

**MINUTES
OF THE MEETING OF THE
GOVERNANCE SCRUTINY GROUP
THURSDAY, 30 MAY 2024**

Held at 7.00 pm in the Council Chamber, Rushcliffe Arena,
Rugby Road, West Bridgford
and live streamed on Rushcliffe Borough Council's YouTube channel

PRESENT:

Councillors D Polenta (Vice-Chair), T Birch, R Butler, P Gowland, H Om, N Regan, T Wells, L Way and G Wheeler

OFFICERS IN ATTENDANCE:

P Linfield	Director – Finance and Corporate Services
H Tambini	Democratic Services Manager
S Whittaker	Service Manager - Finance

APOLOGIES:

Councillors A Edyvean, S Calvert and C Thomas

1 Declarations of Interest

There were no declarations of interest.

2 Minutes of the Meeting held on 2 February 2024

The minutes of the meeting held on 22 February 2024 were approved and signed by the Vice Chair.

The Group noted that the Service Manager – Finance and the Director – Finance and Corporate Services had responded to the actions from the meeting on 22 February 2024.

3 Internal Audit Progress Report Quarter 4

Mr Armstrong from BDO, the Council's Internal Auditors presented the fourth Internal Audit Report for this financial year, which reflected progress made against the annual Internal Audit Programme. The report highlighted the completion of three reports and their findings as follows:

Fleet Management – the audit received a moderate assurance on control design and substantial assurance on control effectiveness. The review had looked at the operational effectiveness of the service and the climate change element, including the Council's objective to move to net zero by 2030. Two findings were raised, a medium finding on the operational side, regarding periodic checks of agency drivers not being undertaken. The second related to the positive work already undertaken by the Council in trying to achieve its net

zero target, including the recent conversion of 21 refuse vehicles to HVO fuel, and investigating future electrification of the fleet.

Rushcliffe Oaks Crematorium – Income – the audit received substantial assurance on both the design of controls and on the effectiveness, with two low findings. One finding related to the timeliness of payments, with one invoice paid 140 days late, although it was noted that the level of aged dates was very low, and the Council worked proactively to recover those amounts. Secondly, on the performance reporting side for income collection, and it was recommended that a new KPI should be added to monitor the timeliness of payments.

E-Financials System Controls – the audit received substantial assurance for both the design of controls and effectiveness, with three low findings. One finding related to a specific privileged user account, where regular checks were not conducted, although there had been no adverse use over the year. Secondly, around checking changes to customer data, with a recommendation to add a monthly check. Finally, the user access review process, to check that the correct permissions were in place, and it was noted that a review had been undertaken in March 2023.

Mr Armstrong concluded by referring to the quarterly Sector Update attached to the Progress Report.

Councillor Om commented on the user access reviews and questioned if they should be done every three or six months. Mr Armstrong advised that processes were already in place and this recommendation would be in addition to what was already undertaken.

Councillor Gordon Wheeler welcomed this very positive report, which highlighted how well the Council was working, and noted that the issues raised were minor ones and Mr Armstrong concurred, stating that very few Council's received an overall substantial assurance, which Rushcliffe had.

Councillor Birch commented on the late invoice payments at the Crematorium, noted that although it was not a huge risk, one invoice had been paid nearly five months late and questioned if there were clear terms on the contracts, and incentives to ensure timely payment. Councillor Birch felt that given this was a relatively new service, it was important to have appropriate mechanisms in place to ensure timely payments. Mr Armstrong confirmed that there was a 21 day credit period on invoices, and it had been found that often late payments from funeral directors were due to customers not paying them. The Service Manager – Finance advised that this late payment was an isolated case, in general officers were happy with the controls in place and it went through the Council's Debt Control Policy, which was generally enough to encourage payment, and the process would continue to be assessed.

Councillor Butler asked who was responsible for issuing invoices for the Crematorium and the Service Manager – Finance confirmed that it was the Crematorium, testing had shown that invoices were correct, reconciliations were in place, and the process would continue to be monitored.

The Vice Chair referred to fleet management, the steps being taken to achieve the net zero target, and the reference in the report from the consultants CENEX that the Council had made very little progress so far to reduce emissions from its fleet and sought clarification. Mr Armstrong confirmed that the Council had set an ambitious target of being carbon neutral from its own operations by 2030, from which its vehicle fleet would contribute 25% of emissions. It was important to note that the CENEX report was at a point in time, and since then considerable progress had been made, and the Group was reminded what a challenging area this was, and that this Council had achieved far more than many other councils.

In answer to a question by Councillor Wells related to the future possible electrification of the fleet, Mr Armstrong confirmed that there would be further challenges ahead, in terms of how far they could operate given the size of the Borough and in terms of the actual size of the vehicle required, as they were currently not available.

It was **RESOLVED** that the Quarter 4 Progress Report for 2023/24 prepared by the Council's Internal Auditor was accepted.

4 **Internal Audit Annual Report 2023/24**

Mr Armstrong from BDO, the Council's Internal Auditors presented the Internal Audit Annual Report for 2023/24, which included the annual opinion of the Head of Internal Audit required by Public Sector Internal Audit Standards.

The Group was informed that the Internal Auditors had provided substantial assurance for the second year running, which reflected the positive outcomes referred to in this and previous reports to the Group. Mr Armstrong stated that other outside assurance was also taken, for example the broadly positive outcome from the recent Peer Challenge Review, together with the culture and cooperation of the management team, which had been positive over the last 12 months. The Group noted that every report had a substantial opinion on either the control design or effectiveness, or both, with the graphs on page 50 onwards of the report, which highlighted the positive trajectory, with a reduction in the number of medium recommendations. There was also a generally stable position on the number of control design opinions and a slight improvement on the number of control effectiveness opinions. Mr Armstrong concluded by referring to the key themes and added value from the work throughout the year, which was detailed at pages 52 and 53 of the report.

Councillor Butler welcomed this positive report and questioned what would happen going forward and Mr Armstrong confirmed that work was already progressing for 2024/25. The Director – Finance and Corporate Services referred to the considerable work undertaken by both officers and Councillors to get to this very positive position, and whilst not being complacent, everyone would continue to work hard to maintain this, and he believed that this was the third year that the Council had gained substantial assurance.

It was **RESOLVED** that the Internal Audit's Annual Report in relation to 2023/24 be noted.

5 Annual Fraud Report 2023/24

Mr Armstrong from BDO, the Council's Internal Auditors presented the Annual Fraud Report for 2023/24, which summarised the incidence of fraud and fraud prevention activities at the Council during the year 2023/24.

The Group was reminded that following a recommendation made by it last year, the Council has prepared a Fraud Risk Assessment, which would be brought to the next meeting in September. Mr Armstrong advised that in recent years across the public sector, a general increase around detected fraud had been well reported, with much of that driven by Covid related fraud. It was noted that no instances of fraud had been identified as part of the Internal Audit work, and only one instance identified by the management team. The Council was working with the Nottinghamshire Fraud Partnership, which again showed commitment to tackling fraud across the wider sector. Mr Armstrong referred to the review undertaken in November 2023, to look at single person discounts for Council Tax, which had resulted in a significant additional increase in Council Tax revenue. Internal Audit had also looked at Grant Management Controls and the potential fraud risk of giving out grants, and he confirmed that substantial assurance had been provided from that review. Mr Armstrong concluded by referring to areas where the Council could improve, including specific fraud awareness training for staff and testing to gauge staff awareness.

Councillor Gowland asked what the whistle blowing procedure was at Rushcliffe and how easy it was to access and use, and the Service Manager – Finance advised that staff were made aware of the clear guidance, which could be shared.

Councillor Butler referred to Council Tax discounts for 18 year olds and the mismatches and questioned if there was a danger of more losing out on discounts, given that more people were not registering on the electoral role and the Service Manager – Finance advised that there were other ways of matching people to property.

The Vice Chair questioned why the Council did not have a dedicated fraud prevention resource and Mr Armstrong advised that the Council did take fraud seriously and fraud was more the responsibility of Service Managers. The Director – Finance and Corporate Services stated that historically the Council did have a Fraud Manager; however, when part of Housing Benefits had transferred to the DWP, part of that post was also transferred, which happened at many councils. He stated that if the Council was concerned that the risk was significant enough, it would look at the possibility of creating a post; however, based on recent history it was not considered necessary, although that would continue to be monitored.

The Director – Finance and Corporate Services thanked Mr Armstrong on behalf of the Council for his hard work over the past months.

It was **RESOLVED** that the Annual Fraud Report for 2023/24 be accepted.

6 External Audit Annual Plan 2023/24

Mr SurrIDGE from Mazars, the Council's External Auditors presented the Council's External Audit Annual Plan, which summarised the approach to External Audit activity with regard to the final accounts process and value for money arrangements for the financial year 2023/24.

Mr SurrIDGE referred to Mazar's responsibilities as the External Auditor, with five key areas as detailed on page 80 of the report, which included:

- Audit opinion
- Internal Control
- Fraud
- Wider reporting and electors' rights
- Value for money

Ms Norman from Mazars referred to the operational side of the Audit Plan and confirmed that the planning, risk assessment and interim phases had been completed, with the fieldwork stage due at the end of June, and the audit opinion hopefully given in September. The Group noted the three main risks, which were common for all district councils:

- Management override of controls
- Devaluation of the LGPS defined benefit pension
- Valuation of land and buildings

Mr SurrIDGE referred to page 94 of the report and the value for money arrangements, and advised that as External Auditors, Mazar's responsibility was to follow the Code of Audit Practice, which defined what was required to ensure financial sustainability, and it would involve checking the Council's financial plans and processes and its governance arrangements. It would also look at improving economy efficiencies and effectiveness, which involved looking at how performance management worked and how the Council worked with key partners. Mr SurrIDGE confirmed that this was a live process, and currently no areas had been identified where a 'deep dive' would be required. Reference was made to the substantial increase in audit fees since last year, and the Group was advised that the fees were set by an independent body and Mr SurrIDGE concluded by confirming that Mazars was independently appointed to undertake the audit.

Councillor Birch asked which body set the fee, and Mr SurrIDGE advised that the Council had opted into a framework appointment by Public Sector Audit Appointments (PSAA), which ran a contracting round, and bid and allocated pieces of work to different firms. As part of that process, PSAA determined a scale fee, to deliver the entire contract, which resulted in a level of subsidy. The Director – Finance and Corporate Services advised that the public sector audit market was currently in a challenging state, and was a high risk market, and there were issues recruiting auditors, and all that led to a degree of pressure. PSAA had undertaken a procurement exercise, and the increase for Rushcliffe was very similar to that for other councils, and the Group was advised that if the Council spent time and money undertaking its own procurement exercise, it would not result in cheaper fees.

Councillor Regan referred to Community Infrastructure Levy (CIL) and Section 106 monies and asked at what point did the Council evaluate the erosion through inflation, given that those funds could not be accessed until phases were completed, and he asked if anyone reviewed the effectiveness of the CIL and Section 106 funds at the end of the process. Mr SurrIDGE advised that Section 106 receipts formed part of the financial statements and Mazars would look to ensure that the figures were correct, rather than what they would be used for. If, as part of the audit, significant concerns were raised, that could be indicative of a control failure, and that could be raised at that point; however, the question was more about the governance and controls in place, which was not Mazar's responsibility.

Councillor Regan clarified that his question related to value for money, and how that value was eroded over time through inflation and he thought that at some point some revaluation of those funds had to be given. Mr SurrIDGE stated that value for money was a subjective determination, so the auditor's opinion had to be objective, and if it felt that Section 106 monies were substantial sums at a significant risk of causing a significant financial loss to the Council, due to a complete lack of control, it might be something that would be looked at. However, the question related more to the scrutiny of how effectively were the funds being used and deployed, and if it was an area of concern there were better routes to monitor that through KPIs and the Risk Register.

Councillor Butler referred to the significant risks list and the Local Government Pensions Scheme and asked if it was the Council or the auditors who would be responsible for addressing this identified risk, and as the scheme was part of the Nottinghamshire County Council Pension Scheme, what influence did Rushcliffe Borough Council have. Ms Norman confirmed that the planned response would be by the auditor and the Director – Finance and Corporate Services advised that there was an Annual Pension Fund meeting, which Council representatives attended and that the pension figures were included when the budget was set.

The Vice Chair referred to management override and stated that it was not always a negative thing and sometimes under exceptional circumstances, it could be a good thing to override internal controls, and she asked when the auditors assessed the risk of management override, did it consider a very rigid system that did not take into account the context or did it identify times when it could be beneficial. Ms Norman advised that this was a standard name for the risk and it was an indication of extra testing and Mr SurrIDGE stated that the auditor's objective was to check on the accuracy of the figures and to ensure that nothing fraudulent was taking place. The Director – Finance and Corporate Services stated that from a governance perspective, there might be occasions when an override was necessary, and that must be reported to ensure transparency and accountability.

It was **RESOLVED** that the External Audit Annual Plan be accepted.

7 **Annual Governance Statement 2023/24**

The Director – Finance and Corporate Services presented the Annual Governance Statement report and the Council's Annual Governance

Statement, to be signed by the Leader and Chief Executive, detailed in Appendix 1 to the report, which was published alongside the Council's Statement of Accounts, in accordance with the Accounts and Audit Regulations 2015.

The Director – Finance and Corporate Services highlighted some of the principles referred to in the Annual Governance Statement, around whether or not business was being conducted to excellent standards, if the Council was compliant with the law and delivering value for money, with the appropriate controls and procedures in place. The Group was reminded that that all of the audit documents were linked to audit standards and the Council followed good practice, with this delivering good guidance in Local Government 2016, which was a CIPFA and SOLACE publication and Appendix 1 included the basic principles of that good guidance. The Group noted that this was a standard report covering the section below as detailed in Appendix 1:

- Section 2: Governance and Framework – covering processes and procedures
- Section 3: Review of Effectiveness – framework and mechanisms in place
- Section 4: Important Governance Issues – budget position and the CIPFA Financial Management Code

The Director – Finance and Corporate Services advised that this was a living document and was subject to change, and it would come to the Group again in September, with the Statement of Accounts, and would reflect any changes that had been made. The document referenced how the Council would deliver on the recent Peer Review recommendations and he referred to the various potential risks going forward, including legislation changes and a potential new government. An Action Plan detailing how the Council reported on the key issues was referred to on page 130 of the report.

The Service Manager – Finance referred to the Financial Management Code as detailed in Appendix A, which was adopted in 2021. The Group was advised that this year the Council had undertaken a self-assessment, with a Peer Review with other councils. This Code marked the Council against set principles that it needed to adhere to, and the recommendations made from the Peer Review have been incorporated. The Service Manager – Finance confirmed that all the points on the risk rating were green, and those had been subject to challenge by the Peer Review.

It was **RESOLVED** that the Annual Governance Statement 2023/24, which incorporated actions for the forthcoming year be approved.

8 **Capital and Investment Strategy Outturn 2023/24**

The Service Manager – Finance presented the Capital and Investment Strategy Outturn report, which summarised the capital and investment activities during the financial year 2023/24, against the Council's Capital and Investment Strategy 2023/24.

The Service Manager – Finance referred to Table 1 in the report, which related

to capital expenditure, with investments higher than expected, which was mainly due to slippage in the Capital Programme of approximately £5.7m. Table 2 in the report detailed that all capital expenditure in the year was financed, which has ensured no external borrowing, and that had resulted in the set limits being met. Table 3 highlighted that overall the Capital Financing Requirement (CRF) had reduced to £9,889m. Table 4 showed a negative number for the ratio of financing costs to net revenue streams, due to the Council's investment income exceeding its MRP charge, with Tables 6 and 7 showing that the limits for investments had not been breached throughout the year. Table 8 provided a snapshot as of 31 March 2024, of investments held at that point of around £71m. Paragraph 4.22 of the report detailed income received this year, which had increased to £1,887m due to higher balances invested together with higher than anticipated interest rates. Reference was made to the diversified portfolios, which had declined over £1m when Covid started, so a reserve had been earmarked to cover the effect of that and the Group was advised that this year the funds increased by £272k, albeit they were still £0.96m less than the original investment.

The Group noted that overall, for Treasury Investments, inflation was not reducing as quickly as anticipated, which therefore had resulted in slightly higher interest rates, and there was considerable economic instability. Table 12 showed the Council's Non-Treasury Asset Investments and the returns, which were performing very well, with Charts 2 and 3 showing that the Council's diverse portfolio to spread risk. It was noted that there was a risk of over reliance in investment income against the Council's total income, so a 30% limit was set, and Table 13 highlighted that it was at 18.5%. The Service Manager – Finance concluded by referring to the importance of training both for staff and members of the Group to ensure that appropriate scrutiny took place. An assessment was currently taking place and the findings would be brought to the Group for consideration.

Councillor Gowland sought clarification on the loss of investment due to Covid and the use of a reserve, and the Service Manager – Finance confirmed that money had not been lost, it was rather a paper reduction in value and the reserve was in place in case the Council wished to redeem the investment, at a time when the value was lower than when the Council had originally paid for it. The Director – Finance and Corporate Services advised that these were long term investments and it was anticipated that over time they would increase again, and if that was likely, the £1m would be returned to the budget.

Councillor Butler referred to Table 8 and questioned why some of the investments were so low and due to administration fees, were those investments worthwhile. The Service Manager – Finance advised that small sums were used to keep some accounts open, and there were also limits on investments in set institutions, and therefore monies had to be spread. If there were any charges incurred, money would not be kept in the accounts.

Councillor Regan applauded the Finance Team for managing the budget during such difficult economic times. He referred to the £5m lent to other councils, queried the differing interest rates and asked if a risk evaluation had been undertaken and where the Council sat if those councils collapsed. The Service Manager – Finance advised that the differing rates might be different

due to the time that the investment was made and as the Government protected local authorities from going bankrupt, there was not the same risk as with other institutions and it was deemed a safe investment, although due diligence was still undertaken before investments were made.

Councillor Birch referred back to the paper loss and the £1m reserve to mitigate that and questioned how that figure had been reached and the Service Manager – Finance confirmed that the general advice from treasury advisers was that there should be a reserve to mitigate the potential loss, with the decision made at Full Council. The Director – Finance and Corporate Services advised that when the Council made investments, the Group agreed the Treasury Management Strategy, which then gave officers the parameters to operate, and any investments made were within those parameters. As part of the budgetary process, £1m was put aside as a reserve, and at the last meeting, the auditors agreed that this was a prudent plan.

Councillor Birch sought clarification that the investments were expected to become profitable again, and in that case the £1m would be returned to the budget and the Director – Finance and Corporate Services referred to the current difficult economic climate and stated that although the expectation was that things would improve it was difficult to know when.

It was **RESOLVED** that the 2023/24 outturn position be agreed.

9 **Work Programme**

The Service Manager – Finance presented the report of the Director – Finance and Corporate Services outlining the Group's Work Programme for the next three meetings and advised that Treasury Management Training might be added to the meeting in September, together with the Fraud Risk Assessment work by BDO.

For the meeting in November, it was proposed to consider the appointment of an Independent Member. The Group was reminded that it had discussed this issue some years ago, and it was now considered appropriate to review that again, given that an independent person would bring another perspective and challenge to discussions. The Statement of Accounts was currently scheduled for the November meeting, but if Mazars met its proposed targets, that report could come to the meeting in September.

It was **RESOLVED** that Governance Scrutiny Group approved the Work Programme as follows:

19 September 2024

- Internal Audit Progress Report Q1
- Risk Management Update
- Going Concern
- Capital and Investment Strategy Q1
- Treasury Management Training (TBC)
- Fraud Risk Assessment (TBC)
- Statement of Accounts (TBC)

- Work Programme

28 November 2024

- Internal Audit Progress Report Q2
- Annual Audit Completion Report 2023/24
- Capital and Investment Strategy Update Q2
- RIPA Review
- Appointment of an Independent Member (TBC)
- Work Programme

20 February 2025

- Internal Audit Progress Report Q3
- Internal Audit Strategy
- External Audit Plan (TBC)
- Annual Audit Letter and Value for Money (VFM)
- Risk Management Update
- Risk Management Strategy
- Capital and Investment Strategy Update Q3
- Capital and Investment Strategy 2025/26
- Work Programme

Actions – 30 May 2024

Min No	Action	Officer Responsible
5	Councillor Gowland asked what the whistle blowing procedure was at Rushcliffe and how easy it was to access and use	Service Manager - Finance

The meeting closed at 8.36 pm.

CHAIR