assurance from Management

4.12 Arrangements are in place to obtain assurance from senior managers for all service areas within the Council through an annual governance questionnaire which is currently being undertaken.

Assurance from External Sources

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

Overall

4.14 The overall assurance levels are either green or amber, with the exception of the Red ratings relating to Children’s Safeguarding. Whilst improvements are being made the overall rating from Ofsted remains at ‘inadequate’.

4.15 The Risk and Assurance Map, Strategic and Corporate Risk Profiles were recently considered by the Chief Officer Group and the issues raised above highlighted.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5.

5.2 Performance is on target for all KPI's with the implementation rate for medium risk agreed actions as follows:

Area	Target	Implementation Rate
Council services	90%	100%
Schools	90%	90%

6. Conclusion

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

7. Recommendation

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

Appendix 1

Risk and Assurance Map January 2020

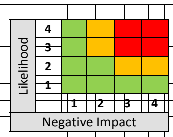
Strategic and Corporate Risk Areas	Current Risk Score	Cumulative Assurance Position	1st Line Management Assurance	2nd Line Other Internal Assurance Activity: Law & Governance / DPO	Financial Resources	Programmes & Projects	Performance	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance	3rd Line: Internal Audit	External Assurance
Strategic Risk Areas														
Dynamic City														
More and better jobs												X		
More and better housing												X		
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 the same opportunities and life chances												X		X
More people living healthier longer lives												X		
More people living independently												X	X	
Cleaner and more attractive City and neighbourhoods												X	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												X		
More people feel safe in their neighbourhoods and homes												X		
More resilient people												X		
Enabling														
Finance												X		X
Partnership Working												X	X	
Corporate Risk Areas														
Strategic Planning			X				X						X	
Commissioning			X											
Service Delivery Arrangements			X									X	X	
Partnership/Integrated Working			X											
Procurement												X	X	
Relationship/Contract Management			X										X	
Legality			X	X								X	X	
Risk Management			X									X	X	
Corporate Performance Management			X				X						X	
Financial Management			X		X								X	X
Income Collection					X								X	X
Capital Programme Management					X							X	X	
Human Resources			X						X	X			X	
Health and Safety			X							X			X	
ICT Infrastructure								X				X	X	
Cyber Security								X				X	X	
Information Governance/Security			X	X								X	X	
Business Continuity Management			X								X			
Programme and Project Management			X			X						X	X	
Asset Management			X							X		X		
Anti-Fraud and Corruption			X										X	
Council Owned Companies														
Sunderland Care and Support Ltd.			X		X								X	
Together for Children Sunderland Ltd.			X		X						X		X	X
Sunderland Homes Ltd.			X		X								X	
Siglion LLP			X		X								X	

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

STRATEGIC RISK PROFILE 2019-20

Appendix 2

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



							Current Score (Jan 2020)						Forecast Score				1st Line	2nd Line								3rd Line	
City Plan Theme	**Corporate Plan Priority actions**	**ID**	**Strategic Risk Description**	**Cause**	**Impact**	**Current Controls**	**Impact**	**Likelihood**	**Rating**	**Mitigating Actions**	**COG Lead**	**Timescale**	**Impact**	**Likelihood**		**Overall Assurance**	**Management Assurance**	**Law and Governance**	**Financial Resources**	**Programmes and Projects**	**Performance**	**ICT**	**HR and OD**	**Business Continuity**	**Risk and Assurance**	**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 following BREXIT leading to greater caution by Investors.	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	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the City to achieve targets and outcomes.	Executive Director of City Development	Review Sept 2020	4	1	4												
		R02	Sunderland is very good at attracting inward investment but is less successful at growing Sunderland businesses and local start ups.	Lack of appropriate skills in the City. Lack of aspiration of local residents.	Delay in regenerating the City and delivering the City Plan. Business start-ups continue to be low. Outward migration continues.	City Plan. City Board. University Enterprise Zone.	3	3	9	Encourage entrepreneurship utilising the business incubators to support business establishment, growth and job creation.	Executive Director of City Development	Review Sept 2020	3	2	6												
	More and better housing.	**R03**	Unable to develop the housing market to generate a variety of property types and tenures that meet the needs and aspirations of current and prospective residents.	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	Incentivise the market to progress key housing sites. Promote improved and better quality housing offer in the privately rented sector. Use enforcement powers to increase the number of empty homes brought back into use. Support the delivery of more affordable housing across the City. Progress work with Gentoo and Thirteen group to reduce empty homes. Housing Strategy to be considered by Cabinet in February 2020.	Executive Director of City Development / Executive Director of Neighbourhoods	Review Sept 2020	4	1	4												
	More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy.	**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 tables 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	Facilitate collaborative working between employers, education/skills providers and students. Skills Strategy to form part of the Local Industrial Strategy with a heavy digital bias. Under new Partnership arrangements, the former Education Partnership will be included within the City Board. Consider options to work with partners to improve secondary level attainment and achievement.	Strategic Director People, Communications and Partnerships	Review Sept 2020	4	2	8												
	A stronger City Centre with more businesses, housing and cultural opportunities.	**R05**	Sunderland City Centre is not functioning as an economic motor.	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	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.	Executive Director of City Development	Review Sept 2020	4	2	8												
	A lower carbon City with greater digital connectivity for all .	**R06**	Unable to maximise the opportunities to advance wired and wireless connectivity.	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.	3	3	9	Business Case developed and taken to Cabinet in December 2019, giving approval to start procurement process. Funding for 2019/20 activity secured and capital investment requirements to be included into Cabinet's proposals (February 2020 Cabinet) and to Council in March for consideration. City Board presentation in December confirmed key partner support for the proposals. Continue to seek funding to maximise opportunities to enable Sunderland to develop a digital infrastructure.	Executive Director of Corporate Services	Review Sept 2020	3	2	6												
		R07	Resources and critical infrastructure are not in place to enable the Council to become carbon neutral.	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.	3	3	9	Establish the ambition of the Council and City to become Carbon Neutral and refresh the Carbon Management Plan accordingly. Key steps towards our ambitions will be set out in the Low Carbon Strategy – expected to be completed by March 2020.	Executive Director of City Development	Review Sept 2020	3	2	6												
	Access to the same opportunities and life chances.	**R08**	The Council is not able to fulfil its statutory responsibility for Children and Young People and enable them to achieve their desired outcomes.	Children and young people are at risk and harm or exploitation by others.	The level of vulnerable children at risk of abuse or other types of exploitation may not reduce. Individuals may not maintain control over their lives or make informed choices without coercion.	TfC contract monitoring arrangements. City Plan.	4	2	8	Monitor commissioning arrangements and outcomes, including the priority areas of Safeguarding and the development of life skills, which enhance access to the same opportunities and life chances. Council (by the Chief Exec) represented at the new Performance Improvement Board which will monitor progress against the Ofsted improvement plan and quality measures.	Executive Director of Corporate Services / Director of Children Services	Review Sept 2020	4	1	4												
	More people living healthier longer lives.	**R09**	Health outcomes in Sunderland are still poor and health behaviours haven't yet changed sufficiently.	The Sunderland Joint Strategic Needs Assessment identified high level health challenges for Sunderland including: Long term health problems-excessive alcohol, smoking, poor diet and low levels of physical activity. Poor mental health and wellbeing. Increased health risks of people with a physical or learning disability.	Life expectancy and healthy life expectancy are below the national average. Ill health continues to present an unsustainable burden on the health and care system and wider City economy.	Joint Strategic Needs Assessment. Health & Wellbeing Board. H&WB Priority Working Groups City Plan. Altogether Better Alliance	4	4	16	Health & Wellbeing Board to promote partnership working and develop a Joint Health & Wellbeing Strategy with an action plan to address the major issues identified in the Joint Strategic Needs Assessment.	Executive Director Public Health and Joint Commissioning	Review Sept 2020	4	2	8												

City Plan Theme	Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Mitigating Actions	COG Lead	Timescale	Impact	Likelihood		Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
HEALTHY	More people living independently.	**R10**	Current model of social care cannot be sustained in the future, due to a growing population of older people and fewer younger working age adults.	Increase in the level of long term conditions, including increasing proportions of people with multiple long term conditions. Potential market failure in the supply chain.	Care options for adults do not meet the needs of individuals or result in increased costs to the Council.	Health & Wellbeing Board. City Plan.	4	2	8		Further integration of Health & Social Care in Sunderland. Deliver better integrated care through promotion and support for self-care. Continue to investigate the use of technology to support the independence of older people. Continue to work with the Association of Directors of Adult Socail Services on market sustainability for social care.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4												
	Cleaner and more attractive City and neighbourhoods.	**R11**	Council resources and the input of residents are not fully optimised to tackle environmental issues in neighbourhoods.	The level of services delivered by the council does not always meet customer expectations. Recycling bins are often contaminated. Increased fly tipping.	Fail to achieve cleaner and greener streets across the City. Recycling rates are not increased.	City Plan.	4	2	8		Lets Talk Sunderland has been launched, to obtain a better understanding from residents on how to deliver services. Views will inform the development of Neighbourhood Investment Plans for 2020. The plans will be tracked and regular progress and updates will be shared. 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.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4												
	A City with great transport and travel links.	**R12**	Unable to develop and maintain a sustainable / integrated transport infrastructure across the City.	High cost of maintaining existing infrastructure. Limited pedestrian and cycling routes.	Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6		Implement developments through the Transport Movement Plan for Sunderland for the period 2019-2030.	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3												
VIBRANT	More creative and cultural businesses.	**R13**	The approach to developing creative and cultural businesses is not integrated.	Partners have varied roles and engage at different levels with the diverse range of individuals / businesses.	Fail to enhance the reputation, attractiveness, vibrancy and economic development of the City.	Creative Industries Action. Plan. City Plan. Vibrancy Board.	3	2	6		Vibrancy Board to be set up. (April 2020) Board to develop a 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.	Executive Director of Neighbourhoods	Review Sept 2020	2	2	4												
	More residents participating in their communities.	**R14**	Pathways are not in place to encourage / support more residents to participate in making their neighbourhoods more desirable.	Residents are not fully aware of opportunities to participate in their neighbourhoods.	Neighbourhoods become less attractive. Outward migration continues.	City Plan. Vibrancy Board. Volunteers Strategy complete and Volunteer Sunderland website launched.	3	2	6		Implement Neighbourhood Plans. Launch and promote Spacehive (a funding platform to support local projects)	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3												
	More visitors visiting Sunderland and More residents participating in cultural events.	**R15**	Sunderland may not be recognised as a cultural destination of choice.	The developing cultural offer is not fully understood. Limited number of City centre hotels.	City's cultural offer does not contribute fully to the City being an attractive and vibrant place to invest, work, learn, live and visit.	City Plan. Vibrancy Board.	3	2	6		Develop a wider Vibrancy Partnership to promote new events and increase cultural activity. Vibrancy Board to be set up. (April 2020) Board to develop a Delivery Plan to promote Sunderland as a cultural destination of choice.	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3												
	More people feel safe in their neighbourhoods and homes.	**R16**	Reduced trust in public protection.	Significant local crime events. Vulnerable residents are exploited by organised crime syndicates.	Localised community tensions. Vulnerable individuals have their lives controlled by criminal organisations.	Safer Sunderland Partnership. City Plan.	4	2	8		Support Partners to improve community safety and maintain high levels of feelings of safety for all. Criminal activity to be disrupted through increased Policing and other Agency intervention and enforcement activity. Promote Sunderland more positively as a City that welcomes all, with neighbourhoods that are attractive, safe, inclusive and cohesive. Targeted engagement to be undertaken with communities to establish the cause of concerns and actions that can be taken to reduce the level of concern.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4												
	More resilient people.	**R17**	Opportunities are not taken to enable individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity.	Increased child poverty, indebtedness and a rise in the 'working poor'. These impacts are worse in deprived areas due to underlying problems (for example poor health and lower wage levels).	Sunderland Foodbank. City Plan.	4	2	8		Poverty Strategy and Delivery Plan to be developed Support is ongoing from the Welfare Reform priority response areas of: Digital Inclusion (DI), Crisis Support (CS), Information, Advice & Guidance (IAG). Council to support Sunderland Foodbank to maintain stocks as demand increases.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4												
ENABLING	Finance.	**R18**	Delivery of the City Plan is restricted by financial pressures.	Uncertainty as to the level of Revenue Support Grant (4 year agreement ended). Progressive reduction in Government funding (change in Prime Minister and Cabinet Ministers). Brexit. Cessation of European Funding. Changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	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	2	8		Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position. The City Plan delivery actions to be refreshed / updated in line with financial resources. External funding opportunities are maximised.	Executive Director of Corporate Services	Review Sept 2020	4	1	4												
	Partnership Working.	**R19**	Objectives and priorities of Council and other Partner(s) may conflict or are not aligned to deliver the priorities in the City Plan.	Reducing resources may lead to partners concentrating on their own priorities at the expense of City priorities. Lack of understanding by each partner as to the contribution they can play to the delivery of the City Plan. Lack of partnership performance monitoring.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8		Partners to be represented on the City Board to support delivery of the City Plan.	Strategic Director People, Communications and Partnerships	Review Sept 2020	4	1	4												

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 (Jan 2020) Impact	Current Score (Jan 2020) Likelihood	Current Score (Jan 2020) Rating	Mitigating Actions	Owner	Source of Assurance	Forecast Score Impact	Forecast Score Likelihood	Forecast Score 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.	Fail to contribute to the welfare and future prosperity of our communities.	COG. JLT. City Plan.	4	1	4	City Plan driven by required outcomes and commissioning activity. Refresh of the JSNA	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
R02		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners reponsible for delivering plans.	Lack of timetable re corporate / service planning Lack of communication of plans	Lack of delivery of plans by those partners/servcies responsible	COG. JLT. City Plan.	4	2	8	Communication of the City Plan continues across the Council and Partners. Service planning process to ensure that service plans reflect delivery of the City Plan.	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
R03	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	JSNA. Community engagement arrangements. Intelligence Service. Performance Management Framework.	4	2	8	Identify intelligence required and potential sources to inform decisions. Develop engagement plans to gather the required information. Analyse the information and use the results to inform the commissioning decisions, 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 eg 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	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	City Plan. Service Plans.	4	2	8	Options appriaisal undertaken on service design following assessment of customer needs. Appropriate procedure followed to commission the preferred option, eg, procurment, 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. Inappropraite use of limited resources. Community's real needs are not met. Existing arrangements/contracts extended where it 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 Strategic Director People, Communications and Partnerships	Internal Audit Corporate Performance Management	3	2	6
R07		The level of services delivered by the council does not meet customer needs and/or expectations.	Lack of understanding of the priorities Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues	Required outcomes for customers not achieved. Reputational damage. Wasted resources.	Service Planning Process. Performance management arrangements. Transformation Programme.	4	2	8	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 arrangments 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.	Potnetial 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 serice planning process and consider appropriate mitigating actions.	All Assistant Directors	Risk and Assurance Internal Audit	3	1	3

ID	Overall Assurance	1st Line: Management Assurance	2nd Line: Law and Governance	2nd Line: Financial Resources	2nd Line: Programmes and Projects	2nd Line: Performance	2nd Line: ICT	2nd Line: HR and OD	2nd Line: Health and Safety	2nd Line: Business Continuity	2nd Line: Risk and Assurance	3rd Line: Internal audit	3rd Line: 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													

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	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
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.	Unable to achieve City priorities and support communities.	City Plan. Partnership Boards. Partnership Framework.	4	2	8	Performance management arrangements include a review of the achievement of outcomes where partners have some responsibility for delivery. Corporate Partnership arrangements should be reviewed in light of the new City Plan.	All Assistant Directors Strategic Director People, Communications and Partnerships	Corporate Performance management Internal Audit	4	1	4	Partnership / Integrated Working										X	X	X
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 requirments of the parternship Code of Practice. Partnership agreement in place with each partner setting out the expectations of each party and the required reporting arrangements.	Strategic Director People, Communications and Partnerships All Assistant Directors	Corporate Performance Management Governance questionnaire Internal Audit	4	1	4		X										X	
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. 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	Procurement										X	X	
R15		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training. Lack of knowledge of legal/Council requirements. Failure to adhere to requirements (deliberate, e.g. corruption or accidental).	Legal/financial penalties. Challenge, delays in award of contracts. Loss of reputation.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	2	1	2	Communication with COG / Assistant Directors regarding failure to comply with Procurement Procedure Rules. Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	Assistant Director of Business and property Services All Assistant Directors	Internal Audit	2	1	2											X	X	
R16		Value for money not obtained.	Lack of competition. 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												X	
R17	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes.	Lack of clear contract/specification provisions in place to allow effective management of the contract. Lack of appreciation of importance of contract management during the procurement process. Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award. Lack of contract management activity forllowing 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 ne in place for all key contracts entered into by the Council.	All Assistant Directors	Governance questionnaire Internal Audit	4	1	4	Relationship / Contract Management	X				X					X	X	
R18	Legality	Council fails to act within its statutory powers.	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers. Decision makers have lack of access to legal expertise. Lack of awareness of officers as to their legal responsibilities. Changes in law are not recognised 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	Legality	X	X								X	X	
R19	Risk Management	Failure to identify and manage the major risks and opportunities to delivering priorities and plans.	Risk Management process is not aligned with delivering priorities. Senior Management/Members do not monitior 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.	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	Risk Management	X									X	X	
R20	Corporate Performance Management	Performance reporting fails to give a full and accurate picture of the progress in achieving strategic priorities and outcomes.	Performance reporting does not address all priority issues. Performance indicators are inappropriate. Performance targets not set to aid evaluation of performance. Performance data reported is inaccurate, out of date, difficult to understand or incomplete. Performance reporting not timely.	Reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Performance Management Framework.	3	1	3	Development of the performance management process in relation to delivering the priotities in the City Plan.	Assistant Director of Digital and Customer Service	Corporate performance management Internal Audit	3	1	3	Performance Reporting					X						X	
R21	Financial Management	Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced Falure 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	Financial Management			X	X								
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. change in prime minister and Cabinet ministers, impacts of a no-deal BREXIT, changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Poor intelligence gathering or horizon scanning. Lack of resources. Lack of consultation/communication with senior officers.	Decisions made with inaccurate information. Plans made which are not adequately resourced. Falure to achieve plans and outcomes for community. Council financial resources overstretched.	Strategic financial planning process.	3	2	6	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position.	Executive Director of Corporate Services	Financial Resources External Audit	3	1	3				X									X
R23		Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council.	Financial savings in one area may have a more than proportionate increase in other service areas	Savings plans are not achieved in practice.	Financial Reporting Procedures.	3	1	3	The Coucnil's financial position is regularly reported to COG and Members.	Executive Director of Corporate Services	Financial Resources	3	1	3				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	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
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 exetrnal 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 monitores 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 financil 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				X		X						X	
R27		The Council fails to pay its employees (and those of other clients) accurately and on time.	Lack of resources to process the changes to the payroll Lack of a clear timetable for the submission of information Lack or payroll staff wth 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 Digital and Customer Service	Internal Audit	4	1	4												X	X
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to it.	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.	Financial loss. Negative impact on cashflow. Inability to achieve financial targets.	City Plan. Strategic financial planning.	3	3	9	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 monitroing 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	Human Resources	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 resourcess to maintain effective HR management resource and arrangements. Insufficient training and development.	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 it is effectlvely 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.	High absence/sickness rates. Stress related absence. Lower standards of service delivery. Increased costs.	Corporate Performance management. Performance Clinics.	4	3	12	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	Counicl officers do not fully understand H&S roles and responsibilities.	Roles and responsibilities not clearly documented and/or comunicated 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.	Lack of ownership and accountability for H&S. Inconsistant 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 occuring. 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	

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	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
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 reelevant 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. Inconsistant 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.	4	2	8	Continue to oversee the management of Health and Safety risks through the Executive Group and annual reporting to COG.	Assistant Director of People Management	People Management Internal Audit	4	1	4												X	
R39		Strategic approach to incident management does not adequately inform decision making.	Lack of understanding of responsibilites and accountability for incident response. Non-compliance with incident reporting arrangements. imited trend analysis and learning lessons from incidents. Avaialbility 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.	3	2	6	Continue to monitor compliance with incident reporting arrangements and address any areas for development.	Assistant Director of People Management	People Management Internal Audit	3	1	3												X	
R40	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive).	Reducing resources impacts upon the ability to maintain a stable infrastructure. Lack of funds to manintain/upgrade infrastructure. Lack of understanding of importance of role of ICT in delivering more efficient and effective services. Lack of understanding of extent of reliance on ICT.	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.	4	2	8	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	1	4	ICT Infrastructure	X					X			X	X	X	
R41		ICT infrastructure is not resilient to 'disasters'.	Lack of planning for disasters (prevent or respond to). No adequate business continuity/disaster recovery ICT infrastructure in place. Lack of business continuity/disaster recovery plan which hss 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 of Digital and Customer Service All Assistant Directors	ICT Internal Audit Business continuity officer	4	1	4		X					X			X	X	X	
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.	Loss of public trust, customer confidence, finance and reputational damage. Fines / compensation. Loss of systems or data loss. Major business disruption.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	2	8	Cyber Security						X				X	X	
R43	Information Governance / Security	Council's data is not accurately protected.	Lack of awareness of the importance of protecting the Council's data. Lack of compliance with data security arrangements. The Council is not aware of the data it holds or ensures that it is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data.	Loss of public trust and reputational damage. Fines / compensation. Claims from those who have been adversly effected.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	3	2	6	Council has appropriate information governance and security arrangmenets in place which are complied with throughout the organisation.	Strategic Director People, Communications and Partnerships All Assistant Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	1	Information Governance / Security	X	X								X	X	
R44	Business Continuity Management	The Council's business critical services cannot function in the event of an incident.	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes. Business continuity plans are not tested appropriately.	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans.	4	2	8	Business continuity plans are reviewed and tested on a regular basis.	Business Continuity Officer All Assistant Directors	Business Continuity Officer Internal Audit	4	1	4	Business Continuity Management	X								X	X	X	
R45		Lack of awareness of content of business continuity plans.	Lack of effective communicatoin 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.	4	2	8	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them.	All Assistant Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4		X								X		X	
R46	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes.	Lack of agreed Project Management Standards. Lack of Project Plans and Governance. Lack of monitoring of achievement.	Fail to obtain value for money. Programme and Project objectives are not achieved.	Corporate Project /Programme management arrangements.	3	3	9	The expected benefits of programmes and projects are clearly set out at the start and their achievment monitored throughout.	All Project Sponsors	Project Office Risk and Assurance Internal Audit	3	1	3	Programme / Project Management	X			X						X	X	X

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating
R47	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised.	Council does not "sweat" its assets to obtain the maximum returns. Fail to maintain property. Changes in size and direction of Council and services it provides. Lack of asset management planning. Changes in how services delivered. Changes in technology. Assets become uneconomic to run. Lack of investment in asset management planning. Council unaware of assets it 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 chanigng 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 it statutory duties in relation to its property portfolio.	Lack of clarity as to the 'Corporate Landlord' role and responsibilities. Lack of resources. Lack of planning. Lack of monitoring or conditions of assets. Lack of knowlesge 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 Managemeent Plan is updated maintained accurately on an ongoing basis. Condition of assets are monitored on an appropriate basis and maintenance scheduled as required.	Assistant Director of Business and Property Services	Health and Safety Internal Audit	4	1	4
R49	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption.	Relaxation of controls due to a reduction of resources. Lack of anti fraud culture. Lack of anti fraud and corruption procedures embedded into processes.	Financial loss.	Anti fraud and corruption policy and procedures.	2	2	4	Managers are aware of the fraud risks within their area and maintaine appropriate controls bearing in mnd 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	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R47	Asset Management										X	X	
R48													
R49	Anti Fraud and Corruption	X										X	

Appendix 4

Internal Audit coverage

Strategic Risk Profile

Key Risk Area	2016/17 Audits / Opinions		2017/18 Audits / Opinons		2018/19 Audits / Opinions		2019/20 Audits / Opinions		Overall Opinion
Cleaner and more attractive City and neighbourhoods							Environmental Services	M	
More People Living Independently			Assessment and Management of Personal Budgets	M					
Finance			Provision for significant financial liabilities	S					
Partnership Working	Partnerships	S					Partership Arrangements		

Corporate Risk Profile

Key Risk Area	2016/17 Audits / Opinions		2017/18 Audits / Opinons		2018/19 Audits / Opinions		2019/20 Audits / Opinions		Overall Opinion
Strategic Planning	Corporate Service Planning Arrangements	S	Service/Business Planning						
	Transformational Change Programme	M	Service/Business Planning		Service/Business Planning	M			
	Corporate Service Planning Arrangements	S			Derwent Hill	S			
	Ethos								
Commissioning			Commissioning	M					
Service Delivery Arrangements	Better Care Fund	M	Corporate Performance Management	S	Liquid Logic including business processes		Licencing		
	Transformational Change Programme	M			Derwent Hill	S	Development Control		
	Leaving Care Grants	L					Environmental Services	M	
	Ethos						Delivery of Council Restructure		
	Business Continuity Planning						Liquid Logic - Adults	S	
	Bereavement Services	S							
	Adult Services Performance Management								
Partnership /Integrated Working	Partnerships	S	Corporate Partnership Arrangements				Partnership Arrangements		
	North East Local Enterprise Payment of Loans and Grants (including repayment of loans)	S							
Procurement	Agency Workers - Off contract spend	L	Commissioning	M	Revenue Procurement	S	Revenue Procurement		
			Revenue Procurement	M	Use of agency contract	M	Capital Procurement	M	
			Homecare Payments	L	Catering consortium	L			
Relationsip/Contract Monitoring	Leisure Services Management	S	Contract Management - Public Health School Nursing Service	S	Contract Management Arrangements for key contracts	S	Contract Monitoring SCAS	M	
	LABV Client Arrangements	M	Commissioning	M	Contract Management - IAMP consultants	M	Contract Monitoring - Siglion		
	Highways Contract Monitoring	M	Together for Children Contract Monitoring	S			Contract Monitoring - Sunderland Homes		
Legality	Employment Clearances	S			Delegated Decision Making	M			
					Emergency Planning and Response	S			

Risk Management					Derwent Hill	S			
Corporate Performance Management	Corporate Performance Management Arrangements	S	Corporate Performance Management	S	Performance Reporting - Data Quality	S	Performance Monitoring - City plan		
							Delivery of PEER Review Action Plan		
Financial Management			Provision for significant financial liabilities	S					
	Better Care Fund	M	Budget Setting and Management		Financial Reporting Arrangements				
	Transformational Change Programme	M							
	Leaving Care Grants	L	Budget Setting and Management		EFA Funding	S	Main Accounting	S	
	Bereavement Services	M	Payroll compliance testing	S	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management	S	
	North East Local Enterprise Partnership Payment of Loans amd Grants (including repayment of loans)	S	BACS Compliance testing	S	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	
	Agency Workers - Off contract spend	L	Housing Benefit Assessment	S	Nexus (Combined Authority)	S	Payroll		
	EFA/SFA Funding	S	Sport for Life Grant	S	Pothole Action Fund	S	Accounts Payable	M	
	Local Transport Capital and Integrated Transport Grants	S	EFA Funding	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding	S	
	Troubled Families Performance Reward Funding	S	Local Transport Capital Settlement	S	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S	
	City Deal (which replaces Big Coastal Communities Grant for which there is no audit requirement)	S	Local Transport Integrated Transport	S	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S	
	Disabled Facilities and Social Care Capital Grants (replaces Sunderland a City by the Sea grants for which there is no audit requirement)	S	Nexus (Combined Authority)	S	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S	
	Sport for Life Grant		Pothole Action Fund	S	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S	
	SSTC2	S	City Centre Cycle Permeability Scheme	S	A19 Ultra Low Carbon Enterprise Zone	S	Local TransportCapital Settlement - Incentive Element	S	
	Adult Social Care Contributions		Disabled Facilities Grant	S	External Funding	S	Better Care Fund - DFG	S	
	Port Fuel System	L			Building Maintence Financial Management	L	Vaux Phase 1		
	Payroll	S			Payroll	S	Northern Gateway	S	
	Asset Register/Capital Accounting	S			BACS	S	Local Transport Capital - Highway Maintenance	S	
	Accounts Payable	M			Accounts Payable	S	Liquid Logic including business processes	S	
	Pension Arrangements	S			Liquid Logic including business processes		Pothole Action Fund - Additional Monies	S	
					Derwent Hill	S			
Income Collection (including CR/NNDR)	Income	S	Cash Receipting, collection of Council Tax, NNDR, AR and PI	S	Cash Receipting	S	Cash Receipting, compliance	S	

			Business Rate Recovery	S	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing	S
			Council Tax Recovery	S	Derwent Hill	S	Accounts Receivable - Recovery	S
			AR Recovery	S			Council Tax Liability	S
							Business Rates setting and billing	S
							Business Rates Liability	S
Capital Programme Management					Benefits Realisation		Project Management Benefits Realisation, including capital funding	
HR Management	Employment Clearances	S	Workforce Planning and Apprenticeship Scheme		Human Resource Management - updated SAP procedures		HR - SAP Optimisation	
	Ethos				Apprenticeships	S	Port - Effectiveness of Restructure	
	Agency Workers - Off Contract	L					Communications re organisational change	
	Payroll	S						
	SAP Organisation Structures	S						
	Personnel Administration Arrangements	M						
	Pension Arrangements	S						
Health and Safety			Corporate Health and Safety Arrangements		Corporate Health and Safety Arrangements	M		
ICT Infrastructure	ICT Technology Allocation Process	M	ICT Strategy and Infrastructure		Externally hosted systems	M		
			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	
							Mobile Device Management	
Information Governance/Security	Corporate Information Governance Arrangements	M	Building Access Security Sites - Remote Sites	M	General Data Protection Regulation - Compliance	M	GDPR	
	Use of Email	M	General Data Protection Regulations	M	Derwent Hill	S		
Business Continuity Management	Business Continuity Planning		Corporate Business Continuity Arrangements	S			Update of Directorate plans re new structures	
Programme/Project Management	Transformational Change Programme	S	SAP Procedure Update		Benefits Realisation		Project Management Benefits Realisation, including capital funding	
Asset Management	LABV Client Arrangements	M	Corporate Asset Management	L				
	Asset Register/Capital Accounting	S						
	ICT Technology Allocation Process	M						
Anti Fraud and Corruption	Port Fuel System	L	Revenue Procurement	M	Building Maintenance Financial Management	L	Payroll compliance Testing	
			Homecare Payments	L	Revenue Procurement	S	BACS compliance testing	S
			Payroll compliance Testing	S	Use of Agency Contract	M	Cash Receipting	S
			BACS compliance testing	S	Payroll compliance testing	S	AR Recovery	S

			Cash Receipting	S	BACS	S	ICT Asset Management	M	
			Business Rate Recovery	S	Accounts Payable	S	Council Tax Setting and Billing	S	
			Council Tax Recovery	S	Cash Receipting	S	Council Tax Liability	S	
			AR Recovery	S	Accounts Receivable/Periodic Income	S	Accounts Payable	M	
					Derwent Hill	S			
					Refuse Collection	S			
Schools	31 schools in the plan, 30 completed to date. 25 Substantial, 5 Moderate	S	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. 20 complete to date. 17 Substantial, 3 Moderate	S	
Sunderland Care and Support	Establishment Visits/Supported Living	M	Establishment Visits/Supported Living	M	Unit Costing		Risk and Assurance Framework		
			Unit Costing		Risk and Assurance Framework		DPO Checks		
			Procurement/Transaction Testing		Information Governance/GDPR	M	Unit Costing		
			Governance/Audit Committee		Compliance with Financial Procedures in Establishments	M	Compliance with financial prcedures in establishments		
							Business Continuity (Telecare)	L	
							Recruitment and DBS Checks		
Together for Children			Governance Arrangements	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim		
			Effectiveness of SLA Relationships	S	Budget Monitoring	M	Schools Financial Support Service	S	
			Financial Procedures - bank account/income	M	HR management / recruitment / agency workers / performance	M	Performance Management - Data Quality	S	
			Information Governance/GDPR	L	Information Governance/GDPR	L	Purchase cards		
					Next Steps	S	Achievement of cost savings		
					Financial procedures in establishments	M	Legal services		
					Liquid logic		Liquid logic	L	
Siglion LLP							Governance Arrangements		
Sunderland Homes							Procurment and Contract Management		

Appendix 5

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20

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 – 91% 3) Ahead of target – 100%

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 98% (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 – 1.1 to date 2) On target – Positive results received from TFC management survey 2 compliments 0 complaints

Sunderland City Council

Item No. 5

AUDIT AND GOVERNANCE COMMITTEE **7 February 2020**

RISK AND ASSURANCE MAP - CONSULTATION FOR 2020/21

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 given the level of changes that are occurring across the Council. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2020/21. These are as follows:

- On-going 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 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 the City Hall.
- National Fraud Initiative and counter fraud work.
- Key corporate functions/systems, particularly where significant changes / budget reductions are planned or have occurred.

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 2020/21.

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 **7 FEBRUARY 2020**

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2019/2020

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 2019/2020.

2. Description of Decision (Recommendations)

2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 3 of 2019/2020.
- 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 2019/2020, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2019/2020 – Quarter 3

4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget, whilst maintaining a balanced risk position. The position with regard borrowing and investments is summarised below, with more detailed Treasury Management information included in Appendix A for Members' information.

Borrowing

4.2 On 9th October 2019 the government took the decision to increase the interest rate for the Public Works Loan Board (PWLB) by 1%, meaning the rate for a 50-year maturity loan increased with immediate effect from 1.80% to 2.80%. No notice was provided, nor any specific reason for the increase given, but it is thought to have taken place because of high levels of borrowing by local authorities in the preceding months and to discourage local authorities from borrowing to fund commercial investments. Whilst there has been significant frustration within Local Government as a result of this increase, there are no signs that the Government will reverse this increase in the near term.

4.3 Consideration will be given to various funding options depending on prevailing interest rates, including utilising investment balances to fund the Council's borrowing requirement and use of other financial institutions to provide borrowing facilities. The degree to which alternative options are more cost effective than PWLB rates is still evolving and all options available to support the Councils capital programme will be assessed in conjunction with our treasury advisors. No additional borrowing has been taken out in the third quarter.

4.4 One option to make savings is through debt rescheduling; however, no rescheduling has been possible in 2019/2020 as rates have not been considered sufficiently favourable. The Council's interest rate on borrowing is very low, currently 2.89%, 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.

4.5 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 £673.627m for 2019/2020. The Council's maximum external debt during the financial year to 31st December 2019 was £498.341m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in section A2 of Appendix A for information.

Investments

4.6 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.

4.7 As at 31st December, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.01% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.57%. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a challenging market.

4.8 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 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 2019/2020.

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 2019/2020

1 Borrowing Strategy and Performance – 2019/2020

1.1 The Borrowing Strategy for 2019/2020 was reported to Cabinet on 13th February 2019 and approved by full Council on 6th March 2019.

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 there would be further increases to the current 0.75% Bank of England (BoE) Base Rate of 0.25% by June 2019, early/late 2020 and further increases to 2.00% by March 2022. PWLB borrowing rates were expected to rise, albeit gently, during 2019/2020 across all periods but could be subject to exceptional levels of volatility due to continued uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.

1.3 At its meeting on 19th December 2019, the BoE Monetary Policy Committee (MPC) voted by a margin of 7-2 to maintain Bank Rate at 0.75%. The two dissenting committee members voted for a reduction in rates to 0.5%, having concerns over global growth. If economic growth were to weaken considerably, with bank rates at the low level of 0.75%, the MPC has relatively little room to make a big impact, although recent comments by BoE governor Mark Carney, and by other members of the MPC suggest that if economic growth does not improve the MPC will cut the Bank Rate. An alternative would be for the Chancellor to provide help to support growth by way of a fiscal boost using measures such as tax cuts, increases to government department budgets and expenditure on infrastructure projects. The Government has already made moves in this direction and made significant promises in its election manifesto to increase government spending by up to £20bn per annum by investing primarily in infrastructure. This is likely to be announced in the next Budget, which will take place on 11th March 2020. The Chancellor also amended the fiscal rules in November to allow for an increase in government expenditure.

1.4 In its November quarterly inflation report the MPC revised its inflation forecasts down to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021. Inflation reduced from 1.5% to 1.3% in December and at these low levels the potential to reduce the Bank Rate has increased. The MPC may wait until after the March budget before cutting rates as any fiscal relaxation may generate inflationary pressures on the economy.

1.5 Link Asset Services, the Council's treasury advisors, think the next increase of 0.25% in Bank Rate will be in March 2021, followed by a further increase of 0.25% in June 2022. This forecast assumes that there is agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has provided political certainty but there are still concerns around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged. Until that major uncertainty is removed, or the period for agreeing a deal is extended, they feel that it is unlikely that the MPC would raise the Bank Rate.

1.6 The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. High levels of volatility in PWLB rates and bond yields are expected to continue during 2020.

1.7 The government introduced a 0.20% discount on PWLB loans under the prudential borrowing regime in March 2012 for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans'. The Council applied to access PWLB loans at a discount of 0.20% and has been successful in extending its access to the PWLB certainty rate until 31st October 2020.

1.8 The following table shows the average PWLB rates for Quarters 1, 2 and 3.

2019/2020	**Qtr 1* (Apr - June) %**	**Qtr 2* (Jul – Sept) %**	**Qtr 3* (Oct – Dec) %**
7 days' notice	0.57	0.56	0.57
1 year	1.48*	1.32*	2.30*
5 years	1.54*	1.21*	2.18*
10 years	1.85*	1.42*	2.38*
25 years	2.41*	2.02*	2.95*
50 years	2.26*	1.89*	2.79*

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

1.9 High levels of volatility in the financial markets continued during 2019/2020. Uncertainty surrounding world economic growth and the outcome of Brexit negotiations led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds. During the first 10 months of 2019 there was a sharp fall in longer term PWLB rates to unprecedented historic low levels. However, the increase in the PWLB interest rates announced by the Government in October, reversed these falls.

1.10 Since then, fears of a slowdown in world economic growth partially subsided and gilt yields and PWLB rates began to rise further until renewed geo-political concerns arose between the United States and Iran in January 2020. Link Asset Services predict a gradual rise in PWLB rates reaching 2.40%, 2.70%, 3.30% and 3.20% for 5, 10, 25 and 50-year durations respectively by 31st March 2020 with further increases of 0.20% to 0.30% each year for the following three years. With so many external influences weighing on the UK economic, interest rate forecasting remains difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period. In addition, PWLB rates are subject to ad hoc decisions by the UK Government to change the margin over gilt yields charged in PWLB rates. Such changes could be up or down and it is not clear that if gilt yields were to rise back up again by over 1% within the next year or so, whether the Government would remove the extra 1% margin implemented in October.

1.11 The strategy for 2019/2020 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 3.50% for long-term borrowing was set for 2019/2020 in light of the views prevalent at the time the Treasury Management policy was set in March 2019.

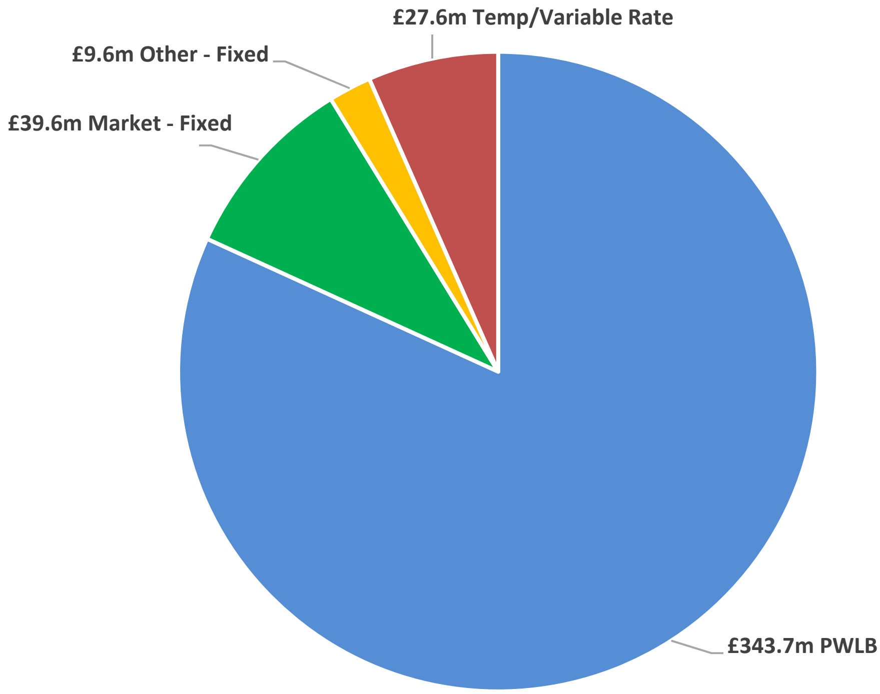
1.12 There have been high levels of volatility in the financial markets during 2019/2020. 50-year PWLB interest rates started the financial year in April 2019 at 2.44%, rising to 2.61% in May and peaked at 3.25% gross on 31st December 2019 although this is attributable to the 1% increase applied by the government on 9th October 2019. 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 £50 million of new borrowing during the financial year. These rates were considered opportune and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future capital programme requirements. The new borrowing is summarised in the following table.

Duration	**Date of the transaction**	**Start**	**Matures**	**Rate %**	**Loan Amount £m**
50 years	13/08/2019	15/08/2019	15/08/2069	1.89	20.0
50 years	06/09/2019	10/09/2019	10/09/2069	1.82	30.0

1.13 The Borrowing Strategy for 2019/2020 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

1.14 The Council's treasury portfolio position at 31st December 2019 is set out below:

Borrowing Summary at:	**31 December 2019**		
	Principal	**Interest**	**Ave rate**
Fixed			**%**
PWLB	343,683,333	10,223,954	2.97
Market - Fixed	39,576,231	1,743,917	4.41
Other - Fixed	9,555,025	1,521	0.02
	392,814,589	11,969,392	3.05
Variable			
Temporary/Other - Variable	27,639,512	179,553	0.65
	27,639,512	179,553	0.65
TOTAL:	**420,454,101**	**12,148,945**	**2.89**



2. Treasury Management Prudential Indicators – 2019/2020

2.1 All external borrowing and investments undertaken in 2019/2020 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.

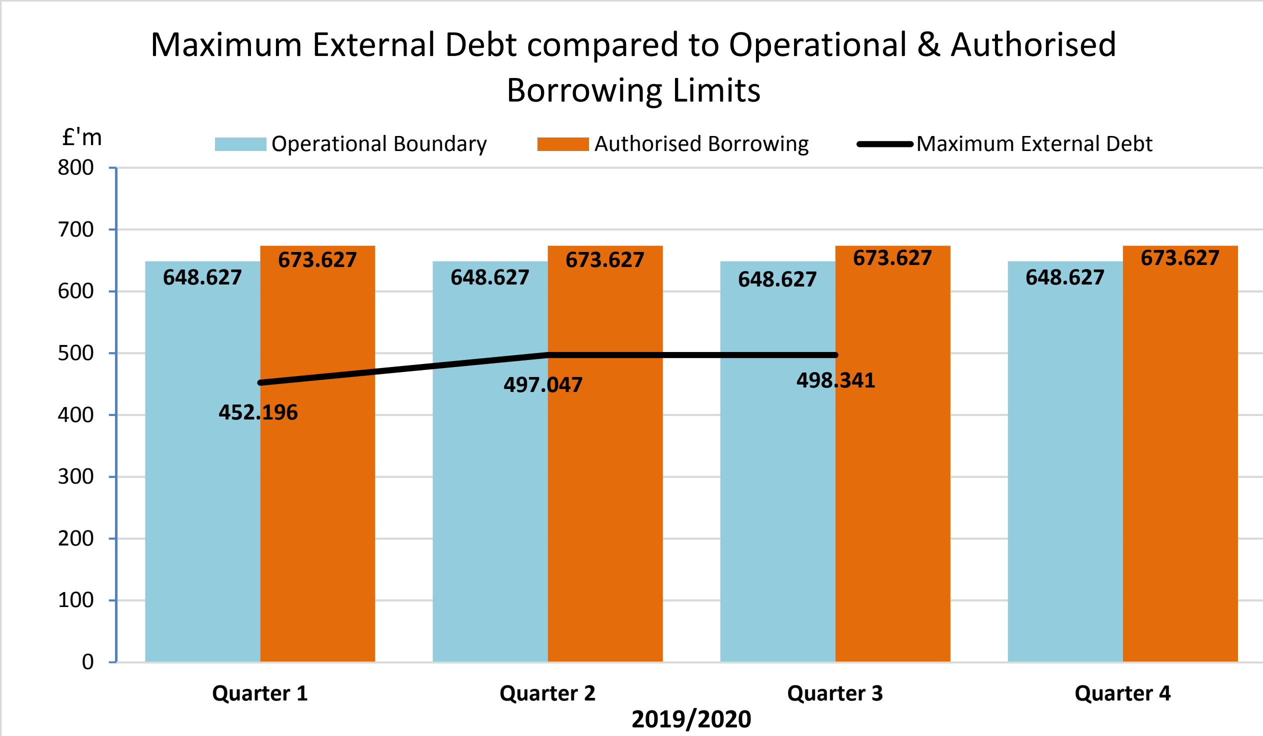
2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2019/2020 as follows:

	£m
Borrowing	598.239
Other Long-Term Liabilities	75.388
Total	**673.627**

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

	£m
Borrowing	573.239
Other Long-Term Liabilities	75.388
Total	**648.627**

The Council's maximum external debt in respect of 2019/2020 (to 31st December 2019) was £498.341m 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		**2019/2020 (to 31/12/19)**	
		Limit £'000	**Actual £'000**
P9	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	485,000	268,041
P10	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	48,000	10,439
P11	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	9.18%
	12 months and within 24 months	60%	1.67%
	24 months and within 5 years	80%	4.19%
	5 years plus	100%	87.87%
	A lower limit of 0% for all periods		
P12	**Upper limit for total principal sums invested for over 365 days**	75,000	0

3. Investment Strategy – 2019/2020

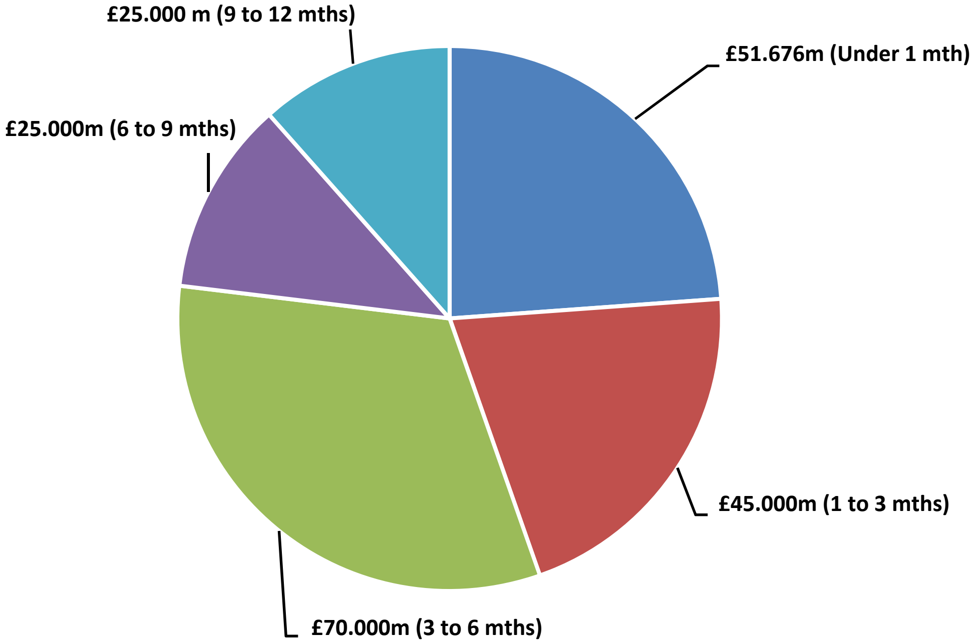
3.1 The Investment Strategy for 2019/2020 was approved by Council on 6th March 2019. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

(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 2019, the funds managed by the Council's in-house team amounted to £216.676 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations.

Investment Summary at	31 December 2019				
Borrower	**Duration**	**Amount of Loan**	**Rate (%)**	**Start Date**	**Maturity Date**
Call Accounts:					
Natwest SIBA	Overnight	1,475,000	0.30		Call
Prime MMF	Overnight	14,516,000	0.73		
Aberdeen Liquidity Fund	Overnight	35,685,000	0.74		
Sub-total:		**51,676,000**			
Fixed Term Deposits:					
Lloyds Banking Group Ltd	184 days	30,000,000	1.00	31-Jul-19	31-Jan-20
Goldman Sachs Int Bank	183 days	15,000,000	0.91	29-Aug-19	28-Feb-20
Lloyds Banking Group Ltd	353 days	20,000,000	1.25	15-Apr-19	02-Apr-20
Goldman Sachs Int Bank	183 days	25,000,000	1.01	15-Oct-19	15-Apr-20
Yorkshire Building Society	182 days	25,000,000	0.93	08-Nov-19	08-May-20
Santander UK Plc	364 days	25,000,000	1.25	29-Aug-19	27-Aug-20
Santander UK Plc	364 days	25,000,000	1.10	08-Nov-19	06-Nov-20
Sub-total:		**165,000,000**			
TOTAL:		**216,676,000**			

Investment Liquidity:



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

	2019/2020 Actual to 31/12/19 %	**2019/2020 Benchmark to 3/12/19 %**
Return on investments	1.01	0.57

3.4 Investments placed in 2019/2020 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 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments to shorter term periods.

3.6 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.

3.7 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. Any changes are reflected on the Approved Lending List shown in Appendix C.

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.

1.2 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 / 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+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	365 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					250	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

1.3 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.

1.4 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 new 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 of £250m 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	250
Non-UK	50

3 Sector Limit

3.1 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	250
Local Government	250
UK Banks	250
Money Market Funds	120
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 and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

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

4.2 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	-	Aa2	-	AA	-	350	2 years
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	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	Aa3	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
NatWest Markets plc (NRFB)	A	F1	Baa2	P-2	A-	A-2	80	2 years
Santander UK plc	A+	F1	Aa3	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A2	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank *	A-	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	B3	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	365 days
HSBC Bank plc (NRFB)	A+	F1+	Aa3	P-1	AA-	A-1+	70	365 days
HSBC UK Bank plc (RFB)	A+	F1+	-	-	AA-	A-1+	70	365 days
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	365 days
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	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Canada	AAA		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+	Aa1	P-1	AA-	A-1+	50	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Centrale Raiffeisen	AA-	F1+	Aa3	P-1	A+	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Boerenleenbank BA (Rabobank Nederland)								
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	50	2 years
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

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 £80m.
*	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. 7

AUDIT AND GOVERNANCE COMMITTEE **7 FEBRUARY 2020**

TREASURY MANAGEMENT POLICY AND STRATEGY 2020/2021, INCLUDING PRUDENTIAL INDICATORS FOR 2020/2021 TO 2023/2024

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 2020/2021 and 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.

2 Treasury Management

2.1 Treasury Management is defined as "the management of the local authority's borrowing, investments and cash flows, 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) 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice in December 2017. The Council is statutorily required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy. 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.

2.2.3 Should the Council borrow to fund any non-treasury investment, there will be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

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 2020/2021**

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 2020/2021.

2.4.2 There are no major changes proposed to the overall Treasury Management Strategy in 2020/2021, 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 2020/2021 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 2020/2021 (including specifically the Annual Borrowing and Investment Strategies) and;
- Prudential 'Treasury Management' indicators 2020/2021 to 2023/2024.

3.1.2 Provide and appropriate comments to Council on the proposals.

Appendix 1

Prudential and Treasury Indicators 2020/2021 to 2023/2024

The indicators below relate to Treasury Management (all indicators relating to capital financing can be found in the Capital Programme 2020/2021 and Treasury Management Policy and Strategy 2020/2021, including Prudential Indicators for 2020/2021 to 2022/2023 report to Cabinet – 11th February 2020).

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 finance 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

	2019/2020	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	598.239	767,185	787,608	802,633	817,906
Other long-term liabilities	75.388	75,058	125,341	120,002	114,479
Total	**673,627**	**842,243**	**912,949**	**922,635**	**932,385**

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, commercial investments/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 2020/2021, the Council is asked to note that the authorised limit determined for 2020/2021 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 Councils 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

	2019/2020 £'000	**2020/2021 £'000**	**2021/2022 £'000**	**2022/2023 £'000**	**2023/2024 £'000**
Borrowing	573,239	742,185	762,608	777,633	792,906
Other long-term liabilities	75,388	75,058	125,341	120,002	114,479
Total	**648,627**	**817,243**	**887,949**	**897,635**	**907,385**

P7 The Council's actual external debt at 31st March 2019 was £456.877 million and was made up of borrowing of £378.535 million and other long-term liabilities of £78.342 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 on 3rd March 2010 by full Council and is re-affirmed annually.

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;
(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 2020/2021 to 2023/2024

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 (2020/2021, 2021/2022, 2022/2023 and 2023/2024) 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 3).

At present the Council has £29.571m of long-term investments. This is £16.553m for the value of share capital held in NIAL Holdings PLC (a 9.62% 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 £0.168m in shares and unit trusts.

Appendix 2

Treasury Management Policy Statement

1.1 In line with CIPFA recommendations, on the 3rd March 2010 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 investments and cash flows, 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.

1.2 The Council has an agreed Borrowing and Investment Strategy, the high-level policies of which are as follows:

1.2.1 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;
- use a benchmark financing rate of 4.25% for long term borrowing (i.e. all borrowing for a period of one year or more); and
- take advantage of debt rescheduling opportunities, as appropriate.

1.2.2 The general policy objective for the Council in considering potential investments is the prudent investment of its treasury balances.

- the Council’s investment priorities in order of importance are:
  1) The security of its capital
  2) The liquidity of its investments and then
  3) The Council aims to achieve the optimum yield on its investments, but this is commensurate with the proper levels of security and liquidity

- the Council has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert treasury management advice, view of money market conditions and using detailed rating agency information as well as using our own market intelligence.

- Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which is regularly reviewed.

1.3 The Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2020/2021 as it does every year.

Appendix 3

Treasury Management Strategy Statement for 2020/2021

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.

1.2 The suggested strategy for 2020/2021 is set out below and is based upon the Treasury Management team's view 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.

1.3 In December 2017 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 MHCLG 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 not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a higher level than can be attained by treasury investments. This report deals solely with financial investments managed by the Council's Treasury Management function. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy which was approved by Council in November 2019. 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.

1.4 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;
- policy on debt rescheduling;
- investment policy and strategy;
- creditworthiness policy; and
- policy on use of external service providers.

2. Treasury Management Strategy

Borrowing

2.1 Current Treasury Management Position

The Council's treasury portfolio position at 31st December 2019 comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	343.7		
	Market	39.6		
	Other	9.5	392.8	3.05
Variable Rate Funding	Temporary / Other		27.6	0.65
Total external borrowing			**420.4**	**2.89**
Total treasury investments				
	In house – short term		**216.7**	**1.01**
Net treasury borrowing			**203.7**	

The Council currently has a net deficit of £203.7m which represents the difference between gross debt and total investments and is significantly lower that the Council's capital financing requirement (capital borrowing need).

2.2 Treasury Indicators and Limits

2.2.1 Prudential and Treasury Indicators (as set out in Appendix 1) 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.

2.2.2 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 (and Council rent levels where relevant) is 'acceptable'.

2.2.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate 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 1 (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.

2.2.4 Also, the Council is requested to approve the Operational Boundary Limit (P6) which is included in the Prudential Indicators set out in Appendix 1. 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.

2.2.5 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 and the revised Code in 2011 was adopted by the full Council on 3rd March 2012. The Council re-affirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 2).

2.3 Prospects for Interest Rates

2.3.1 At its meeting on 19th December 2019, the BoE Monetary Policy Committee (MPC) voted by a margin of 7-2 to maintain Bank Rate at 0.75%. The two dissenting committee members voted for a reduction in rates to 0.5%, having concerns over global growth. If economic growth were to weaken considerably, with bank rates at the low level of 0.75%, the MPC has relatively little room to make a big impact, although recent comments by BoE governor Mark Carney, and by other members of the MPC suggest that if economic growth does not improve the MPC will cut the Bank Rate. An alternative would be for the Chancellor to provide help to support growth by way of a fiscal boost using measures such as tax cuts, increases to government department budgets and expenditure on infrastructure projects. The Government has already made moves in this direction and made significant promises in its election manifesto to increase government spending by up to £20bn pa by investing primarily in infrastructure. This is likely to be announced in the next Budget which will take place on 11th March 2020. The Chancellor also amended the fiscal rules in November to allow for an increase in government expenditure.

2.3.2 In its November quarterly inflation report the MPC revised its inflation forecasts down to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021. Inflation reduced from 1.5% to 1.3% in December and at these low levels the potential to reduce the Bank Rate has increased. The MPC may wait until after the March budget before cutting rates as any fiscal relaxation may generate inflationary pressures on the economy.

2.3.3 With regard to the labour market**,** growth in numbers employed has been stable through 2019. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October and wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October. This means that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing, although this may change depending on how negotiations with the EU progress.

2.3.4 Link Asset Services, the Authority's treasury advisors, think the next increase of 0.25% in Bank Rate will be in March 2021, followed by a further increase of 0.25% in June 2022. This forecast assumes that there is agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has provided political certainty but there are still concerns around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged. Until that major uncertainty is removed, or the period for agreeing a deal is extended, they feel that it is unlikely that the MPC would raise Bank Rate.

2.3.5 There have again been high levels of volatility in the financial markets during 2019/2020. Uncertainty surrounding world economic growth and also over the outcome of Brexit negotiations led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds. During the first 10 months of 2019 there was a sharp fall in longer term PWLB rates to completely unprecedented historic low levels.

2.3.6 However, on 9th October 2019 the government took the decision to increase the interest rate for the Public Works Loan Board (PWLB) by 1%, meaning the rate for a 50-year maturity loan increased with immediate effect from 1.80% to 2.80%. No notice was provided, nor any specific reason for the increase given, but it is thought to have taken place because of high levels of borrowing by local authorities in the preceding months and to discourage local authorities from borrowing to fund commercial investments.

2.3.7 Since then, fears of a slowdown in world economic growth partially subsided and gilt yields and PWLB rates began to rise further until renewed geo-political concerns arose between the United States and Iran in January 2020. Link Asset Services predict a gradual rise in PWLB rates reaching 2.40%, 2.70%, 3.30% and 3.20% for 5, 10, 25 and 50-year durations respectively by 31st March 2020 with further increases of 0.20% to 0.30% each year for the following three years. With so many external influences weighing on the UK economic, interest rate forecasting remains difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period. In addition, PWLB rates are subject to ad hoc decisions by the UK Government to change the margin over gilt yields charged in PWLB rates. Such changes could be up or down and it is not clear that if gilt yields were to rise back up again by over 1% within the next year or so, whether the Government would remove the extra 1% margin implemented in October.

2.3.8 The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. High levels of volatility in PWLB rates and bond yields are expected to continue during 2020.

2.3.9 The government introduced a 0.20% discount on PWLB loans under the prudential borrowing regime in March 2012 for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans'. The Council applied to access PWLB loans at a discount of 0.20% and has been successful in extending its access to the PWLB certainty rate until 31st October 2020.

2.3.10 The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 8th January 2020.

2019/2020	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Sep) %**	**Qtr 3* (Oct – Dec) %**	**Qtr 4* (rates to 8th Jan 2020) %**
7 days notice	0.57	0.56	0.57	0.57
1 year	1.48*	1.32*	2.30*	2.41*
5 year	1.54*	1.21*	2.18*	2.38*
10 year	1.85*	1.42*	2.38*	2.58*
25 year	2.41*	2.02*	2.95*	3.09*
50 year	2.26*	1.89*	2.79*	2.92*

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

2.3.11 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 2020	0.75	2.40	3.30	3.20
June 2020	0.75	2.40	3.40	3.30
Sept 2020	0.75	2.50	3.40	3.30
Dec 2020	0.75	2.50	3.50	3.40
March 2021	1.00	2.60	3.60	3.50
June 2021	1.00	2.70	3.70	3.60
Sept 2021	1.00	2.80	3.70	3.60
Dec 2021	1.00	2.90	3.80	3.70
March 2022	1.00	2.90	3.90	3.80
June 2022	1.25	3.00	4.00	3.90
Sept 2022	1.25	3.10	4.00	3.90
Dec 2022	1.25	3.20	4.10	4.00
March 2023	1.25	3.20	4.10	4.00

2.3.12 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, an increase in world economic activity or a sudden increase in inflation risks, 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

- if it were felt that there was a significant risk of a sharp fall in long and short-term rates, e.g. due to a marked increase of risks around a relapse into recession, or a risk of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

2.4 Borrowing Strategy

2.4.1 The Council’s strategy for 2019/2020 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 3.50% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March 2019.

2.4.2 There have been high levels of volatility in the financial markets during 2019/2020 with PWLB borrowing rates reducing to historic low levels. In line with discussions with the Council’s economic advisors, the Council took advantage of low borrowing rate troughs that occurred and undertook £50 million of new borrowing during August and September, which will benefit the revenue budget over the longer term. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	13/08/2019	15/08/2019	15/08/2069	1.89	20.0
50 years	06/09/2019	10/09/2019	10/09/2069	1.82	30.0

2.4.3 The government have said that they will monitor the impact of their change to PWLB borrowing rates made in October 2019 and will keep its rates policy under review, although the Government see the PWLB rates as being favourable and a further policy change is not anticipated in the short-term. The impact of this change will have the effect of increasing revenue costs by over £2 million pa over the medium term, based on the current Capital Programme and local authority bodies are lobbying for the decision to be reversed.

2.4.4 PWLB rates continue to be volatile, with the overall longer-term expectation being for gilt yields and PWLB rates to rise. The Treasury Management team continues to closely monitor rates to assess the value of possible further new borrowing in line with future Capital Programme requirements. Consideration will be given to various funding options depending on prevailing interest rates, including taking out shorter term borrowing, utilising investment balances to fund the Council's borrowing requirement and use of other financial institutions to provide borrowing facilities. The degree to which alternative options are more cost effective than PWLB rates is still evolving and all options available to support the Council's capital programme will be assessed in conjunction with our treasury advisors.

2.4.5 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 LOBOs that were subject to a potential rollover this financial year. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
14/08/2019	Barclays	5.0	4.45	Every 3 years
21/04/2019 And 21/10/2019	Barclays	5.0	4.50	Every 6 months
Total		**10.0**		

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

		2020/21 £m	2021/22 £m	2022/23 £m
1.	Capital Programme Borrowing	**122.0**	**148.3**	**59.9**
2.	Replacement borrowing (PWLB)	**4.0**	**5.0**	**5.0**
3.	Replacement LOBO	**19.5**	**20.0**	**10.0**
TOTAL:		**145.5**	**173.3**	**74.9**

2.4.7 The Council currently has net treasury borrowing of £203.7m 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 2020/2021. 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 a large 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.

2.4.8 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 amount of investments.

2.4.9 Benefits of having a high level of investments are;

- liquidity risk – having a large amount 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 the Council to address its Strategic Priorities; 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.

2.4.10 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.

2.4.11 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.

2.4.12 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.

2.4.13 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.

2.4.14 Taking into account potential market volatility and the advice of the Council's treasury adviser, a benchmark financing rate of 4.25% for any further long-term borrowing for 2020/2021 is considered to be appropriate.

2.5 Policy on borrowing in advance of need

2.5.1 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.

2.5.2 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.

2.6 Debt Rescheduling

2.6.1 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).

2.6.2 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, in 2007 the PWLB introduced a spread between the rates applied to new borrowing and repayment of debt which was compounded in 2010 and has again been compounded in 2019 as the 1.00% increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

2.6.3 This means that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. 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.

2.6.4 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. 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 latest interest rate projections for 2020/2021 show short term borrowing rates will be cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long term debt to short-term debt. These potential savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment premiums incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

2.6.5 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.

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

Annual Investment Policy and Strategy

2.7 **Investment Policy and Management of Risk**

2.7.1 When considering its investment policy and objectives, the Council has taken regard to the MHCLG 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"), and CIPFA Treasury Management Guidance Notes 2018.

2.7.2 The MHCLG 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 2019.

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.

2.7.3 The guidance from the MHCLG 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 Appendix 5) 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 Councils creditworthiness policy.
- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, 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 Appendix 5;
- 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 position has not occurred and the 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 Appendix 6C). These are set using the agreed lending list criteria (detailed in Appendix 5);
- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Appendix 5). 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.

2.7.4 As a result of a change in accounting standards for 2018/19 under IFRS9**,** the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018 MHCLG 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 commencing from 1st April 2018.

2.7.5 The prudential code states that 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. The Council will not engage in such activity without full consideration of all financial and non-financial risks and subject to the appropriate approval process. The Investment Strategy would subsequently be updated to reflect any such change in approach.

2.8 Creditworthiness policy

2.8.1 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.

2.8.2 Following the financial crisis of 2008 it was recognised that investors, who largely remained unaffected through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. Regulatory changes that have been made in the banking sector are designed to see greater stability, lower risk and reduce expectations of Government financial support should an institution fail. To reflect these changes the three credit rating agencies have carried out a wider reassessment of methodologies. In addition to the removal of implied government support, new methodologies are now taking into account additional factors, such as regulatory capital levels.

2.8.3 While the Council understands the changes that have taken place, it will continue to 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.

2.8.4 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.

2.8.5 The largest UK banks, (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing” and is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank. This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

2.8.6 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

2.8.7 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.

2.8.8 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 Appendix 5.

2.8.9 Set out in Appendix 6 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 minimized as far as possible.

2.8.10 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.

2.9 **Outlook and Proposed Treasury Investment Strategy**

2.9.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2020/2021 are likely to range between £50 million and £200 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 2019/2020 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 2020/2021 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.

2.9.2 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;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

2.9.3 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.

2.9.4 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.

2.9.5 The Council is not committed to any investments which are due to commence in 2020/2021 (i.e. it has not agreed any forward deals).

2.9.6 European Financial Directives known as MiFID II came into force in January 2018. These directives are designed to strengthen transparency and investor protection in financial markets across the EU. Under the directives each client is classed as either retail or professional. All Local Authorities are initially classified as de facto retail counterparties under MiFID II but with the option to ask to opt up to professional status subject to meeting qualitative and quantitative criteria. The Council has opted up to professional client status with a number of financial institutions to allow access to specific products and will seek to opt up to with others where this is appropriate.

2.9.7 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.

2.9.8 During 2019/2020 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	**2018/19 Benchmark %**	**2018/19 Return %**	**To date 2019/20 Benchmark %**	**To date 2019/20 %**
Council	0.51	0.93	0.57	1.01

Investment returns are likely to remain low during 2020/21 and are likely to remain low until the Bank base rate increases.

2.9.9 During 2020/2021 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.

2.10 Policy on the use of external service providers

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

2.10.2 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.

2.10.3 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 service providers.

2.10.4 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.

2.11 **Non - Treasury Investments**

2.11.1 The Council may make other type 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.

2.11.2 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
- commercial investments which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures; or investments explicitly taken with the aim of making a financial surplus for the Council. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

2.11.3 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.

2.11.4 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.

2.11.5 Non-treasury investments are covered within the Capital Strategy approved by Council in November 2019.

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.

3.2 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.

Appendix 4

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).

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

Bank Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	-	-	-	1.00%	-	-	-	-	-

5yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.34%**	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.34%**	2.40%	2.50%	2.50%	2.60%	-	-	-	2.80%	-	-	-	-	-

10yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.55%**	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.55%**	2.60%	2.70%	2.80%	2.80%	-	-	-	3.10%	-	-	-	-	-

25yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.07%**	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.07%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.40%	-	-	-	-	-

50yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.90%**	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.90%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.50%	-	-	-	-	-

2. Survey of Economic Forecasts

2.1 HM Treasury December 2019

The current 2019 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury December 2019 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2019	Ave. 2020	Ave. 2021	Ave. 2022	Ave. 2023
Average	0.75%	0.78%	0.95%	1.24%	1.44%
Highest	0.75%	1.20%	1.75%	2.25%	2.50%
Lowest	0.75%	0.50%	0.13%	0.05%	0.05%

Source: HM Treasury: Forecasts for the UK Economy Dec. 2019 (No.389, Table M4)

Appendix 5

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.

1.2 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 / 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+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	365 days
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

1.3 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.

1.4 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 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 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

4. Group Limit

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

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

4.2 Proposed group limits are set out in Annex 6.

Appendix 6

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	-	Aa2	-	AA	-	350	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	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	Aa3	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
NatWest Markets plc (NRFB)	A	F1	Baa2	P-2	A-	A-2	80	2 years
Santander UK plc	A+	F1	Aa3	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A2	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank *	A-	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	B3	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	365 days
HSBC Bank plc (NRFB)	A+	F1+	Aa3	P-1	AA-	A-1+	70	365 days
HSBC UK Bank plc (RFB)	A+	F1+	-	-	AA-	A-1+	70	365 days
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
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	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	50	2 years
Canada	AAA		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+	Aa1	P-1	AA-	A-1+	50	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa3	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank N.V	-	-	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

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 £80m.

* 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.

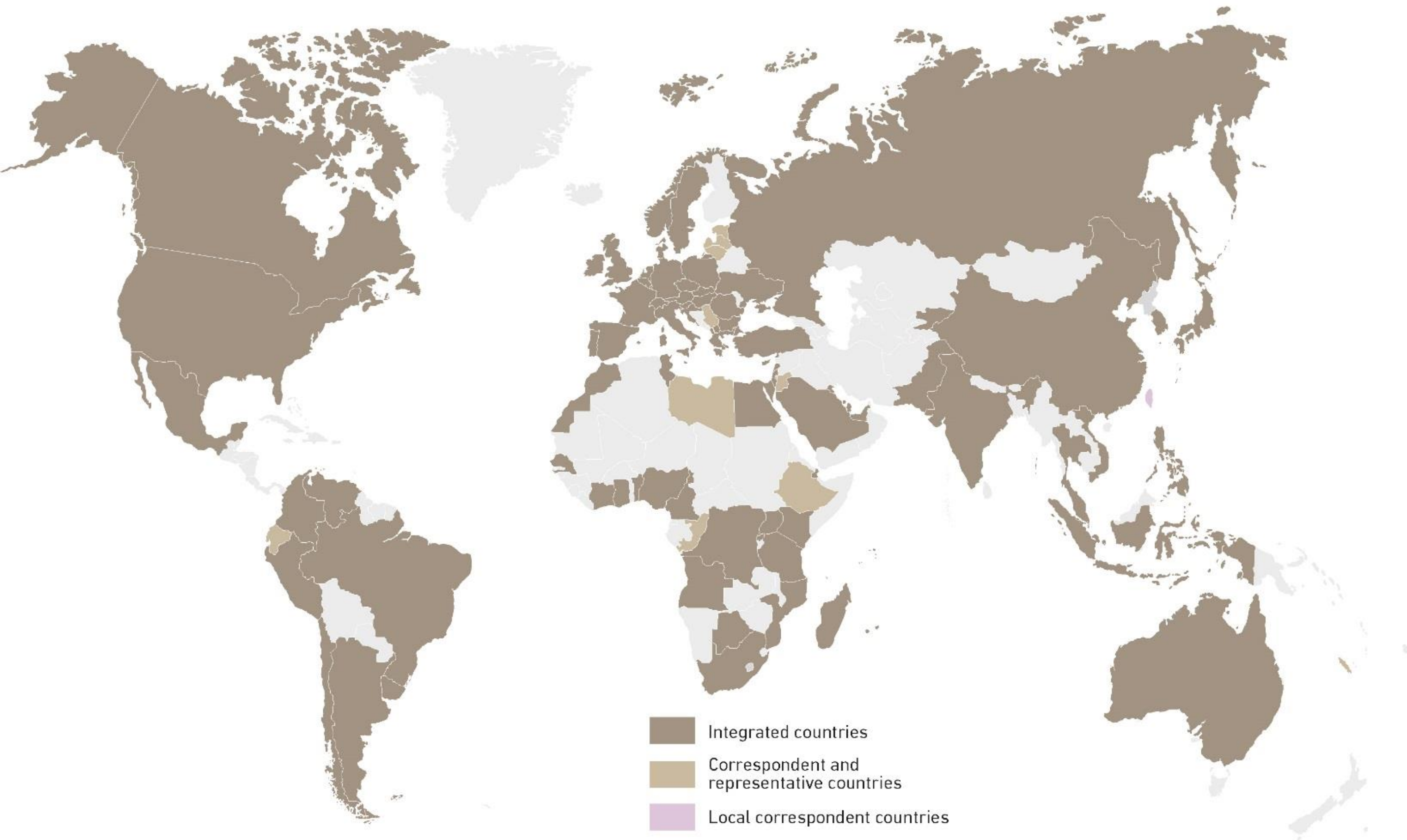
Audit progress report

Sunderland City Council

January 2020

Sunderland City Council

Item No. 8



MAZARS

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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor as well as setting out any non-audit assurance work carried out and also summarising key national publications that may be of interest to Members.

Audit progress

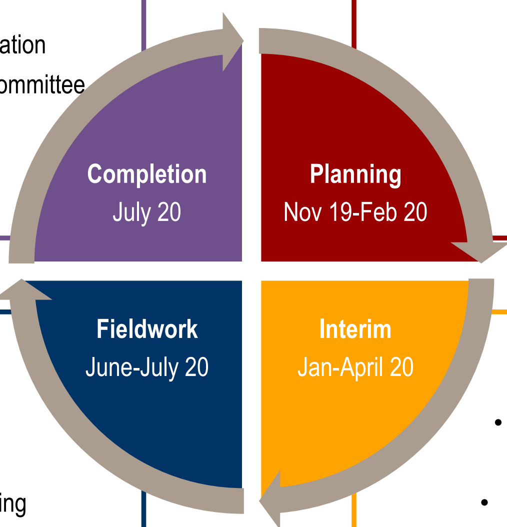
Our key audit stages are summarised in the diagram shown below.

As in prior years, we will carry out our walkthroughs and interim testing in one visit, scheduled for January/February. Our Audit Strategy Memorandum for 2019/20 will be brought to the meeting of the Audit and Governance Committee in April 2020.

There are no significant matters arising from our audit work that we are required to report to you at this stage.

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit and Governance Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

2. HOUSING BENEFITS SUBSIDY ASSURANCE

Non-audit work: independence considerations

We set out, in our annual Audit Strategy Memorandum for 2018/19, our assessment of anticipated non-audit work and any threats to our independence and objectivity. We confirm the assessment in the Memorandum, presented to the January 2019 Audit and Governance Committee, remains relevant in respect of the following pieces of 2018/19 non-assurance work, namely:

- housing benefits subsidy;
- Teachers' Pensions; and
- Education and Skills Funding Agency sub-contracting.

Non-audit work: housing benefits subsidy assurance

Our assurance work in respect of the housing benefits subsidy claim for 2018/19 is now complete. Work was completed and our report to the Department of Work and Pensions (DWP) was submitted on 29 November 2019.

Background to housing benefits subsidy assurance work

This is an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to DWP for housing benefits, as detailed in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The total subsidy claimed for 2018/19 was £112,059,484 (prior year £117,923,387).

The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis. The relevant requirements are set out in Modules of the HBAP reporting framework and we report the results of those procedures to the Council and the DWP. The guidance is made available on the government's website:

https://www.gov.uk/government/publications/housing-benefit-assurance-process-hbap

The work is split into:

- agreement of the subsidy claim to supporting working papers;
- initial testing (specified sample sizes) and extended testing (described as "40+" or 'CAKE – Cumulative Knowledge and Experience' testing where there are errors arising or anticipated based on the prior year; and
- reporting of results, including extrapolated errors, to DWP who then assess whether there will be any loss of subsidy.

Summary of testing results

Universal credit run-on awards

In our report to DWP, we highlighted an issue the Council had identified in respect of universal credit run-on awards, whereby the software had incorrectly treated these payments, resulting in errors. The Authority has carried out work in respect of the 468 cases of this sub-population and intends to amend the 2019/20 subsidy claim for this issue.

Rent allowance testing – error in uprating of a carer's allowance

Rent allowance testing identified an error in the uprating of a carer's allowance. We reported the extrapolated results of our testing, as required, in our report, along with details of other testing in this area arising from previous year errors.

Fees

	2017/18	2018/19
Housing benefits subsidy claim	£9,309*	£9,210

*Fees were set by Public Sector Auditor Appointments Limited in prior years.

3. TEACHERS' PENSIONS

Non-audit work: Teachers' Pensions assurance

Background

The Teachers' Pension Scheme (TPS) is a contributory pension scheme administered by Teachers' Pensions (TP) on behalf of the Department for Education (DfE). Councils are required to complete an annual return showing the level of teachers' pension contributions that should have been deducted and paid to TP within the financial year and obtain an independent reporting accountant's report, setting out 'agreed upon procedures'.

Results of agreed upon procedures

We submitted our report to TP by the deadline of 29 November 2019 and there were no significant issues arising.
Total contributory salary per the return for 2018/19 was £31,772,226 (prior year £34,915,893).

Fees

	2017/18	2018/19
Teachers' Pensions return	£3,850	£3,920

4. SUB-CONTRACTING

Non-audit work: Education and Skills Funding Agency 2018/19 external assurance on subcontracting controls

Background

Sunderland City Council engaged Mazars LLP in November 2019 to provide an agreed upon procedures report in respect of Education and Skills Funding arrangements.

The Education and Skills Funding Agency (ESFA) funding agreement with Sunderland City Council contains a clause about an annual subcontracting assurance requirement. The clause requires lead providers, in this case Sunderland City Council, that subcontract more than a defined level of provision, to obtain a report from a registered auditor / reporting accountant that provides assurance on the arrangements in place to manage and control their subcontractors.

Results of agreed upon procedures

Based on the results of the agreed upon procedures carried out in December 2019 and there were no significant matters arising.

Fees

	2017/18	2018/19
Sub-contracting assurance	£3,550	£3,600

5. NATIONAL PUBLICATIONS

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy (CIPFA)		
1.	**Local Government Financial Resilience index**	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
2.	**Financial Management Code**	Guidance for good and sustainable financial management in local authorities.
3.	**Prudential Property Investment**	Guidance on prudent investments in commercial properties.
Local Government Association (LGA)		
4.	**Behavioural Insights Programme**	Funding awarded to Sunderland City Council for increasing rates of breastfeeding to improve health.
5.	**Probity in planning: advice for councillors and officers making planning decisions**	This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning.
6.	**Chief executives' 'must know' for children's services**	How to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.
7.	**A Councillors' guide to procurement**	The guide covers questions commonly asked by Councillors.
8.	**Reaching out**	Loneliness policy context and consideration of effective local delivery models.
9.	**A Councillor's guide to digital connectivity**	Key information for Councillors.
Mazars LLP		
10.	**Annual Transparency Report, Mazars**	Sets out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm.
11.	**Mazars' response to the Brydon Review**	Mazars' response to the latest review into the auditing profession which was published in December 2019.

5. NATIONAL PUBLICATIONS

1. Local Government Financial Resilience index, *CIPFA*, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index

2. Financial Management Code, *CIPFA*, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code

5. NATIONAL PUBLICATIONS

3. Prudential Property Investment, *CIPFA*, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the creditability of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment

4. Behavioural Insights Programme, *LGA,* January 2020

The latest round of the Local Government Association's Behavioural Insights Programme has awarded funding to eight councils, including Sunderland City Council.

As part of the LGA's sector-led improvement offer, the programme encourages innovation in local public services with the aim of changing behaviour to reduce demand on overstretched local services as well as improving residents' lives.

Behavioural insights is a scientific approach that helps people to make better choices for themselves and society through interventions or 'nudges'.

In last year's LGA-funded trial, Knowsley Metropolitan Borough Council increased the uptake of assistive technology by 27 per cent through their interventions using targeted mail to those with blue badges and assisted bin collections. Alongside this, staff were supported to offer assistive technology to service users.

Kent County Council, Kent Police and their commissioned support services increased the number of domestic abuse victims that seek and receive support by more than 2 per cent through the use of contact information cards.

In the latest phase of the Programme, the LGA will provide the eight councils with a £20,000 grant each:

- Derbyshire County Council – reducing the number of repeat applications to the Derbyshire Discretionary Fund by increasing uptake of budgeting support.
- Newcastle City Council – increasing the number of families engaging positively with early help services following an initial report of concerns to children's social care.
- North Yorkshire County Council – Improving school readiness by encouraging more parents, families and community support networks to read with their children to assist with speech and language development.
- South Gloucestershire Council – to deploy a strengths-based approach with adult social care service users in the local hospital in order to prevent, delay or divert demand.
- Sunderland City Council – increasing rates of breastfeeding to improve health.
- Surrey County Council – increasing sustainable travel amongst local business employees.
- The London Borough of Merton – reducing the number of vehicles idling outside schools.
- The London Borough of Redbridge – reducing the demand for on-street prostitution in the local area.

The LGA and the councils undertaking the work will be sharing learning and results as and when they come in for others to benefit from.

https://www.local.gov.uk/lga-announces-behavioural-insights-programme-has-awarded-funding-eight-councils

5. Probity in planning: Advice for councillors and officers making planning decisions, *LGA*, December 2019

This 2019 guidance is an update to the 2013 version of the Local Government Association's Probity in Planning. It clarifies how councillors can get involved in planning discussions on plan making and on applications, on behalf of their communities in a fair, impartial and transparent way. This guide has been written for officers and councillors involved in making planning decisions in their local authority and does not constitute legal advice.

https://www.local.gov.uk/probity-planning-advice-councillors-and-officers-making-planning-decisions

6. Chief executives' 'must know' for children's services, *LGA,* December 2019

This is not intended to be a comprehensive blue-print for guaranteed results. Rather, it is intended to be a clear summary guide for chief executives, showing how to avoid some of the more obvious and dangerous errors and challenges involved in leading one of the most sensitive, expensive and high-risk areas of local government.

Key messages stated in the publication include:

- Together with the director of children's services, the lead member for children's services, and the leader or mayor, the chief executive has a key leadership role across the council and working with other local agencies to improve outcomes for children and young people. This strategic 'quartet' of political and officer leadership is fundamental to effectiveness and sustained improvement. It is the role of the chief executive, as the most senior professional concerned, to ensure the quartet is at least functional, at best, collectively inspirational and transformational.
- While the director of children's services and lead member have statutory responsibilities for delivering effective children's services and providing corporate leadership to champion the needs and improved outcomes for children and young people, the chief executive has a crucial role to ensure the whole council supports children and young people and enables the director to fulfil their role. The chief executive also plays the fundamental role in the effective professional oversight and line management of the director of children's services.
- Due to the complex nature of running a council, and the challenge of balancing workload pressures, chief executives might not have the time to develop an in-depth understanding of the ongoing performance of complex services. They instead must establish a system of delegated responsibility and performance reporting in order to fulfil their, and the council's obligations. Being in the chief executive position brings with it particular risks and challenges, especially when that complex service is children and young people, where the risks are high and the cost of failure can be profound, yet the signals of deteriorating performance may at best be opaque.

https://www.local.gov.uk/chief-executives-must-know-childrens-services

7. A Councillor's guide to procurement, 2019 edition, *LGA,* October 2019

The LGA worked closely with councils to develop the National Procurement Strategy 2018 and a toolkit that enables councils to set their own objectives and measure their own progress.

The National Procurement Strategy puts the councillor role front and centre and this guide has been produced specifically with councillors in mind. It looks at the roles councillors play – both executive members and those engaged in overview and scrutiny work – and provides hints and tips on how to get the best out of procurement and contract management. Just as in the national strategy, the focus is on delivering council objectives. Councillors do not need to be procurement professionals but they do need to be able to ask the right questions, including:

- What is the procurement process and why do major procurements in local government fail?
- What are the role and responsibilities of a councillor?
- How is social value delivered under the Public Services (Social Value) Act 2012 and more generally?

https://www.local.gov.uk/councillors-guide-procurement-2019-edition

8. Reaching out, *LGA,* October 2019

This guide outlines the current loneliness policy context, uses a range of case studies to demonstrate effective local delivery models working in practice, and provides useful checklists and tips on how to measure and evaluate outputs.

https://www.local.gov.uk/reaching-out

9. A Councillor's guide to digital connectivity, *LGA,* October 2019

This guide is structured to provide councillors with key information on digital connectivity. It explores the main issues and challenges facing local areas.

https://www.local.gov.uk/councillors-guide-digital-connectivity-0

5. NATIONAL PUBLICATIONS

10. Annual Transparency Report, *Mazars,* December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019

11. Mazars' response to the Brydon Review, *Mazars,* December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published.

https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views