

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 18 October 2021 at 10.00 am in the Bridges Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	Apologies for Absence
2	Minutes (Pages 3 - 6) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 27 September 2021 (attached)
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.
4	Treasury Management - Performance to 30 September 2021 (Pages 7 - 10) Report of the Strategic Director, Resources and Digital
5	Corporate Risk Management 2021/22 - Quarter 2 Update (Pages 11 - 14) Report of the Strategic Director, Resources and Digital
6	Exclusion of the Press and Public The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.
7	Mid Year Counter Fraud Update 2021/22 (Pages 15 - 22) Report of the Strategic Director, Resources and Digital
8	Internal Audit Plan 2021/22 Quarterly Monitoring Report to 30 September 2021 (Pages 23 - 30) Report of the Strategic Director, Resources and Digital
9	Date and time of next meeting The next meeting will take place on Monday 31 January 2022 at 10.00 am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk
Date: Friday, 8 October 2021

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 27 September 2021

PRESENT: Councillor M Charlton (Chair)
Councillor(s): J Reay, L Green S Green, H Kelly, J McElroy,
Mr S Bell, Mr G Clark and Mr B Jones (Independent
Members)

APOLOGIES: Councillor(s): R Beadle

ASC348 MINUTES

The minutes were approved as a correct record.

ASC349 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC350 APPOINTMENT OF INDEPENDENT MEMBERS AND INDEPENDENT PERSON

The Committee were advised that a number of applications have been received for the posts of Independent Members and Independent Person.

Officers will commence the recruitment and selection process in due course with the successful appointments presented to full Council in November 2021 for approval.

Mr George Clark announced that after 16 years as an Independent Person on the Audit and Standards Committee this would be his last meeting and he had enjoyed his time enormously but felt that the time had come to make way for a new Independent Member.

The Committee wished to place upon record, their thanks and appreciation to Mr Clark for his time served on the Audit and Standards Committee and wished him well for the future.

RESOLVED – that the information be noted.

**ASC351 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2021 AND
GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2020/21**

The Committee received a report providing an update on the outcome and findings of the audit of Gateshead's Statement of Accounts 2020/21 by the Council's external auditor Mazars.

As a result of COVID-19, the Accounts and Audit (Amendment) Regulations 2021 extended the statutory deadlines for 2020/21. The publication date for final audited accounts moved from 31 July 2021 to 30 September 2021.

The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2020/21 and the Council's external auditor, Mazars has issued its Audit Completion Report, subject to the completion of outstanding work.

The Audit Completion Report covers:

- The Council's Statement of Accounts including significant findings, internal control recommendations, and a summary of adjusted and unadjusted misstatements;
- The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The primary output of Mazars work on the Council's approach to Value for Money is the commentary on those arrangements that form part of the Annual Report. Mazars intend to issue the Annual Report no later than three months after the report on the financial statements is signed.

The external auditor's report was attached at Appendix 1 and the Council's Statement of Accounts (subject to outstanding work) was attached at Appendix 2 for information.

The key messages from the Audit Completion Report was presented to Committee for information.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee noted the contents of the external auditor's Audit Completion Report and any update reports.
 - iii) The Committee noted the Statement of Accounts 2020/21, prior to submission to the Accounts Committee.

ASC352 ACHIEVEMENT OF 'GOING CONCERN STATUS' 2020/21

The Committee received a report to consider the Council's status as a going concern.

The Committee were advised that although the financial context continues to be challenging and uncertain the Council has a track record of meeting its financial obligations and maintaining financial sustainability. In the past 9 years the Council has delivered an outturn within its budget. A Council wide approach to the budget, which is priority driven and over a medium-term planning horizon will ensure that this continues to be the case.

The Annual Audit Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter issued in relation to 2019/20 concluded that the Council had proper arrangements in

place to secure economy, efficiency and effectiveness in its use of resources.

Details of the current position 2020/21, revenue reserves, future position – 2021/22 Budget and Future Position – Medium Term Financial Strategy (MTFS) were tabled for information.

The Committee were advised that based on the assessment undertaken, the Council's Chief Finance Officer (Section 151 Officer) view is that the Council is aware of the Challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agrees that the Council is considered to be a going concern based on the assessment provided.
 - iii) The Committee agreed that the accounts are prepared and approved on the basis of continued provision of services.

ASC353 ANNUAL GOVERNANCE STATEMENT 202/21 - INTERNAL AUDIT REVIEW OF MANAGERS' ASSURANCES

The Committee received a report informing of the outcome of work by the Internal Audit Service in reviewing the assurances provided by Service Directors to inform the 2020/21 Annual Governance Statement.

Service Directors were asked to build on the work carried out in previous years and complete a self-assessment assurance statement detailing the level of assurance that they felt could place on their key control and governance processes. They were required to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance. There was also a requirement to detail the evidence to support this assessment. Internal Audit undertake an annual review of the assurance statements to ensure:

- Where key controls are not providing a sufficient level of assurance action has been taken to address these areas.
- Where key controls are providing a good level of assurance, evidence exists to support this assessment.

The 2020/21 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- Data quality and performance management
- COVID-19 assessments and business continuity arrangements

In response to specific questions raised by members of the Committee, additional assurance reviews were also undertaken in relation to succession planning.

The Committee were advised that the audit concluded that systems and controls were operating well and no corporate recommendations have been made.

Some Service specific findings in relation to Data Quality and Performance Management have been addressed directly with the relevant Service Directors.

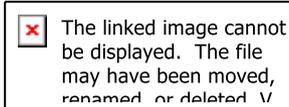
The overall conclusion of this work is that the systems and processes for the completion of the Managers' Assurances Statement are effective and that they provided a good level of assurance for the 2020/21 Annual Governance Statement.

RESOLVED – That the information be noted.

ASC354 DATE AND TIME OF NEXT MEETING

Monday 18 October 2021 at 10.00 am

Chair.....



TITLE OF REPORT: Treasury Management – Performance to 30 September 2021

REPORT OF: Darren Collins – Strategic Director, Resources & Digital

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2021, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 23 March 2021.
3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing security and adequate liquidity initially before considering optimising investment return.
4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
5. Accordingly, treasury management is defined as:

"The management of the Council'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."
6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 25 March 2021. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Investment Performance

8. The latest projection of gross investment income for 2021/22 based on interest earned to date and expected interest to March 2022 is £0.132m, compared to an original estimate of £0.076m.
9. This gross investment interest is adjusted to account for £0.041m interest payable to third parties and interest receivable of £1.401m from various third parties. This gives a projected net interest to the General Fund 2020/21 of £1.492m compared to the budget of £1.343m. The variance to budget is mainly as a result of higher levels of interest received on loans to third parties than was anticipated when the 2021/22 budget was set.

The Economy

10. The coronavirus outbreak has created huge economic damage to the UK and around the world. The Bank of England took emergency action in March 2020 to cut the Bank Rate to first 0.25% then to 0.10%. The 0.10% rate continues unchanged following the Bank of England Monetary Policy Committee meeting on 5 September 2021. The forecast now includes increases in Bank Rates in quarter 2 of 2022 of 0.25%, then quarter 2 of 2023 to 0.50% and a further increase in quarter 1 of 2024 to 0.75%.

Rate of Return

11. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 0.17%, which is an improvement on the original estimate of 0.07%.
12. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across Local Authorities. In the most recent report received, June 2021, the Council achieved a weighted average rate of return of 0.18% on its investments for Quarter 1 2021/22 which is in line with the risk adjusted expectations (0.12% to 0.23%) defined in the Benchmarking Report for our Group.
13. The rate of return would be expected to decrease during the year as investment balances reduce and deposits are replaced for shorter terms with lower yielding returns.
14. It is currently a difficult investment market and the Council will be unable to match levels of interest rates achieved in previous financial years. The majority of available interest rates up to 12 months duration are at or below the bank rate of 0.10%. Given this risk environment and the fact that significant increases in Bank Rate are unlikely to occur until the end of the current financial year 31st March 2023, investment returns are expected to remain low.

Borrowing

14. The total borrowing for the Council and HRA as at 31 September 2021 was £649.151m, which was within the operational borrowing limit of £850m. This

borrowing is made up of £596.651m Public Works Loans Board (PWLB) loans and £52.5m market loans.

15. The Treasury Strategy estimates for the 2021/22 financial year were based on a borrowing requirement of £107.351m with £77.602m relating to the GF and £29.749m the HRA. However, due to the council holding high levels of cash reserves no borrowing has been taken in the year to date. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates.
16. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	HRA
Interest Payable	£11.572m	£12.022m
Average rate of interest	3.18%	3.89%

This represents a gross saving of £0.863m on the original estimate, of which £0.644m is a saving for the General Fund and £0.219m is for the HRA.

PWLB Government Intervention

17. The Government undertook a consultation exercise on the Prudential Code for PWLB borrowing during summer 2020. This resulted in the Treasury no longer allowing local authorities to borrow money from the PWLB primarily for commercial yield.
18. An additional consultation on the Prudential Code was announced on 24 September 2021 to further clarify and update the position on local authority commercial investment and introduce new affordability indicators.

Summary of Mid-Year Performance

19. The projected net impact of investment and borrowing activity on the revenue budget in 2021/22 is an underspend of £1.012m, comprising £0.793m General Fund and £0.219m HRA.

	General Fund			HRA		
	Estimate	Projected Outturn	Variance	Estimate	Projected Outturn	Variance
	£m	£m	£m	£m	£m	£m
Investments	(1.343)	(1.492)	(0.149)	(0.020)	(0.020)	0.000
Borrowing	12.216	11.572	(0.644)	12.241	12.022	(0.219)
Premia	0.046	0.046	0.000	0.000	0.000	0.000
Net Position	11.335	10.542	(0.793)	12.221	12.033	(0.219)

20. Investment returns are likely to remain relatively low during 2021/22 then beyond and interest rates are expected to be below long-term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

21. The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, remain historically low resulting in reduced levels of income, which at present is outweighed by the savings achieved from avoiding external borrowing. The additional element of interest rate risk will continue to be monitored.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2021, prior to submission to Cabinet.

Title of Report: Corporate Risk Management 2021/22 - Quarter 2 Update

Report of: Darren Collins, Strategic Director, Resources & Digital

Purpose of the Report

1. This report updates the Committee on Corporate Risk Management developments during the period 1 July 2021 to 30 September 2021.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy. This was last approved by Council on 21 May 2013 and is kept under review. Whilst it has been amended to reflect minor structural changes and roles in that time, it remains relevant and fit for purpose.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2021/22, as cited in the Corporate Risk Management Annual Report 2020/21, and any other risk management issues emerging within the quarter under consideration.

Strategic Risk Management

4. In November 2018, Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register.
5. There have been no changes to the Strategic Risk Register in the second quarter 2021/22. The current Strategic Risk Register is attached for information in Appendix 1.

Operational Risk Management

6. Operational risks identified within the Council are recorded on the operational risk register. Work is ongoing to ensure operational risk management activity within services continues to align with service objectives, including those risks specific to operational objectives.
7. Service Risk Coordinators, whose role it is to support and champion risk management activity within their Services, are working with the Corporate Risk Officer to support risk owners with evaluating existing operational risk assessments. The focus of this

work is on ensuring the assessments contain the required information to inform the management response.

Business Continuity Management

8. In accordance with the Council's Risk Management and Business Continuity Policies, all Services are required to continuously assess the risk of their activities being disrupted and to develop cost effective business continuity plans.
9. All Business Impact Assessments were reviewed by Services in March 2020, again in November 2020 and most recently in May 2021. This was to continue to identify threats to critical activities and potential increased demand on Council Services following a further wave of infections. Business Continuity Plans were also revised accordingly to mitigate, as far as possible, any threats to the delivery of key activities with a focus on activity that could not be interrupted for more than 48 hours without critical impact. This exercise was also used to assess which activities might require additional support to strengthen resilience and estimated the officer numbers and skills that might be needed.
10. This process has been further strengthened since mid August with weekly updates by exception requested of Service Directors regarding the short term assessment of resilience in respect of their critical activities to provide CMT of assurance in relation to critical activities, and also highlight areas where additional support may be necessary.
11. Quarterly audit and risk reports are provided to Group Management Teams to highlight the activities for which Services have developed continuity plans.

Corporate Risk and Resilience Group

12. The Corporate Risk and Resilience Group last met 11 October 2021. The following items were considered:
 - Brexit impact on current economic conditions
 - Ongoing impact of COVID-19 on service delivery
 - Resilience and emergency planning
 - Updates from Groups and Services
13. As we approach the winter period with the additional threats and service pressures that brings the Group will meet monthly to ensure a shared understanding of issues and a consistent corporate approach to assessment and mitigation.

Recommendation

14. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

Contact: Craig Oakes Ext. 3711

Strategic Risk Register as at 30 Sept 2021

Ref	Risk	Risk owner	Gross	Current risk		
				Likelihood	Impact	Score
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	16	Moderate	High	12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	16	Moderate	Medium	9
3	Failure to safeguard vulnerable children and adults	CMT	16	Unlikely	High	8
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	12	Moderate	Medium	9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	12	Moderate	Medium	9
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	16	Moderate	Low	6
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT	8	Moderate	Low	6
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	Brexit Lead Officer	16	Likely	Medium	12
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	16	Moderate	High	12
10	Failure to comply with the housing regulatory standards applicable to local authorities.	Sandra Watson, Service Director, Housing Compliance	20	Moderate	Medium	9

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