

Public Document Pack

When telephoning, please ask for:

Direct dial

0115 914 8822

Email

democraticservices@rushcliffe.gov.uk

Our reference:

Your reference:

Date:

29 January 2020



Rushcliffe
Borough Council

To all Members of the Governance Scrutiny Group

Dear Councillor

A Meeting of the Governance Scrutiny Group will be held on Thursday, 6 February 2020 at 7.00 pm in the Council Chamber Area B, Rushcliffe Arena, Rugby Road, West Bridgford to consider the following items of business.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Sull'.

Sanjit Sull
Monitoring Officer

AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Minutes of the Meeting held on 3 December 2019 (Pages 1 - 6)
4. Internal Audit Progress Report (Pages 7 - 18)
5. External Audit Strategy (Pages 19 - 40)
6. Internal Audit Strategy (Pages 41 - 70)
7. Treasury Management Strategy (Pages 71 - 102)
8. Work Programme (Pages 103 - 104)

Membership

Chairman: Councillor F Purdue-Horan

Vice-Chairman: Councillor J Walker

Councillors: R Adair, B Gray, R Hetherington, K Shaw, D Simms, J Stockwood and D Viridi

Rushcliffe Community
Contact Centre

Rectory Road
West Bridgford
Nottingham
NG2 6BU

In person
Monday to Friday
8.30am - 5pm
First Saturday of
each month
9am - 1pm

By telephone
Monday to Friday
8.30am - 5pm

Telephone:
0115 981 9911

Email:
customerservices
@rushcliffe.gov.uk

www.rushcliffe.gov.uk

Postal address
Rushcliffe Borough
Council
Rushcliffe Arena
Rugby Road
West Bridgford
Nottingham
NG2 7YG



Meeting Room Guidance

Fire Alarm Evacuation: in the event of an alarm sounding please evacuate the building using the nearest fire exit, normally through the Council Chamber. You should assemble at the far side of the plaza outside the main entrance to the building.

Toilets: are located to the rear of the building near the lift and stairs to the first floor.

Mobile Phones: For the benefit of others please ensure that your mobile phone is switched off whilst you are in the meeting.

Microphones: When you are invited to speak please press the button on your microphone, a red light will appear on the stem. Please ensure that you switch this off after you have spoken.

Recording at Meetings

The Openness of Local Government Bodies Regulations 2014 allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Rushcliffe Borough Council is committed to being open and transparent in its decision making. As such, the Council will undertake audio recording of meetings which are open to the public, except where it is resolved that the public be excluded, as the information being discussed is confidential or otherwise exempt.



Rushcliffe Community
Contact Centre

Rectory Road
West Bridgford
Nottingham
NG2 6BU

In person

Monday to Friday
8.30am - 5pm
First Saturday of
each month
9am - 1pm

By telephone

Monday to Friday
8.30am - 5pm

Telephone:

0115 981 9911

Email:

customerservices
@rushcliffe.gov.uk

www.rushcliffe.gov.uk

Postal address

Rushcliffe Borough
Council
Rushcliffe Arena
Rugby Road
West Bridgford
Nottingham
NG2 7YG





MINUTES OF THE MEETING OF THE GOVERNANCE SCRUTINY GROUP TUESDAY, 3 DECEMBER 2019

Held at 7.30 pm in the Council Chamber Area B, Rushcliffe Arena, Rugby Road,
West Bridgford

PRESENT:

Councillors F Purdue-Horan (Chairman), J Walker (Vice-Chairman), B Gray,
K Shaw, D Simms, J Stockwood, Mrs M Stockwood and D Virdi

ALSO IN ATTENDANCE:

Councillor A Edyvean

OFFICERS IN ATTENDANCE:

T Coop

S Sull

L Ashmore

S Whittaker

C Williams

Democratic Services Officer

Monitoring Officer

Executive Manager - Transformation

Financial Services Manager

Head of Internal Audit - RSM

APOLOGIES:

Councillor R Adair

15 Declarations of Interest

There were no declarations of interest reported.

16 Minutes of the meeting held on 17 September 2019

The Minutes of the meeting held on 17 September 2019 were approved as a true record and signed by the Chairman.

17 Internal Audit Progress Report

Mr Chris Williams, Head of Internal Audit at RSM, the Council's internal auditors attended the meeting to present the Internal Audit Report for Quarter 3, for the financial year 2019/20. The report highlighted the completion of six assignments: Cyber Risk Management, Insurance, Creditors and e-procurement, Markets (Review of New Contractual Arrangements), Business Support Unit and Payroll.

In terms of the audit findings, Mr Williams reported that out of the six substantive audits, four returned findings of Substantial Assurance resulting in a number of low-level recommendations where management actions were agreed.

In respect of Cyber Risk Management after testing identified two medium and

eight low-level priority recommendations. The medium recommendations related to improvements to the Council's response testing for a cyber incident and the Intrusion Prevention System, which was found to not have an automated alert system in place to notify the ICT team of a potential incident. Management actions were agreed for all recommendations.

In respect of Markets – Review of New Contractual Arrangements, this was an advisory review undertaken by the auditors to review the actions taken by the Council when it appointed a new managing agent for the markets operated at Bingham. The review confirmed that a new Markets Manager had been selected and a new contract had been put in place to formalise the arrangements between the Council and the Markets Manager. The audit confirmed that a process of due diligence checks were completed prior to the contract being signed.

Cllr J Stockwood asked a specific question relating to cyber security and whether there were audit checks on Councillors' e-learning. Mr Williams advised that the internal audit covered all e-learning, Officers and Councillors and that e-learning was equally important to assist cyber security within the Council's IT systems.

It was **RESOLVED** that the Internal Audit Progress Report for Quarter 3 be noted.

18 **Treasury Management Update**

The Financial Services Manager presented the report of the Executive Manager – Finance and Corporate Services for Treasury Management, Mid-Year Report 2019/20. The report summarised the Council's capital and investment activities for the period 1 April to 30 September 2019.

The Financial Services Manager advised the Group that growth in the UK economy was below market expectations, the Bank of England base rate is 0.75% and is forecast to remain low for the foreseeable future. The uncertainty in respect of BREXIT negotiations and the forthcoming General Election remains high and the economic growth consequences of BREXIT remain speculative with regards to the UK's future trade relations with the EU and the rest of the world.

In respect of the Council's Investment Income, the Financial Services Manager advised that a combination of base rate forecasts, constraints on the lending list and the expenditure expected to be incurred on the Capital programme meant the Council had budgeted to receive £285,000 in investment income in 2019/20. The actual interest earned to 30 September 2019 totalled £129,050 with total receipts for the year expected to be £483,000. The Financial Services Manager explained that interest receipts are higher than estimated due to investing in higher and more diverse interest earning funds and delays in the capital programme. It was noted, that all investments have been made in accordance with the Council's Treasury Management Strategy.

In addition, the Financial Services Manager gave reference to a table in the report that highlighted a list of financial institutions, amounts invested, length of

investment, interest yield and different time periods, thus balancing cash flow and risk. It was noted that Council, at its meeting on 11 September 2019, agreed to consider its carbon footprint and currently 24% of the Council's portfolio is invested in diversified funds, which invest in equities that carry a small risk of fossil investments. The Financial Services Manager added that fossil free investments portfolios are likely to outperform standard investments therefore the Council's investments will inevitably shift to non-fossil based investments.

It was **RESOLVED** that the Capital and Investment Management position as at 30 September 2019 be noted.

19 **Asset Management Plan**

The Executive Manager – Transformation provided a report outlining the Council's Asset Management Strategy in supporting the Council's Corporate aims and objectives. The Executive Manager – Transformation explained the Council's diverse portfolio of assets, ranging from community assets such as community centres, parks and open spaces, through to commercial and investment property, providing an income to the Council and accommodation for small local businesses.

The Executive Manager – Transformation continued to explain that the Council's Asset Management Strategy seeks to align the asset portfolio with the needs of the organisation. The Council's Corporate objectives express the aims and goals of the Council and the Strategy sets out how the land and building portfolio aligned with this. Sitting under the Asset Management Strategy is the Asset Management Plan, which sets out the detail of how the Council manages its land and building assets over a five year plan. Details of the Management Strategy, Action Plan and List of Council Owned Assets were provided in Appendix A, B and C attached to the report.

The Group asked specific questions in relation to corporate priorities and whether the information provided in appendix A, the Asset Management Strategy, could be strengthened to reference the environment and 'quality of life'. The group provided the example of allotments and explained that as an asset, allotments don't necessarily provide a great income for the council, but their provision can improve the lives of their users and the community. Councillor Edyvean – Cabinet Portfolio Holder for Business and Transformation explained that allotments may fall in a number of categories headlining the Asset Management Strategy when delivered in the right places, and advised that allotment uptake is high across the Borough. He agreed that some of the information tabled could be strengthened to provide more weight and reference to the environment and 'quality of life'.

The Group asked whether at a future meeting of Governance Scrutiny further information could be reported in respect of the Action Plan with financial value/cost added in a separate column, including what projects have been completed and how the objectives were met. The Chairman suggested that a report and update of the Plan is brought back for scrutiny in 6 months' time.

It was **RESOLVED** that:

- a. The report and appendices are noted and any changes will be reviewed by Cabinet
- b. The Group approved the structure set out to manage the Council's assets

20 **Constitution**

The Monitoring Officer provided a report that summarised the revisions to the council's Constitution since it was last presented to Council on the 11 July 2019. The report also detailed amendments made to the Constitution by the Monitoring Officer under delegated authority as follows:

- Amendments made to the Public Speaking Protocol to extend the deadline for opposition leader's questions and citizens questions by 24 Hours.
- To provide consistency throughout, all references to Chair or Chairman of meetings unified to Chairman.
- Amendments to Member Allowances following recommendations of the independent remuneration panel review.

The Monitoring Officer explained that as part of the amendments accepted by Council on 11 July 2019, an annual review of the Council's Constitution was approved and it is the intention therefore to take a report to Council on 6 December 2019.

It was **RESOLVED** that:

- a. The revisions to the Constitution made by the Monitoring Officer under delegated authority be approved
- b. The Group recommends the amended Constitution for adoption at Council at its meeting on 6 December 2019

21 **Work Programme**

The Group considered its Work Programme.

It was **RESOLVED** that the Work Programme, as detailed below be approved.

6 February 2020

- Internal Audit Progress Report
- Treasury Management Strategy
- Internal Audit Strategy
- External Audit Strategy
- Certifications of Grants and Return Annual Report 2018/19
- Work Programme

13 May 2020

- Internal Audit Progress Report
- Internal Audit Annual Report
- Risk Management Progress Report
- Annual Asset and Investment Strategy Report
- Annual Governance Statement
- Work Programme

The meeting closed at 8.32 pm.

CHAIRMAN

DRAFT

This page is intentionally left blank



Governance Scrutiny Group

Thursday, 6 February 2020

Internal Audit Progress Report

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

- 1.1. The attached report has been prepared by the Council's internal auditors RSM. It reflects the current progress made against the annual Internal Audit programme along with any significant recommendations with regard to the audits completed during this period.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group notes the progress made so far this year against the Internal Audit programme.

3. Reasons for Recommendation

- 3.1. To conform to best practice and Public Sector Internal Audit Standards, and to give assurance to the Governance Scrutiny Group regarding the Council's internal control environment.

4. Supporting Information

- 4.1. The Internal Audit Plan for 2019/20 was approved by the Corporate Governance Group at its meeting on 7 February 2019 and includes 14 planned reviews. The attached report highlights the completion and issuing of one report: Enforcement – Statutory Nuisance. In terms of findings:

- 78% of the annual Internal Audit programme has been completed
- The audit of Enforcement – Statutory Nuisance returned a finding of Substantial Assurance with one low level priority recommendation where management actions have been agreed.

5. Risks and Uncertainties

- 5.1. If recommendations are not acted upon there is a risk internal controls are weakened and the risk materialises.

6. Implications

- 6.1. **Financial Implications**

There are no direct financial implications to the report. Indirectly, a better internal control environment suggests risk has reduced and could result in a reduced audit workload and therefore cost.

6.2. Legal Implications

The recommendation supports good risk management and compliance with legislation and regulations relating to Local Authority finance.

6.3. Equalities Implications

There are no equalities implications identified for this report.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no such implications.

7. Link to Corporate Priorities

Quality of Life	No links
Efficient Services	Undertaking a programme of internal audit ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	No links
The Environment	No links

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group notes the progress made so far this year against the Internal Audit programme.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix 1 - Internal Audit Progress Report – RSM

APPENDIX



RUSHCLIFFE BOROUGH COUNCIL

Internal Audit Progress Report

Governance Scrutiny Group

6 February 2020



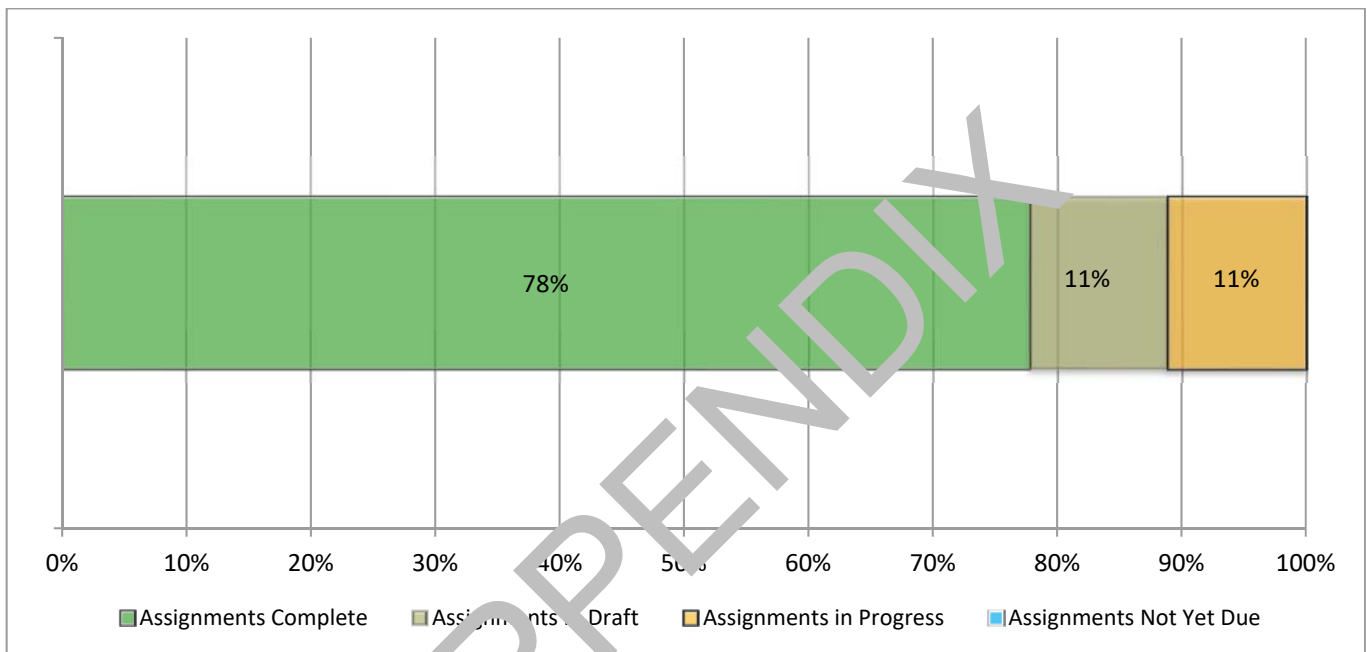
CONTENTS

- 1 Introduction..... 2
- 2 Reports considered at this Governance scrutiny group..... 3
- 3 Looking ahead..... 4
- 4 Other matters 5
- Appendix A: Internal audit assignments completed to date..... 6
- For further information contact..... 8

APPENDIX

1 INTRODUCTION

The Internal Audit Plan for 2019/20 was approved by the former Corporate Governance Group on 7 February 2019. Below provides a summary update on progress against that plan and summarises the results of our work to date. Please see chart below for current progress with the Plan.



2 REPORTS CONSIDERED AT THIS GOVERNANCE SCRUTINY GROUP

The Executive Summary and Key Findings of the assignment below is attached to this progress report.

Assignments	Status	Opinion issued	Actions agreed		
			H	M	L
Enforcement – Statutory Nuisance (13.19/20)	Final		0	0	1

2.1 Impact of findings to date



Enforcement – Statutory Nuisance (13.19/20)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing undertaken, one 'low' priority management action was identified, and this was agreed by management.

3 LOOKING AHEAD

Assignment area	Timing per approved IA plan 2019/20	Status
Property Leases / Rent	Quarter 4	Assignment in Draft
Follow Up	Quarter 4	Assignment in Draft
Garden Waste	Quarter 4	In Progress
Main Accounting	Quarter 4	In Progress

APPENDIX

4 OTHER MATTERS

4.1 Changes to the audit plan

There have been no changes to the audit plan since the Governance Scrutiny Group meeting in December 2019.

4.2 Quality Assurance and Continual Improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews being used to inform the training needs of our audit teams.

The Quality Assurance Team is made up of: Ross Wood (Manager, Quality Assurance Department) with support from other team members across the Department. All reports are reviewed by James Fairbrough as the Head of the Quality Assurance Department.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

4.3 Post Assignment Surveys

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

We would like to give you the opportunity to consider how frequently you receive these feedback requests; and whether the current format works. Options available are:

- After each product (current option);
- Monthly / quarterly / annual feedback request; and
- Executive lead only, or executive lead and key team members.

APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Report previously seen by the Governance Scrutiny Group and included for information purposes only:

Assignment	Status	Opinion issued	Actions agreed		
			H	M	L
Disabled Facilities Grants (1.19/20)	Final		0	1	4
Corporate Governance (2.19/20)	Final		0	0	1
Housing Benefits (3.19/20)	Final		0	0	1
Building Control (4.19/20)	Final		0	3	3
Treasury Management, Cash and Banking (5.19/20)	Final		0	0	0
Land Charges (6.19/20)	Final		0	0	1
Annual Fraud Review	Final	Advisory *			
Cyber Risk Management (7.19/20)	Final		0	2	8
Insurance (8.19/20)	Final		0	0	1
Creditors and e-Procurement (9.19/20)	Final		0	0	1

Assignment	Status	Opinion issued	Actions agreed		
			H	M	L
Markets – Review of New Contractual Arrangements (10.19/20)	Final	Advisory*			
Business Support Unit (11.19/20)	Final		0	0	4
Payroll (12.19/20)	Final		0	0	1

* A review of the Council’s Fraud Annual Report was undertaken, and suggestions were provided to management to consider when finalising its Fraud Annual Report. An advisory review was also taken of the Council’s Contractual Arrangements in place for Markets.

APPENDIX

FOR FURTHER INFORMATION CONTACT

Chris Williams, Head of Internal Audit

chris.williams@rsmuk.com

Address:

RSM Risk Assurance Services LLP
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham NG1 5FS

Phone: 01159 644450
Mobile: 07753 584993

rsmuk.com

This report is solely for the use of the persons to whom it is addressed. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Rushcliffe Borough Council, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

This page is intentionally left blank



Governance Scrutiny Group

Thursday, 6 February 2020

External Audit Strategy

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

- 1.1. The attached report from Mazars summarises their approach to external audit activity with regard to the final accounts process and their approach to value for money work in relation to the financial year 2019/20.
- 1.2. Mazars highlight a number of risks concerning the audit focusing on both the financial statements and value for money. For example, fraudulent revenue recognition and the valuation of property, plant and equipment.
- 1.3. Mazars staff will be available at the meeting to answer any detailed questions arising from the report.

2. Recommendation

It is **RECOMMENDED** that the Governance Scrutiny Group accept the External Audit Strategy.

3. Reasons for Recommendation

- 3.1. To comply with the Audit Commission's Code of Audit Practice and relevant legislation and accord with good governance.

4. Supporting Information

- 4.1. Councillors will be aware that we have a legal requirement to produce a draft Statement of Accounts by the 31 May which is then subject to review by the Authority's external auditors, Mazars, and approval by 'those charged with governance', the Governance Scrutiny Group, by the 31 July 2020.
- 4.2. The attached report details the approach that Mazars will use when auditing the 2019/20 Statement of Accounts. It specifies the work they will undertake, when they anticipate undertaking this work, and how they will liaise with Council staff. It also details the key risks with regards to both the year-end accounts and the Council achieving value for money. These include:
 - Management override of controls
 - Valuation of property, plant and equipment

- Defined benefit liability valuation
- Fraudulent revenue recognition

4.3. It should be noted that the audit fees for 2019/20 are currently set at £31,792 plus VAT; however, regulatory changes in audit requirements have taken place since the fees were agreed by the PSAA and this may result in changes.

5. Risks and Uncertainties

5.1. The Mazars report highlights relevant risks (stated at paragraph 4.2 above).

6. Implications

6.1. Financial Implications

The audit fee relating to the costs of the audit work is included within existing budgets.

6.2. Legal Implications

To comply with the Audit Commission Act 1998.

6.3. Equalities Implications

There are no equalities implications.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no Section 17 Implications.

7. Link to Corporate Priorities

Quality of Life	No links
Efficient Services	Undertaking an external audit of the financial accounts ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	No links
The Environment	No links

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group accept the External Audit Strategy.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix 1 – External Audit Strategy Memorandum to March 2020

This page is intentionally left blank

Audit Strategy Memorandum

Rushcliffe Borough Council

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Rushcliffe Borough Council. It has been prepared for the sole use of the Governance Scrutiny Group as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance Scrutiny Group Members
Rushcliffe Borough Council
Rushcliffe Arena
Rugby road
Nottingham
NG2 7YG

6 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Rushcliffe Borough Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Rushcliffe Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0115 964 4744.

Yours faithfully



David Hoose
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Rushcliffe Borough Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance Scrutiny Group as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM



David Hoose
Partner

E-Mail: david.hoose@mazars.co.uk
Tel: 0115 964 4744



Anita Pipes
Manager

E-Mail: anita.pipes@mazars.co.uk
Tel: 07919 395251



Abbie Fang
Team Leader

E-Mail: abbie.fang@mazars.co.uk
Tel: 0121 232 9716

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

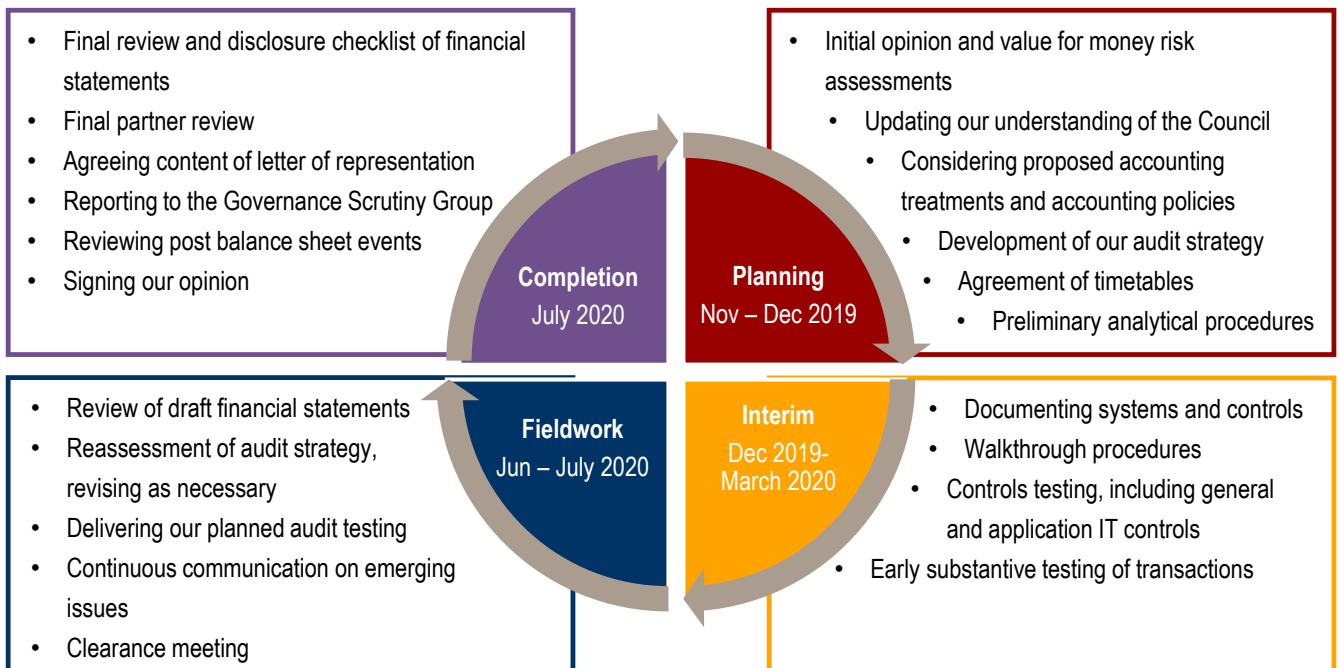
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Nottinghamshire Pension Fund</i>	PWC <i>Consulting actuary appointed by the NAO</i>
Property, plant and equipment valuation	Leanne Ashmore <i>The Council's internal valuer</i>	Not applicable
Financial instrument disclosures	Link <i>Treasury management advisors</i>	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Nottinghamshire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
Payroll Costs	Gedling Borough Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by Gedling Borough Council on behalf of the Council.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. We expect to be able to conclude that the Council has sufficient controls in place over the services provided by GBC and that we will be able to audit payroll based on the records held at the entity.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

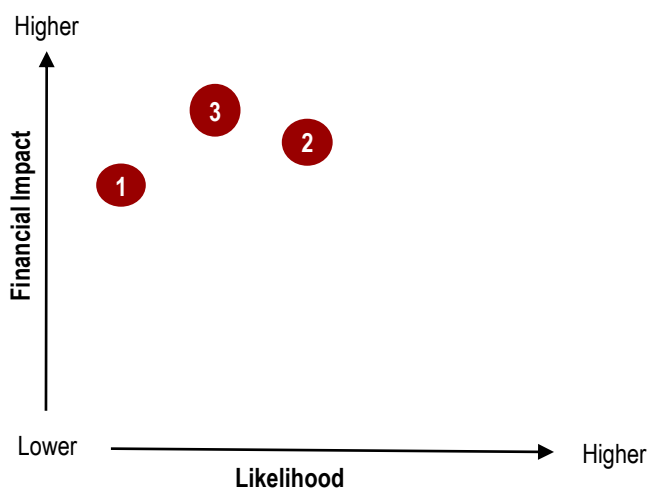
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Corporate Scrutiny Group.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will use a computer audit analytical technique (CAAT) to efficiently identify journals with risk characteristics and test 100% of such adjustments to the financial ledger.</p>
2	<p>Property, plant and equipment valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.</p>	<p>In addition to our standard work programme in order to address the risk in relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using the third party indices provided by Gerald Eve to provide information on regional valuation trends; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Corporate Scrutiny Group.

Significant risks

	Description of risk	Planned response
3	<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we will:</p> <ul style="list-style-type: none"> • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; • Critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; • Liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and • Perform a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted are paid to the Pension Fund by the Council.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement / enhanced risk	Planned response
1	<p>Fraudulent revenue recognition</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.</p>	<p>We do not consider this to be a significant risk for Rushcliffe Borough Council as:</p> <ul style="list-style-type: none"> •there is an overall low risk for local authorities; •there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and •the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. <p>We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.</p>

5. VALUE FOR MONEY

Our approach to Value for Money

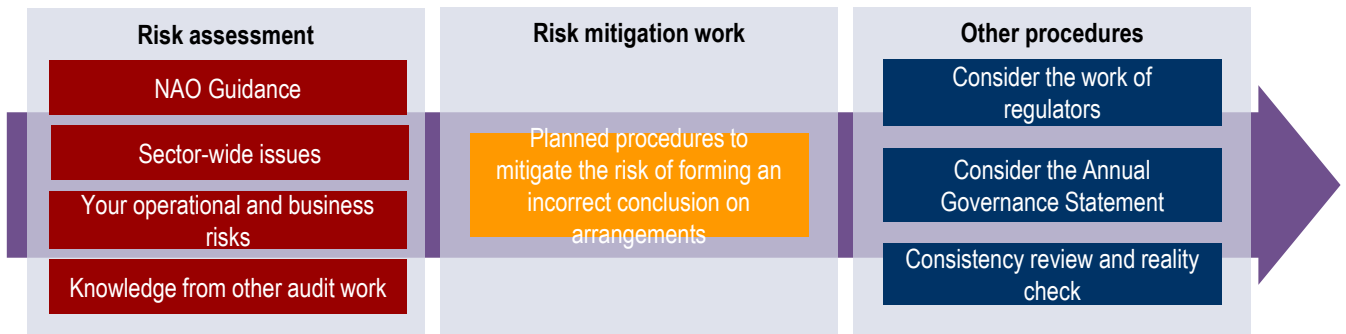
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have not identified any significant VFM risks. We have though identified the following as matters which we need to keep under close review during our audit:

- Financial sustainability – The Council has continued to work on updating forecasts and modelling its funding requirements and transformation plans. As at the end of quarter 2 a surplus of £454k was achieved on the revenue budget and it is forecast that a £782k surplus will be made by the year end with £650k transferred to reserves. Plans are in place until 2024/25. General Fund reserves remain constant each year at £2.6m. Transformation savings of £192k are required in 2020/21 with a further £0.959m required by 2024/25. A net budget deficit of £438k is anticipated in 2021/22 with the operational stabilisation reserve being used to smooth the budget from this year until 2024/25 when a surplus is anticipated and reserves should begin to be replenished. We need to consider the progress made against the budget and transformation plan and update our assessment of this risk area before forming our final VFM conclusion.
- Commercialisation - The Council has continued with its programme of commercial property investments. There is an approved £20m for these investments, with around £16m spent to the end of 2018/19 on 10 assets and a further 2 purchases likely in 2019/20. This expenditure has been funded by internal borrowing in the past. We will continue to track the governance arrangements supporting these investment decisions and consider if any external borrowing has occurred in 2019/20 as well as the impact on the MRP of these commercial investments.

We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Governance Scrutiny Group as part of our Audit Completion Report.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

The table below shows the scale fees set by PSAA as communicated in our fee letter of 26 April 2019. At this stage of the audit we are notifying clients that due to regulatory changes in audit requirements since the fees were agreed by PSAA – notably around increased work on PPE and Pensions – that fees are likely to have to increase in 2019/20. This is in line with other suppliers under the PSAA audit contracts who increased fees substantially in 2018/19. Any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with the Executive Director of Resources before approval is sought from PSAA.

Service	2018/19 fee	2019/20 fee (as per fee letter)	2019/20 Actual fee
Code audit work	£31,792 plus VAT	£31,792 plus VAT	TBC

Fees for non-PSAA work

We are not carrying out any non-PSAA work in 2019/20. Should the Council or entities within the Council's group wish us to undertake any other additional work, before agreeing to undertake this work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Council's group

In addition to the fees outlined above in relation to our appointment by PSAA, we have once again been separately engaged by the Council to carry out the audit of the Council owned subsidiary Streetwise Environmental Limited. This is being completed for a fee of £6,500 plus VAT (£6,000 plus VAT in 2018/19). In addition we may be engaged to undertake the audits of Rushcliffe Enterprises Ltd and Streetwise Environmental Trading Ltd. This has yet to be discussed with the management of those entities and accordingly fees have yet to be agreed.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with David Hoose in the first instance.

Prior to the provision of any non-audit services David Hoose will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified at this stage. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	852
Performance materiality	639
Trivial threshold for errors to be reported to the Governance Scrutiny Group	26

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

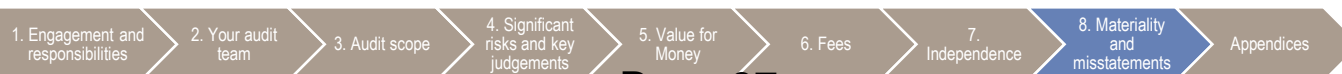
The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2018/19 total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Governance Scrutiny Group.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the 2018/19 total gross expenditure.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £852,000 (£820,000 in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality being £639,000 (£533,000 in 2018/19).

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account based on the 2018/19 accounts. Figures will be updated when we get the draft statements:

Item of account	Specific materiality (£'000s)
Officers' remuneration	£5,000*
Termination benefits	£10,000
Members' allowances and expenses	£41,000
External audit costs	£5,000

*Reflecting movement from one salary band to another

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance Scrutiny Group that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £26,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with David Hoose.

Reporting to the Governance Scrutiny Group

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance Scrutiny Group:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>



Governance Scrutiny Group

Thursday, 6 February 2020

Internal Audit Strategy 2020-2023

Report of the Executive Manager - Finance and Corporate Services

1. Purpose of report

- 1.1. The Internal Audit contract was due for renewal during 2019/20 and a procurement exercise was undertaken in conjunction with Gedling Borough Council. The Council's current internal auditors, RSM, were unsuccessful in this process and the contract was awarded to BDO who scored highly against all cost and quality indicators.
- 1.2. This report focuses on the three-year Internal Audit Strategy as a result of discussions with BDO and senior officers. This is included at Appendix A for consideration. This combines audits from the previous strategy (taking place in years two and three) as well as a number of new audits which have been introduced to increase the robustness of the Council's processes and provide additional assurance to the Governance Scrutiny Group.
- 1.3. A member of the BDO internal audit team will attend the meeting to introduce the company, present the report and answer any questions the Group may have.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group approve the Internal Audit Strategy 2020-2023.

3. Reasons for Recommendation

- 3.1. To conform with best practice and Public Sector Internal Audit Standards; and give assurance to the Corporate Governance Group regarding the Council's internal control environment.

4. Supporting Information

- 4.1. The Council's internal auditors, BDO, have compiled an Audit Strategy for the 2020 to 2023 period. This has been discussed and agreed with senior officers of the Council. This is included at Appendix A for information. Ten audits are planned for 2020/21 totalling approximately 150 days and covering a number of the Council's key processes and systems. These include:

- Budget Management and Reporting

- Licensing
- Markets
- Pest and Dog Control

4.2. There will also be a follow-up audit of recommendations made in previous years but not yet implemented to ensure that audit recommendations are being complied with by officers.

4.3. There are four questions to assist the Group in their consideration of the audit plan. These are:

- Is the Group satisfied that sufficient assurances are being received within their annual plan to monitor the Council's risk profile effectively?
- Does the strategy for internal audit cover the Council's key risks as they are recognised by the Group?
- Are the areas selected for coverage this coming year appropriate?
- Is the Group content that the standards within the charter (as set out in Appendix 1) are appropriate to monitor the performance of internal audit?

4.4. BDO LLP was awarded this contract, in part, due to their competitive audit fee. The confirmed fee for 2020/21 is £53,250 (excluding VAT) or £52,185 if the Council chooses to pay upfront the fee for the year, which it is planning on doing.

5. Risks and Uncertainties

5.1. There are no risks directly attributable to the report although the nature of the internal audit service and the audit plan helps manage risk. The audit fees are always subject to risk in terms of if an internal control weakness is identified fees can potentially exceed the budget or work may take less time than planned (ie there is both upside and downside risk).

6. Implications

6.1. Financial Implications

The audit fee relating to the costs of the audit work is included within existing budgets.

6.2. Legal Implications

None

6.3. Equalities Implications

None

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

None

7. Link to Corporate Priorities

Quality of Life	None
Efficient Services	Undertaking a programme of internal audit ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	None
The Environment	None

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group approve the updated Internal Audit Strategy and detailed Audit Plan 2020 to 2023.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix A – Internal Audit Strategy 2020-2023 Appendix 1 – BDO Audit Charter

This page is intentionally left blank

RUSHCLIFFE BOROUGH COUNCIL

PROPOSED STRATEGIC AND ANNUAL OPERATIONAL INTERNAL AUDIT PLAN AND CHARTER

Strategic	2020-2023
Annual Operational	2020-2021

IDEAS | PEOPLE | TRUST



INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

One of our 3 core aspects of our proposal is that **we deliver a risk based plan**. We believe there is no stronger evidence of this than the tailored plan we have devised for you. We see this plan as a demonstration of our commitment to the Council and if selected as your preferred supplier we would immediately engage with you and build strong relationships as set out in our proposal. This process would further refine the plan to ensure that it fully meets the needs of the Council.

Introduction

Our role as internal auditors is to provide independent, objective assurance designed to add value and improve your performance. Our approach, as set out in the Firm's Internal Audit Manual, is to help you accomplish your objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards.

Internal Audit at Rushcliffe Borough Council

In producing the internal audit plan for 2020-23 we would seek to further clarify our initial understanding of the Council together with its risk profile in the context of:

- The overall strategy and objectives of the Council
- The key areas where management wish to monitor performance and the manner in which performance is measured
- The financial and non-financial measurements and indicators of such performance
- The key challenges facing the Council.

APPENDIX

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

Background

Our risk based approach to Internal Audit uses the Council's own risk management process and risk register as a starting point for audit planning as this represents the Rushcliffe Borough Council's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects Rushcliffe Borough Council's current risk profile.

Planned approach to internal audit 2020/21

The indicative Internal Audit programme for 2020/21 is shown on the next page with an indicative strategic plan for 2020/21 to 2022/23 shown on the pages subsequent to that. We met with the senior management from the Finance team in order to bring together a full plan which will be presented at the February 2020 Governance Group. We will keep the programme under continuous review during the year and will introduce to the plan any significant areas of risk identified by management during the period.

The plan is set within the context of a multi-year approach to internal audit planning, such that all areas of key risks would be looked at over a three year audit cycle. In setting the number of days in the plan we have assumed that the control environment within the Council will improve as we work with you to address the issues you have.

Individual audits

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required we will obtain approval from the appropriate Executive Director prior to commencing fieldwork.

In determining the timing of our individual audits we will seek to agree a date which is convenient to the Council and which ensures availability of key management and staff.

Variations to the Plan

We review the three year strategic plan each year to ensure we remain aware of your ongoing risks and opportunities. Over the coming pages we have mapped your key risks along with the audit work we are undertaking, demonstrating we are focussing on your most important issues.

As such our strategic audit programme follows the risks identified during our planning processes and confirmed via discussions with the Executive Directors.

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Area	2020/21	Focus Area	Indicative Date
1. Events, Social Media and Communications	12	Strategic Risk and Internal Control	Q1
2. Budget Management and Reporting (high level)	12	Strategic Risk and Internal Control	Q3
3. Cyber	15	Strategic Risk and Internal Control	Q2
4. Retention & Recruitment	12	Strategic Risk and Internal Control	Q2
5. Main Financial Systems inc. Payroll, Ctax/NNDR and Treasury Management	22	Internal Control	Q3
6. Licensing	13	Internal Control	Q4
7. Markets	13	Internal Control	Q1
8. Country Parks Income inc. Lark in the Park	12	Internal Control	Q2
9. Pest and Dog Control	12	Internal Control	Q1
10. Fraud Report	12	Strategic Risk and Internal Control	Q4
Management Time	7	All	Q1 - Q4
Follow-up	7	All	Q1 - Q4
Grand total	150		

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
1. Risk Management		12		1. Our sector experience informs us that risk management is generally weaker in local authorities compared to other parts of the public sector 2. We have identified risks which are similar/repetitive in your corporate risks especially around data - this is not necessarily wrong but we would want to understand your framework more to unpick whether this approach facilitates strong and robust discussions	<ul style="list-style-type: none"> Use our Risk Maturity Toolkit to advise where the Council sit in terms of risk management on a five-point scale from Naive to Enable Assess how the Council system is used and if risks are engaged with well and updated effectively to manage and mitigate risks Interview key personnel involved in the process 	A member of our Team, Charlotte Thomas, has also supported the process of risk management at the London Borough of Southwark 1 day a week. This involved ensuring risk management connects across the Council and support the delivery of training. This significant experience will be brought to this review.
Efficient Services						
CRR_FCS05 Revaluation of major business rate payer CRR_FCS07 Central Government policy changes						
2. Corporate Governance		12		1. Major risk to all authorities given the importance of good governance and greater challenges and scrutiny placed on governance decisions within the Council and by the public nationally 2. The above risk will increase as Councils become, as you are, more commercial and face greater financial challenges	<ul style="list-style-type: none"> Review the Governance structure and ensure that this is operating reasonable against CIPFA Good Governance Code Assess the SIP Plans in place and if these are developed and managed effectively Review the process to identify performance measures and test the data which feeds into them Observe the meetings where performance is discussed and assess if this is effective Interview key personnel involved in the process Assess whether reporting is frequent, comprehensive and effective to identify performance issues and focus actions to mitigate risks. 	We have supported Councils in their presentation and reporting of performance information to make more effective to support decision making i.e. is it summarising the most useful information in the right way at the right time? The Engagement Leader is an acknowledged specialist in LG corporate governance. We will share this knowledge with you to support any enhancement in your processes.
Efficient Services						
CRR_FCS05 Revaluation of major business rate payer CRR_FCS07 Central Government policy changes						
Total	-	24	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
3. Budget Management and Reporting	12			<p>1. Forecast level of general balances of £2.6m throughout the 5 year strategy, with confirmation that the minimum level of general balances should not fall below £1.25m</p> <p>Council's Revenue Support grant has reduced by 100% by 2019/20 to zero</p>	<p>We will review the Council's budget monitoring protocols focussing on the efficiency programme and focus on whether discussions are happening at the right frequency, with the right people and with good discussion and clear actions set</p> <p>Furthermore our sample testing will assess the approval of virement, how concerns are escalated and how these feed into the budget monitoring which is reported to management.</p>	<p>The Engagement Senior Manager and Senior will attend at least 5 budget monitoring meetings to listen into discussions and then hold open discussions afterwards to understand the effectiveness of the meeting. We will then facilitate a round-table discussion with Finance Budget Managers and Service Area Managers to discuss themes identified and generate agreed improvements moving forward. Therefore this review will go well beyond a desktop exercise. The Senior Manager in October 2019 presented to the Homes Counties Audit Group on what the challenges with transformation or efficiency programmes are - he will bring these lessons learned to the review.</p>
Efficient Services						
CRR_FCS22 Uncertainty around Government funding and changes to the business rates system with a one-year financial settlement						
CRR_FCS21 Inflationary pressures, volatility over budgets						
OR_FCS06 Failure to manage and monitor budget						
CRR_FCS10 Inflationary pressures						
4. Cyber	15			<p>1. National risk to all Councils especially post WannaCry</p> <p>2. A wider table top exercise is also being planned to take place in January/February 2020 to discuss the Councils response to a cyber attack</p>	<ul style="list-style-type: none"> Review overall approach to Cyber including how systems are identified and prioritised Review overall Security Policies, risk identification and management Assess connections and reliance on third-parties and how exposure is managed Review how staff are trained and supported as they are the gate keeper to cyber risks Assess technology and tools in place to identify and mitigate cyber risks Assess response management procedures. 	<p>As a firm we offer Cyber Training to Members where other Members/Non-Executives are given free training and support on the questions they should ask of their organisations - we will offer this to the Council also.</p>
Efficient Services						
CRR_TR16 Threat of major successful cyber-attack						
Total	27	-	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
5. Fraud Report Efficient Services CRR_FCS03 Failure to prevent or detect fraud and corruption	12	12	10	1. Risk to all Councils and identified as a corporate risk 2. This includes corporate fraud and benefits fraud 3. Council take part in NFI 4. CIFAS reporting in 2019 the rise of local authority fraud and lack of identification across the sector	<ul style="list-style-type: none"> Review of the strategy in place and challenging how this was formed Comparison to our understanding of the Council's activities and emerging risks we see across the public sector Interview key personnel lead specialists to understand how they identify and mitigate fraud risks 	We have a specialist counter fraud team within BDO who are qualified counter fraud specialists. They will support this review and share their expertise with our internal auditors.
6. Project Management Efficient Services and Sustainable Growth CRR_FCS20 Failure to properly manage and deliver significant projects			12	1. Projects are managed locally by managers which could cause inconsistencies with delivery 2. Projects are a large cost so hold financial and reputational risks	<ul style="list-style-type: none"> Review Project Management Framework and assess whether this is widely circulated to project managers Review the Bingham Leisure Centre and Crematorium projects specifically Review minutes of oversight groups and reporting mechanisms 	We will deploy a PRINCE2 qualified consultant to undertake this work. We have undertaken such reviews at many public sector organisations and are familiar with manual and system software which support the process. Our approach will compare your approach to PRINCE2 methodology and whether it is working in reality.
Total	12	12	22			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
7. Business Continuity and Disaster Recovery		12		1. Departmental arrangements being reviewed and revised currently and expected to be updated in 2020	Review Council arrangements for the overall Business Continuity and Disaster Recovery Plan.	We have conducted numerous such reviews and will deploy our specialist, Chris Culbert.
Efficient Services				2. Identified as key corporate risk across 4 different areas which spans Council arrangements and those with partners such as local resilience forum	This includes how this Plan interacts with local service plans and whether there is adequate oversight that these all remain up-to-date, regularly assessed and/or tested via desktop scenarios or live testing. A critical focus will be on where arrangements link to supplier system arrangements and the strength of these	Most recently this was performed at Rushcliffe Borough Council which has led to significant re-focussing on this area and development of up-to-date Plans and testing supported by a strong follow-up and regular reporting to Committee to give assurance on progress.
CRR_NS10 Failure of business continuity						
CRR_NS11 Ineffective emergency planning arrangements						
CRR_TR14 Short term loss/failure of main ICT systems						
CRR_TR12 Long term loss/failure of main ICT systems						
Total	-	12	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
8. GDPR		12		<ol style="list-style-type: none"> National risk to all Councils Timely review to assess the embeddedness of GDPR post previous Internal Audit reports 	<p>We will assess whether your GDPR readiness arrangements are sound vs. the ICO requirements. There will then be a significant focus on how the Council ensure they are compliant which will include sample testing data from different parts of the Council to ensure it is now compliant.</p> <p>We will also assess the arrangements in place to ensure there is sufficient staff capacity to meet requirements, how reporting is effective and how lessons learned are shared to ensure good/poor practice is promoted/stamped out.</p>	<p>We will deploy our IT auditor who is a specialist in this area having undertaken numerous GDPR readiness reviews supporting Councils around the country on their arrangements to be prepared. We know what good looks like and once the new arrangements are in place we will involve our specialist to assess your compliance and any key weaknesses and exposures and how these can be managed.</p> <p>Councils may struggle with new requirements and we will have immediate access to the national mood/position on this area and will regularly liaise with your staff to share knowledge.</p>
Efficient Services						
<p>CRR_TR13 Loss or compromise of sensitive data</p> <p>CRR_TR21 Failure to comply with the Data Protection Act</p> <p>CRR_TR22 Loss or compromise of confidential or restricted information or data</p>						
9. Community Facilities		10		<ol style="list-style-type: none"> Currently undergoing a scrutiny review into the area 	<ul style="list-style-type: none"> Review the level of information provided to the scrutiny group and the effectiveness of the discussions via a review of minutes Interview members of the Communities Scrutiny Group to ascertain their views on the effectiveness of the review into community facilities 	<p>BDO have completed a number of reviews around the effectiveness of a monitoring group, including a review into the Senior Management team at Northampton Borough Council and governance reviews at numerous National Governing Bodies.</p>
Efficient Services						
<p>CRR_FCS01 Failure to properly deal with community governance review legislation, Community Right to Challenge, and nominations for assets of community value</p>						
Total	-	22	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
10. Contract Management & Procurement Efficient Services CRR_TR09 ICT supplier goes out of business OR_NS29 Lack of or inappropriate monitoring of the Council's contracts in place			18	1. Critical area to demonstrate value for money	Contract: • Review will look directly at the contract management processes in place for two of the largest contract the Council has, Streetwise Environmental Ltd, whom they paid c£425k in Q2 of 2019/20; and, Lex/Parkwood Leisure Ltd who they paid c£16.5k in Q2 of 2019/20. For these two contracts we will review the procurement process and how this followed through into the contract management • Review contract management meetings and interview key stakeholders • Review contracts in place and whether they are approved and complied with • Observe contract management meetings and assess if these are effective Procurement: • Review procurement exercises vs. protocols for compliance • Review the Strategy vs. progress and reporting • Review counter fraud controls in process for adequacy Review communication channels with the external procurement advisers, Welland Procurement	We can compare the Strategy to other Councils to identify other practices or enhanced practices to drive improvement. We have completed contract management reviews at several other local authorities and will draw on our experience into this review.
Total	-	-	18			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
11. Environment			12	1. Some Councils have declared climate emergencies and this trend is expected to continue raising the profile nationally which in turn raises the scrutiny placed on all organisations 2. Introduction of the Environment Bill	<ul style="list-style-type: none"> Review of all Council policies and overall strategies to set, approve and achieve environmental aims This will include interviewing key stakeholders and Members who may champion this area Compare your arrangements to other local authorities This will be an assessment of certain areas in a deeper dive way i.e. how you think about staff and supplier impacts on the environment and improve your arrangements to achieve a more environmentally friendly outcome in your area Assess your corporate reporting in this area and how this is owned, monitored and actioned Assess the preparation for the Environment Bill and the strategy in place to ensure compliance with it 	We work with Rushcliffe Borough Council who have declared a climate emergency and are undertaking a review in this area in 2019-20. We would share their arrangements with you to see where ideas they are pursuing could be brought into your authority to help improve your control environment where applicable.
Environment						
CRR_NS08 Failure of internal health and safety compliance or enforcement of health and safety OR_NS06 Lack of knowledge of contaminated land						
Total	-	-	12			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
12. Health and Safety Quality of Life CRR_NS09 Unforeseen incidents happening at public events CRR_NS08 Failure of internal health and safety compliance or enforcement of health and safety OR_TR04 Failure to manage legionella issues OR_TR05 Failure to manage asbestos in buildings under our control			12	1. Heightened risk due to significant cases of public properties subject to fire 2. Health and safety in the workplace and outside the workplace is more challenging with agile working	<ul style="list-style-type: none"> Review Health and Safety Policies - how these were produced, what do they cover, were they approved and do staff understand them Assess training in this area and whether arrangements are effective Review how incidents are reported and then managed/escalated Assess how sites are maintained to ensure they are safe. This includes Council offices and Council housing properties Assess performance indicator information and reporting to management groups who assess this. We will review minutes and interview key stakeholders Understand and assess how the Council assess contractor risks in this area 	<p>Our auditor proposed, Pavan Mohan, has undertaken 3 reviews of health and safety in the last 6 months across the sector. As part of this she has worked with our wider BDO colleagues to compare arrangements to best practice and from the Institute of Safety and Health (IOSH) which is a BDO internal audit client.</p> <p>We would do the same with you and use the wealth of knowledge we have with highly experienced staff to assess your arrangements and drive improvements in your control environment.</p> <p>With regards to the mandatory training finding raised previously we would want to conduct data analytics on the mandatory training figures to assess the whole population. We also do not believe the report you received gets to the root cause - we will understand this as part of our follow-up to improve the control environment.</p>
Total	-	-	12			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
13. Channel Shift Quality of Life CRR_FCS11 Increased demand for services			12	1. Critical focus for many local authorities to meet customer expectations but also achieve efficiency savings 2. There is an elderly population in Rushcliffe so there needs to be sufficient customer service points to serve the satisfaction of residents	This will be a review of documentation related to the channel shift agenda, including strategic performance frameworks, activity and financial data, reports to Councils and funding bids for channel shift projects. We will also review the Digital strategy in terms of Channel Shift and whether progress against projects is captured, monitored and reported correctly. This will encompass the effectiveness of communication between the Customer Services and the IT teams. A critical challenge with channel shift is assessing effectiveness as identifying savings can be difficult so the review will focus on the source data which feeds into reports and its accuracy and completeness.	Our staff have conducted with the Engagement Senior Manager a Channel Shift review at numerous Councils. We can quickly benchmark the practices of the Council against others and identify areas for improvement or enhancement based on current practices.
14. Safeguarding Quality of Life CRR_CO03 Failure to safeguard children and vulnerable adults			10	1. Key risk area within Council employees and with greater risks around Child Sexual Exploitation nationally	Review to identify how the Council identifies all roles and activities which may have impact on safeguarding concerns. From here to assess the controls around training and re-training and different levels of training depending on the type needed. Assess governance arrangements, who attends and how decisions and actions are taken to ensure safeguarding is appropriate. Review relationship with section 11 forms and reporting to Adult and Childrens Safeguarding Boards i.e. representatives.	We have undertaken numerous such reviews and this has included supporting Councils to improve training compliance and deep diving into root causes of where non-compliance happens how it can improve. We work with all tiers of local government and parts of the NHS and therefore understand the importance of working with stakeholders.
Total	-	-	22			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
15. Events, Communications incl. Social Media Quality of Life CRR_NS08 Failure of internal health and safety compliance or enforcement of health and safety OR_FCS10 Reputational risk to the Council following adverse media coverage	12			1. Using more social media to raise awareness of facilities available on Council website and for the community generally	<ul style="list-style-type: none"> We will identify all your social media forums and review them from a customer perspective i.e. how are customers and the public communicated to, how frequently and how effectively We will compare your arrangements to other local authorities and suggest practical and appropriate improvements to help you maximise the technologies of social media 	BDO have previously done a national thought leadership piece of social media use in the public sector. We have built on this knowledge and have access to the latest ideas/techniques used by organisations and senior personnel to achieve the potential that social media can yield. We would share these ideas with you.
16. Waste and Recycling Environment OR_NS02 Disruption and lack of fuel preventing collection of domestic waste OR_NS06 Lack of knowledge of contaminated land			12	1. Rushcliffe council's Recycling2Go teams have moved into the same depot as Nottingham staff 2. Important area which impacts the reputation of the Council given the public interaction in the service 3. Green waste collection accounted for £.3 million of income in 2018/19	<ul style="list-style-type: none"> Review reporting and governance around bin collection as a whole This includes assessing the validity of data collected and reported through to the Finance and Performance Committee Assess how bin rounds, staffing and weather challenges are managed and escalated as necessary Review customer satisfaction arrangements Understand and assess arrangements to pick up complaints and action these and also Member concerns picked up from residents/Surgeries they hold. Review income collection and reconciliation procedures for green wasted collection 	We will compare your arrangements to other Council's and identify differences whether practices may be more enhanced or stronger to drive value in the operations you have in place.
Total	12	-	12			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
17. Housing Benefits Quality of Life and Efficient Services OR_FCS07 Lack of implementation of financial controls		12		1. Universal credit has been referred by Government however still uncertainty over the programme and what this means	<ul style="list-style-type: none"> Assessment of benefit cases against evidence retained on systems Work closely with external audit and understanding any risks/concerns they may have raised in the review of your benefit claim Review your processes around staff capacity and capability and structure to reduce processing times Assess reporting information in this area and how local operational and senior strategic teams assess performance and whether information reporting is robust and effective to make improvements 	We have worked closely with Councils who have had to return large amounts back to Government due to failures identified in their subsidy returns (c.£300k). As part of this with one Council we compared their arrangements to others across how they identify possible cases which may be non-compliant and be local authority error cases in the future and the controls they have in place. We can share this information with you and techniques they use.
18. Homelessness & Temporary Accommodation Quality of Life OR_NS20 Significant malfunction of core services/security risk at Council's temporary accommodation premises		12		1. Joint Homelessness Strategy across South East of England 2. Risk of cases especially single women Homelessness Reduction Bill places new responsibilities on Councils to support individuals 4. National figures for temporary accommodation rising and in Q1 in 2019-20 the figure was 84,740 which is the highest figure for over a decade	<ul style="list-style-type: none"> Review of Homelessness Strategy 2015-2020 in terms of monitoring, reporting and escalation Select samples of homelessness cases and ensure they are processed in-line with protocols Review the additional Officer time needed to comply with new procedures i.e. Actions on preventions and relief and if capacity/training is robust Review additional DCLG reporting and data validity 	We have worked with Council's who have Gold Standards in this area who have particularly high numbers of homeless people present themselves. This includes those in City Council conurbations or those such as London Borough of Southwark who are the third largest Housing Provider in the country and have significant homeless people present themselves.
Total	-	24	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
19. Planning and s106 Sustainable Growth OR_CO04 Cost of defending appeals for large scale residential developments and potential award of costs OR_CO05 Failure to determine major planning applications within 13 weeks or agreed period		12		1. National risk for all local authorities given the importance towards future housing and commercial development 2. Large reputational impact where Councils do not have sound arrangements to meet Planning Inspectorate and internal procedure and Member/public expectations 3. Often a tension area between management and Members in authorities which can have a wider impact on relationships	<ul style="list-style-type: none"> Select a sample of planning applications across minor, major and others to assess whether legislative and system protocols are adhered to Review the data being reported information for accuracy and completeness and assess the effectiveness of the oversight/scrutiny of data Review steps taken to engage with Members and stakeholders in the process 	The Engagement Manager attended the Aylesbury Vale District Council Development Management Committee, interviewed applicants, interviewed Lead Members and attended a Member training on planning to understand the service from all perspectives. We can also compare your pre-app fees to identify benchmarks.
20. Recruitment & Retention Efficient Services CRR_TR11 Insufficient staff capacity - skills, knowledge etc.	12			1. Specific challenge with experienced technically qualified staff 2. Pay Policy statement approved in 2020	<ul style="list-style-type: none"> Test recent recruitment campaigns to identify whether protocols are followed and assess if they were successful - this will involve a root cause analysis for where things have worked well and not well To assess the monitoring, reporting and oversight of recruitment i.e. how management judge the success of the Council's overall processes and take action to continuously improve Review strategy for recruitment for particular departments where there is a strain on staff capacity, i.e. planning. 	We will: <ul style="list-style-type: none"> Map your recruitment processes to best practice Councils and identify efficiencies or better processes. We will include the recruitment map vs. best practice in our report Discuss innovative practices on difficult areas to recruit into with Hiring Managers and the Recruitment Team to see how these can be implemented i.e. recently we advised a Council on how to greater use social media and compared their e-platforms to others in terms of how the Council promotes itself.
Total	12	12	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
21. Community Right to Challenge Efficient Services CRR_FCS01 Failure to properly deal with community governance review legislation, Community Right to Challenge, and nominations for assets of community value			10	1. Identified as a corporate risk by the Council	<ul style="list-style-type: none"> We will assess whether if an asset is listed and then comes up for sale, the new right will give communities that want it a total of 6 months to put together a bid to buy it (including a 6-week cut-off for an initial proposal to be put forward) Whether those who can legally have a right to challenge are engaged with i.e. parish councils, neighbourhood forums and community interest groups Assess whether challenges are received, processed, reviewed and approved appropriately 	Through our knowledge in the sector we are aware of the challenges nationally with this policy brought in by the Localism Act 2011. We will bring this experience to this review.
22. Licensing, with a focus on Taxi Licensing Efficient Services/Quality of Life CRR_FCS09 Fee income volatility	13			1. Licensing fees are not recovered from customers 2. Following recent high profile cases of illegitimate taxi licenses being issued this has become a reputational risk for local authorities and the safety of residents	<ul style="list-style-type: none"> Review license fees policies and assess whether they have been produced with appropriate conditions and consultation with stakeholders Sample test taxi license holders to assess whether appropriate fees have been recovered Whether there are appropriate controls in place to ensure effective recovery of fee income 	We will discuss the consultation process with the key stakeholders involved in license fee income and use our collective knowledge and experience to identify areas of best practice.
Total	13	-	10			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
23. Markets Efficient Services OR_FCS07 Lack of implementation of financial controls CRR_FCS03 Failure to prevent or detect fraud and corruption	13			1. Council have started working with a new cash collecting which raises concerns around value for money and fraud 2. Cash has not been collected and banked in a timely manner in the past	<ul style="list-style-type: none"> Assess the formal cash collection process in place at the market Liaise and visit the external suppliers to understand their arrangements once the cash is collected, including security of the cash Sample test 5 market cash collection cases 	We have undertaken cash handling reviews at other local authorities which included arrangements of market cash collection by a third party. We visited their sites and discussed their security processes. We would bring our experience of cash security protocols and best practice to this review
24. Country Parks Income Review inc. Lark in the Park Efficient Services OR_FCS07 Lack of implementation of financial controls CRR_FCS03 Failure to prevent or detect fraud and corruption CRR_NS09 Unforeseen incidents happening at public events OR_FCS07 Lack of implementation of financial controls	13			1. Security arrangements for the safe collection and transporting of cash 2. Full income due is not collected at Rushcliffe Country Park 3. Customers are not charged the correct amount for meeting room bookings 4. Income collected from stalls at the Lark in the Park event were not banked at last years event for over one month 5. Procedures for cash collection and banking are not clear and understood by all staff	<ul style="list-style-type: none"> Assess the formal cash collection process in place at the Rushcliffe Country Park Liaise and visit the external suppliers to understand their arrangements once the cash is collected, including security of the cash Sample test 15 Rushcliffe Country Park cash collection cases 	We have undertaken cash handling reviews at other local authorities which included arrangements of cash collection by a third party. We visited their sites and discussed their security processes. We would bring our experience of cash security protocols and best practice to this review
25. Dog and Pest Control Efficient Services CRR_FCS09 Fee income volatility	12			1. Response times are consistently not achieved for removal of pests 2. Fees for pest removal and recovery of stray/lost dogs not recovered 3. Cost of pest removal/dog recovery is not sustainable	<ul style="list-style-type: none"> Review whether team structures and capacity are sufficient to effectively manage the service Sample test pest control/dog recovery cases to assess whether fee income was received, and that the request was dealt with in a timely manner 	We have undertaken numerous such reviews at all local authorities we work with. We will assign an experienced member of staff who can map/compare your arrangements to drive the best practices to your control environment to suggest improvements.
Total	38	-	-			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
26. Hybrid Mail Project Review Efficient Services CRR_FCS20 Failure to properly manage and deliver significant projects		12		1. The is a large project and consequently is a higher financial and reputational risk to the Council 2. Receipt of mail is key to support effective services	<ul style="list-style-type: none"> We will interview key personnel charged with the responsibility of managing the project Review minutes and reports issued to senior management about project progress Assess the KPIs related to the project and whether these are being appropriately monitored 	We have completed project management reviews at several other local authorities and are familiar with manual and system software which support the process.
27. Car Parking Sustainable Growth OR_TR23 Challenge to ensure sufficient car parking spaces at Rushcliffe Arena - car parking works complete			12	1. Car parks held at Bingham, Keyworth, Radcliffe on Trent, Rushcliffe Country Park and West Bridgford 2. Key reputational risk area 3. Car parking income in 2018/19 was c£855k	<ul style="list-style-type: none"> Review processes to approve and then communicate parking charges Assess how parking is charged and then the collection of this to ensure it is accurate and complete Review parking data to ensure it is valid and correct to inform decision making 	For a recent Council we live tested the system, with the agreement of the Section 151 Officer, by deliberately getting the Audit Team to breach parking rules i.e. staying over time limits, parking over lines or in unauthorised areas. The aim was to test enforcement from the perspective of the customer. This real experience identified new perspectives and makes the review more rounded.
Total	-	12	12			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Audit Area, Vision and Corporate Risk	Year 1	Year 2	Year 3	Risks Identified	Description of Review	Value BDO will add
28. Main financial systems in. payroll, Council Tax/NNDR and Treasury Management	22 – full system review. Payroll but also GL, AP and AR	20	20	<ol style="list-style-type: none"> Main financial system areas are a critical risk The payroll function is outsourced to Gedling Borough Council so there is a reliance on accurate and timely information Incorrect payments to staff could result in significant reputation damage This is a staple review that is incorporated in all local authority audit plans across the country. This is because it is a recognised risk area as it contains critical controls which underpin the integrity of a Council National trends inform us that there is a variety of practices with how funds are recovered particularly in council tax and also 	<p>To also include payroll:</p> <ul style="list-style-type: none"> Assess the adequacy payroll policies and procedure guides in place - particularly around new starters and leavers Sample test employees to review whether they have been paid correctly based on the input information Review management reporting of payroll information <p>In year two an three the review will also include Council Tax/NNDR:</p> <p>This review will assess:</p> <ul style="list-style-type: none"> Council tax and NNDR policies i.e. council tax reduction scheme in terms of its review and approval VOA returns back to what is recorded on systems The process to issue demands and whether discounts or values have been applied correctly How amendments to demands are actioned and critically how they are followed up Assess KPI reporting on this area and how action is implemented <p>In year 2 the review will include Treasury Management:</p> <ul style="list-style-type: none"> Treasury arrangements reviewed from Strategy to Member training or controls around how deals are reviewed/approved 	<p>BDO have completed these standard reviews of main financial systems at several local authority clients. These form part of our standard internal audit plan so we could use our experience obtained from reviews at other local authority clients to share best practice.</p> <p>For the treasury management review we can incorporate data analytics into this process if your data/systems allow and we can share this with you to give comfort over key areas such as 'three-way match' on accounts payable or breach of scheme of delegation.</p>
Efficient Services						
OR_TR20 Threat of Industrial Action OR_FCS07 Lack of implementation of financial controls						
Total	22	20	20			

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

This is an indicative plan and we will work with you to refine it. We have aligned our audit plan to the areas that matter to you.

Area	Year 1	Year 2	Year 3	Value BDO will add
GRAND TOTAL AUDIT DAYS	136	138	140	
Management Time	7	6	5	We will have strong on-site presence with experience Management and a CIPFA-led Team.
Follow-Up	7	6	5	We will follow-up and report all Medium and High recommendations quarterly including those of the predecessor. We will have strong on-site presence and can use SharePoint to track findings. However, our experience is that our relationships with staff and on-site presence is the most effective tool to ensure effective follow-up and not systems.
GRAND TOTAL DAYS	150	150	150	We believe the current days per year are low for a Council of your size and based on benchmarking against similar Councils across the Midlands. We offer value by increasing the days at a competitive rate, with access to a leading provider with significant experience in the sector.

APPENDIX

INTERNAL AUDIT STRATEGIC PLAN 2020 - 2023

Risk based plan

Here we have set out other reviews we considered as part of the Plan however, they have not been included. In line with best practice PSIAS it is recommended to do this - we have given reasons for exclusion. The Plan we have submitted is a Draft Plan and if appointed, we would go through as extensive a process as required typically holding discussions with senior management, attending relevant management meetings and speaking with the Chair of the Corporate Governance Group. As part of any revisions through this process the below list will act as a useful list for discussion to consider where reviews in the current Plan may be swapped for those below.

Area	Reason for exclusion
CRR_CO04 Inability to demonstrate a five year supply of deliverable housing sites against the housing target leading to further development on unallocated sites	This risk area is a corporate risk identified but we have not included in our plan. We have a review around planning and section 106. However we do not have a review around your wider Local Plan or housing strategy. We find the controls and scrutiny around this are high and our input to add value can be more difficult given the large number of stakeholders and decisions which have already been made and therefore the days available in our plan would not be sufficient for us to add value and provide reasonable assurance.
Grants	We recognise you may require our support to undertake grant reviews such as disabled facilities grants or capital housing pool returns. We also recognise that some County Councils do not require their districts to undertake an annual audit of disabled facilities grant and we have seen a trend in County Council requirements for such a review each year reducing. If a review is needed then we would work within the plan and ensure that time for this can be included in the plan within the total days we have submitted.
Building Control	This has been completed in 2019-20 and received Substantial assurance and therefore has been excluded. This will be followed-up by us so assurance of implementation of actions will still be obtained.
Land Charges	This has been completed in 2019-20 and received Substantial assurance receiving only 1 low finding and therefore has been excluded. This will be followed-up by us so assurance of implementation of actions will still be obtained.
Insurance	This is planned to take place in quarter 3 in 2019-20. On the basis it is in the current plan we have not included it in ours. We will re-assess this depending on the outcome of the review.
Property leases/rent	This is planned to take place in quarter 4 in 2019-20. On the basis it is in the current plan we have not included it in ours. We will re-assess this depending on the outcome of the review.

APPENDIX I

Internal Audit Charter - Role and Scope of Internal Audit

Purpose of this charter

This charter is a requirement of Public Sector Internal Audit Standards (PSIAS). The charter formally defines internal audit's mission, purpose, authority and responsibility. It establishes internal audit's position within Rushcliffe Borough Council, and defines the scope of internal audit activities.

Final approval resides with the Governance Group (through discussion with the Section 151 Officer), in practice the charter shall be reviewed and approved annually by management and by the Governance Group on behalf of Executive Management.

We will agree with you an audit plan for a total number of days activity. Once agreed, we will turn this into a cash budget which we will work to, in order to ensure that you have certainty around the fees you will pay us.

Internal audit's mission

Internal audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Standards of internal audit practice

To fulfil its mission, internal audit will perform its work in accordance with PSIAS, which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practice Framework (IPPF): Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

Internal audit definition and role

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit acts primarily to provide the Governance Group and Section 151 Officer with information necessary for it to fulfil its own responsibilities and duties. The Section 151 Officers role is to ensure Council is compliant with the statutory requirements for internal audit as set out in the 1972 Local Government Act. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities.

The range of work performed by internal audit is set out in PSIAS and not repeated here.

Internal audit's scope

The scope of internal audit activities includes all activities conducted by Rushcliffe Borough Council. The Internal Audit Plan sets out those activities that have been identified as the subject of specific internal audit engagements.

The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive (Head of Internal Audit) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by internal audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management, with the aim of improving governance, risk management and control and contributing to the overall opinion. The nature and scope of consulting engagement are subject to agreement with management. When performing consulting services, internal audit should maintain objectivity and not assume management responsibility.

Effective internal audit

Our internal audit function is effective when:

- It achieves the purpose and responsibility included in the internal audit charter
- It conforms with the Standards
- Its individual members conform with the Code of Ethics and the Standards
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to Rushcliffe Borough Council (and its stakeholders) when it considers strategies, objectives and risks, strives to offer ways to enhance governance, risk management and control processes and objectively provides relevant assurance.

APPENDIX I

Internal Audit Charter - Independence and objectivity

Independence and internal audit's position within Rushcliffe Borough Council

To provide for internal audit's independence, its personnel and external partners report to the Head of Internal Audit, who reports functionally to the Governance Group. The Head of Internal Audit has free and full access to the Chair of the Governance Group. The Head of Internal Audit reports administratively to the Head of Financial Services (Section 151 Officer) who provides day-to-day oversight and is charged with ensuring the Council is compliant with statutory requirements for the internal audit function.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures and subject to the approval of the Chair of the Governance Group.

The internal audit service will have an impartial, unbiased attitude and will avoid conflicts of interest. The internal audit service is not ordinarily authorised to perform any operational duties for Rushcliffe Borough Council.

In the event that internal audit undertakes non-audit activities, safeguards will be agreed to ensure that independence or objectivity of the internal audit activity are not impaired. This might include a separate partner review of the work or a different team undertaking the work. Approval of the arrangements for such engagements will be sought from the Section 151 Officer and Governance Group prior to commencement.

In the event that internal audit provides assurance services where it had previously performed consulting services, an assessment will be undertaken to confirm that the nature of the consulting activity did not impair objectivity and safeguards will be put in place to manage individual objectivity when assigning resources to the engagement. Such safeguards will be communicated to the Section 151 Officer and Governance Group.

Internal audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. Should any interference take place, internal audit will disclose this to the Governance Group to discuss the implications.

Internal audit's role in fraud, bribery and corruption

Management, not internal auditors are responsible for the prevention and detection of fraud, bribery and corruption. Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption as well as seeking to identify indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that internal audit suspect a fraud, this will be referred to appropriate management in the first instance and then the audit committee.

Access to records and confidentiality

There are no limitations to internal audit's right of access to Rushcliffe Borough Council officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

When the auditors receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the General Data Protection Regulations 2018.

Coordination and reliance with other assurance providers

In co-ordinating activities internal audit may rely on the work of other assurance and consulting service providers.

A consistent approach is adopted for the basis of reliance and internal audit will consider the competency, objectivity, and due professional care of the assurance and consulting service providers. Due regard will be given to understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services.

Where reliance is placed upon the work of others, internal audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

APPENDIX I

Internal Audit Charter - Internal Audit Commitments

Internal audit's commitments to Rushcliffe Borough Council

Internal audit commits to the following:

- working with management to improve risk management, controls and governance within the organisation
- performing work in accordance with PSIAS
- complying with the ethical requirements of PSIAS
- dealing in a professional manner with Rushcliffe Borough Council staff, recognising their other commitments and pressures
- raising issues as they are identified, so there are no surprises and providing practical recommendations
- liaising with external audit and other regulators to maximise the assurance provided to Rushcliffe Borough Council reporting honestly on performance against targets to the Section 151 Officer and Governance Group.

Internal audit performance measures and indicators

The tables on the right contain some of the performance measures and indicators that are considered to have the most value in assessing the efficiency and effectiveness of internal audit.

The Governance Group should approve the measures which will be reported to each meeting and / or annually as appropriate. In addition to those listed here we also report on additional measures as agreed with management and included in our Progress Report.

Quality assurance and improvement programme

As required by PSIAS an external assessment of the service will be performed at least every five years. BDO also has an internal quality assurance review process in place, which takes place annually. This is performed by a separate team independent to the internal audit team.

The results of internal and external assessments will be communicated to the Section 151 Officer and Governance Group as part of the internal audit annual report, along with corrective action plans.

Table One: Performance measures for internal audit

Measure / Indicator
Audit Coverage
Annual Audit Plan delivered in line with timetable
Actual days spent in accordance with Annual Audit Plan
Relationships and customer satisfaction
Customer satisfaction reports - overall score at least 70% for surveys issued at the end of each audit
Annual survey to Governance Group to achieve score of at least 70%
Staffing and Training
At least 60% input from qualified staff
Audit Reporting
Issuance of draft report within 3 weeks of fieldwork 'closing' meeting
Finalise internal audit report 1 week after management responses to report are received.
Audit Quality
Positive result from any external review

APPENDIX I

Internal Audit Charter - Management & Staff Commitments

Management and staff commitments to Internal Audit

The management and staff of Rushcliffe Borough Council commit to the following:

- providing unrestricted access to all of Rushcliffe Borough Council's records, property, and personnel relevant to the performance of engagements
- responding to internal audit requests and reports within the agreed timeframe and in a professional manner
- implementing agreed recommendations within the agreed timeframe
- being open to internal audit about risks and issues within the organisation
- not requesting any service from internal audit that would impair its independence or objectivity
- providing honest and constructive feedback on the performance of internal audit

Management and staff performance measures and indicators

The following three indicators are considered good practice performance measures but we go beyond this and report on a suite of measures as included in each Governance Group progress report.

Table Two: Performance measures for management and staff

Measure / Indicator
<p>Response to Reports</p> <p>Audit sponsor to respond to terms of reference within one week of receipt and to draw reports within two weeks of receipt</p>
<p>Implementation of recommendations</p> <p>Audit sponsor to implement all audit recommendations within the agreed timeframe</p>
<p>Co-operation with internal audit</p> <p>Internal audit to confirm to each meeting of the Governance Group whether appropriate co-operation has been provided by management and staff</p>

BDO contacts

Name	Grade	Telephone	Email
Greg Rubins CPFA	Partner	0238 088 1892	Greg.Rubins@bdo.co.uk
Gurpreet Dulay CPFA	Senior Manager	07870 555 214	Gurpreet.Dulay@bdo.co.uk



Governance Scrutiny Group

Thursday, 6 February 2020

Treasury Management Strategy

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

- 1.1. The purpose of this report is to provide members with details of the Capital and Investment Strategy for 2020/21 to 2024/25 focusing on both traditional treasury activity and the Council's commercial property investments.
- 1.2. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.
- 1.3. In 2018, revised guidance was issued by MHCLG on Local Authority Investments. In addition, the CIPFA Prudential Code and CIPFA Treasury Code were updated in December 2017.
- 1.4. The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with the treasury management strategy.
- 1.5. The Capital and Investment Strategy 2020/21 reflects the changes in Government Guidance and CIPFA Treasury and Prudential Codes.

2. Recommendation

It is **RECOMMENDED** that the Governance Scrutiny Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 8 to 16) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 17) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2020/21 to 2024/25 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 62).
- The Commercial Investments Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 63 to 76).

3. Reasons for Recommendation

3.1. To comply with Council Financial Regulations, and the Local Government Act 2003 which requires the Council to adhere to the CIPFA Prudential Code for Capital Finance in Local Authorities.

3.2. To ensure good governance through scrutiny

4. Supporting Information

4.1. Appendix A (paragraphs 8 to 16) of this report details the Capital Strategy and Capital prudential Indicators for 2020/21 to 2024/25.

4.2 The Capital prudential Indicators highlight the following:

- Projected capital expenditure plans and funding;
- The Council's Borrowing Need (the Capital Financing Requirement CFR);
- The on-going impact of the capital programme on the investment balance.

Minimum Revenue Provision Policy

4.3 Appendix A (paragraph 17) contains the Minimum Revenue Provision (MRP) Policy Statement, which details the methodology used to calculate the charge to the revenue account for the cost of borrowing to fund capital expenditure.

4.4 The Government Guidance and the Council's MRP Policy includes limits to the period over which the cost of borrowing can be recovered from the revenue account (a maximum of 40 and 50 years respectively for property and land).

Treasury Management Strategy

4.5 Appendix A (paragraph 18) details the Treasury Management Strategy which covers:

- The current economic climate and prospects for interest rates;
- The Council's debt and investment projections;
- The limits and prudence of future debt levels;
- The affordability impact of the capital programme;
- The Council's borrowing and investment strategies;
- The Council's strategy on investments linked to the environmental, human rights and social agenda;
- Specific limits on treasury activities; and
- Any local treasury issues.

Commercial Investments

4.6 The revised definition of investments in the CIPFA Treasury Code includes assets which the organisation holds primarily for financial returns, such as investment property portfolios.

- 4.7 Appendix A (Paragraphs 63 to 76) details the appraisal techniques used to assess commercial investments, and provides a risk assessment of the level of commercial investments by identifying:
- The limit on the Council's dependency on commercial income
 - How risk is spread across;
 - The size of individual investments
 - The commercial sectors the Council's investments are spread across

Conclusion

- 4.8 The Capital Prudential Indicators and Treasury Management Strategy give both a position statement and details of the future position of the Council's Capital, Commercial Investment and Treasury plans. The documents comply with best professional practice and as such are recommended for approval by Full Council.

5. Risks and Uncertainties

- 5.1. The report identifies the risks relating to interest rates, use of counterparties for investments and the returns from commercial investments, particularly in the light of prevailing uncertainty in the global financial markets.

6. Implications

6.1. Financial Implications

Financial implications are covered in the body of the report

6.2. Legal Implications

There are no legal implications

6.3. Equalities Implications

There are no Equality implications identified for this report.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

Not applicable

7. Link to Corporate Priorities

Quality of Life	No direct impact
Efficient Services	Ensuring efficient use of resources and maximising returns
Sustainable Growth	No direct impact
The Environment	Supporting the Council's environmental objectives with investment policy

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 8 to 16) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 17) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2020/21 to 2024/25 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 62).
- The Commercial Investments Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 63 to 76).

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Council Financial Regulations Treasury Management in the Public Services: Code of Practice (CIPFA) The Prudential Code for Capital Finance in Local Authorities (CIPFA) Guidance on Local Government Investments (CLG) Statutory Guidance on Minimum Revenue Provision (CLG)
List of appendices:	Appendix A – Capital and Investment Strategy 2020/21 – 2024/25

CAPITAL AND INVESTMENT STRATEGY 2020/21 – 2024/25

Introduction

1. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.
2. The Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in February last year that requires the Council to approve an investment strategy before the start of each financial year.
3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

The Capital Strategy

4. The Council's capital expenditure plans are summarised below and forms the first of the prudential indicators. Capital expenditure needs to have regard to:
 - Corporate objectives (e.g. strategic planning);
 - Stewardship of assets (e.g. asset management planning);
 - Value for money (e.g. option appraisal);
 - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
 - Affordability (e.g. implications for council tax); and
 - Practicability (e.g. the achievability of the Corporate Plan)
5. Each year the Council will produce a Capital Programme to be approved by Full Council in March as part of the Council Tax setting.
6. Each scheme is supported by a detailed appraisal (which may also be a Cabinet Report), as set out in the Council's Financial Regulations. The capital appraisals will address the following:
 - a) A detailed description of the project;
 - b) How the project contributes to the Council's aims and objectives;
 - c) Anticipated outcomes;
 - d) A consideration of alternative solutions;
 - e) An estimate of the capital costs and sources of funding;
 - f) An estimate of the revenue implications, including any savings and/or future income generation potential;
 - g) Any other aspects relevant to the appraisal of the scheme as the S151 Officer may determine.

The appraisal requirement applies to all schemes except where there is regular grant support and if commercial negotiations are due to take place and further reporting to Cabinet or Full Council is therefore required.

7. From time to time unforeseen opportunities may arise, or new priorities may emerge, which will require swift action and inclusion in the Capital Programme. These schemes are still subject to the appraisal process and the Capital Programme will contain a contingency sum to allow such schemes to progress without disrupting other planned capital activity.

Capital Prudential Indicators

a) Capital Expenditure Estimates

8. Capital expenditure can be financed immediately through the application of capital resources, for example, capital receipts, capital grants or revenue resources. However, if these resources are insufficient or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. Table 1 summarises the capital expenditure projections and anticipated financing.

Table1: Projected Capital Expenditure and Financing

	2019/20 Original £'000	2019/20 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Expenditure	16,506	25,230	18,936	8,250	2,035	2,513	2,613
Less Financed by:							
Capital Receipts	4,414	8,564	14,922	3,076	1,122	1,600	1,800
Capital Grants/ Contributions	2,439	2,152	2,428	2,726	613	613	613
Reserves	50	481	70	50	300	300	200
Underlying need to Borrow	9,603	14,033	1,516	2,398	-	-	-

9. The key risks to the capital expenditure plans are that the level of grants estimated is subject to change, anticipated capital receipts are not realised or are more than expected in the medium term; and what is the future of New Homes Bonus (NHB) from 2020 given it will be subject to a consultation this summer. The legacy payments for previous years are anticipated to reduce by 1 year each year resulting in the NHB payments ceasing in 2023/24

b) The Council's Underlying Need to Borrow and Investment position

10. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital expenditure. This underlying need to borrow will increase the CFR (i.e. the use of internal borrowing, which reduces our investment balance). This increase is offset by MRP raised through Council Tax, as a result of financing requirements in relation to the Arena development, and in later years Bingham Leisure Hub.
11. The Council also holds usable reserves and working capital which represent the underlying resources available for investment. The Council's current strategy is to use these resources to avoid borrowing, sometimes known as internal borrowing.
12. The table below summarises the overall position with regard to borrowing and available investments and shows an increase in CFR reflecting the capital commitment on projects such as the crematorium and Bingham Hub

Table 2: CFR and Investment Resources

	2019/20 Projected £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
Opening CFR	8,300	15,067	21,849	23,173	21,926	20,679
CFR in year	7,767	7,782	2,398	-	-	-
Less: MRP etc	(1,000)	(1,000)	(1,074)	(1,247)	(1,247)	(1,247)
Closing CFR	15,067	21,849	23,173	21,926	20,679	19,432
Less: External Borrowing	-	(5,000)	(9,902)	(9,772)	(9,642)	(9,512)
Internal Borrowing	15,067	16,849	13,271	12,154	11,037	9,920
Less:						
Usable Reserves	(14,820)	(16,676)	(16,627)	(18,001)	(18,145)	(15,510)
Working Capital	(17,061)	(14,501)	(13,316)	(14,243)	(14,243)	(14,243)
Available for Investment(-)	(16,814)	(14,328)	(16,672)	(20,090)	(21,351)	(19,833)

13. The Council is currently debt free although there is an underlying assumption in the capital expenditure plans that the Council may need to externally borrow £5 million in both 2020-21 and 2021-22. Available resources (usable reserves and working capital) remain steady over the medium term, with usable reserves being used to finance both capital and revenue expenditure over time.
14. The total amount borrowed will not exceed the authorised borrowing limit of £25m. The maximum period between borrowing and expenditure is expected to be 2 years, although the Authority is not required to link particular loans with particular items of expenditure.

15. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's gross external debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation.
16. The new accounting standard IFRS16 comes into force on 1st April 2020. IFRS 16 affects how leases are measured, recognised and presented in the accounts and essentially means that some leases may have to be classified as capital expenditure. The full impact of this change is still yet to be determined and this is likely to impact on the CFR. As we currently have no external borrowing this is unlikely to affect the Authorised Limit.

Minimum Revenue Provision Policy

17. Revised CLG Regulations have been issued which require the Governance Scrutiny Group to consider a Minimum Revenue Provision (MRP) Statement in advance of each year. Further commentary regarding financing of the debt is provided in paragraphs 30-35. A variety of options are provided to Councils, so long as there is prudent provision. The Council has chosen the Asset Life Method (Option 3 within the Guidance) with the following recommended MRP Statement:

- *MRP will be based on the estimated life of the assets, in accordance with Option 3 of the regulations. Estimated life periods within this limit will be determined under delegated powers, subject to any statutory override. (DCLG revised guidance states maximum asset lives of 40 and 50 years for property and land respectively)*

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

This option provides for a reduction in the borrowing need over approximately the asset's life.

Treasury Management Strategy 2020/21 to 2024/25

18. The CIPFA Treasury Management Code defines treasury management activities as:

“The management of the local authority’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 code also covers non-cash investments which are covered at paragraph 65 below.

19. The CIPFA Code of Practice for Treasury Management in the Public Services (the “CIPFA Treasury Management Code”) and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy Statement on an annual basis.
20. This Strategy Statement includes those indicators that relate to the treasury management functions and help ensure that the Council’s capital investment plans are affordable, prudent and sustainable, while giving priority to the security and liquidity of those investments.

The Current Economic Climate and Prospects for Interest Rates.

21. The major external influence on the Authority’s treasury management strategy for 2020/21 will be the economic growth consequences of the UK’s exit from the European Union and the trading arrangements agreed with the EU and the rest of the world. Uncertainties over the future are weighing on growth.
22. Economic growth is projected to fall slightly to 1.1% over the coming year, owing to high uncertainties surrounding the outcome of Brexit negotiations. Unemployment remains low at 3.8% and is projected to reach 4.1% during 2020.
23. The current Bank of England base rate remains 0.75% and has been since 2 August 2018. The Bank of England is closely watching the British economy to see how it responds to Brexit. Link forecasts that rates will rise to 1.00% in 2020/21 however when estimating investment returns we have prudently assumed the rate to remain at 0.75% for the foreseeable future.
24. Inflation levels are expected to increase to 2.01% in 2020.
25. The table below shows the assumed average interest (which reflects a prudent approach) that will be made over the next five years for budget setting purposes.

Table 3: Budgetary Impact of Assumed Interest Rate Going Forward

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Anticipated Interest Rate (%)	1.87	1.87	1.87	1.87	1.87
Expected interest from investments (£)	293,800	311,900	389,900	442,200	438,800
Other interest (£)	83,000	78,000	74,000	70,000	64,000
Total Interest (£)	376,800	389,900	463,900	512,200	502,800

Sensitivity:	£	£	£	£	£
- 0.25% Interest Rate	(1,000)	(4,000)	(12,000)	(16,000)	(16,000)
+ 0.25% Interest Rate	1,000	4,000	12,000	16,000	16,000

26. As previously reported in the event that a bank suffers a loss the Council could be subject to bail-in to assist with the recovery process. The impact of a bail-in depends on the size of the loss incurred by the bank or building society, the amount of equity capital and junior bonds that can be absorbed first and the proportion of insured deposits, covered bonds and other liabilities that are exempt from bail-in.
27. The Council has managed bail-in risk by both reducing the amount that can be invested with each institution to £10 million and by investment diversification between creditworthy counterparties.

Borrowing Strategy 2020/21 to 2024/25

Prudential Indicators for External Debt

28. Table 2 above identifies that the Council may need to externally borrow over the MTFS if it is not possible to internally borrow. This would result in borrowing costs. Possible levels of external borrowing are reflected in the figures.
29. The approved sources of long-term and short-term borrowing are:
- Internal borrowing
 - Municipal Bond Agency
 - Public Works Loan Board (or the body that will replace the PWLB in the future)
 - Local authorities
 - UK public and private sector pension funds
 - Commercial banks
 - Building Societies in the UK
 - Money markets
 - Leasing

- Capital market bond investors
- Special purpose companies created to enable local authority bond issue

a) Authorised Limit for External Debt

30. The authorised limit is the “affordable borrowing limit” required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It shows the maximum amount the Council could afford to borrow in the short term to maximise treasury management opportunities and either cover temporary cash flow shortfalls or use for longer term capital investment.

Table 4: The Authorised Limit

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Authorised Limit	25,000	25,000	25,000	25,000	25,000	25,000

b) Operational Boundary for External Debt

31. The operational boundary is the expected borrowing position of the Council during the course of the year. The operational boundary is not a limit and actual borrowing can be either below or above the boundary subject to the authorised limit not being breached. The Operational Limit has been set at £20m as the Council is expected to borrow over the period of the MTFS.

Table 5: The Operational Boundary

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Operational Boundary	20,000	20,000	20,000	20,000	20,000	20,000

Prudential Indicators for Affordability

32. Affordability indicators provide details of the impact of capital investment plans on the Council’s overall finances.

a) Actual and estimates of the ratio of net financing costs to net revenue stream

33. This indicator identifies the trend in net financing costs (borrowing costs less investment income) against net revenue income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs (a credit indicates interest earned rather than cost) is changing over time. The trend below is consistent with the fact that our treasury investments will decline initially due to non-treasury investments in Cotgrave Masterplan/Phase 2, Industrial units at Moorbridge, and other Asset Investment Strategy investments and capital commitments (Crematorium and Bingham Hub).

Table 6: Proportion of Financing Costs to Net Revenue Stream

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	6.77%	6.01%	7.31%	8.58%	7.91%	8.07%

Investment Strategy 2019/20 to 2024/25

36. The movement in investments are due to increases in Capital Receipts related to Sharphill and S106 receipts as shown below.

Table 7: Investment Projections

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Investments at 31 March	16,814	14,328	16,672	20,090	21,351	19,833

34. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitable low investment income. Accordingly, the Council ensures that robust due diligence procedures cover all external investment.

35. The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include avoiding direct investment in institutions with material links to:
- a) Human rights abuse (e.g. child labour, political oppression);
 - b) Environmentally harmful activities (e.g. pollutants, destruction of habitat, fossil fuels); and
 - c) Socially harmful activities (e.g. tobacco, gambling).
36. The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposures.
37. The Council will invest its surplus funds with approved counterparties. Where appropriate, the Council is registered as a professional client (under "MIFID II") with the counterparty limits shown below in Table 8 and counterparties included at Appendix (i):

Table 8: Counterparty Details

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 20 Years	n/a	n/a
AAA	£3.0m 3 years	£10.0m 10 years	£10.0m 20 years	£3.0m 10 years	£5.0m 10 years
AA+	£3.0m 2 years	£10.0m 10 years	£10.0m 5 years	£3.0m 4 years	£5.0m 4 years
AA	£3.0m 1 year	£10.0m 4 years	£10.0m 3 years	£3.0m 2 years	£5.0m 4 years
AA-	£3.0m 1 year	£10.0m 2 years			£5.0m 4 years
A+	£3.0m 6 months	£10.0m 2 years			£5.0m 2 years
A	£3.0m 6 months	£10.0m 1 year			£5.0m 2 years
A-	£3.0m 3 months	£10.0m 6 months			£5.0m 2 years
Pooled Funds**	£10m per fund				

*Banks includes Banks and Building Societies.

**Pooled funds do not have a defined maturity date. Monies in Money Market Funds can be withdrawn on the same date; monies in other pooled funds can be withdrawn giving the requisite notice, generally between 1 and 7 days. Monies in the CCLA Property Fund can be withdrawn on each monthly redemption date, if required; it is the Council's intention to hold its investment over a reasonable time frame for property investments, which is 5 years, subject to cash flow requirements.

38. Although the above table details the counterparties that the Council could invest funds with it would not invest funds with counterparties against the advice of Link (Our new TM Advisors -see paragraph 60) even if they met the criteria above.
39. Changes to any of the above can be authorised by the Section 151 Officer or the Financial Services Manager and thereafter will be reported to the Governance Scrutiny Group. This is to cover exceptional circumstances so that instant decisions can be made in an environment which is both fluid and subject to high risk.
40. The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
41. Credit rating information is provided by Link on all active counterparties that comply with the criteria above. A counterparty list will be maintained from this information and any counterparty not meeting the criteria will be removed from the list.
42. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
 - no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
43. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Credit Risk

44. The CIPFA Treasury Management Code recommends that organisations should clearly specify the minimum acceptable credit quality of its counterparties; however they should not rely on credit ratings alone and should recognise their limitations. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may meet the credit rating criteria.
45. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Current investments

46. The Council uses its own processes to monitor cashflow and determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial strategy and cash flow forecast.
47. Surplus funds are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain the maximum benefit from the Council's cash position throughout the year. Funds are separated between specified and non-specified investments as detailed below.

Specified investments

48. The CLG guidance defines specified investments as those:
 - Denominated in pound sterling,
 - Due to be repaid within 12 months of arrangements,
 - Not defined as capital expenditure by legislation, and
 - Invested with one of:

- The UK Government
- A UK local authority, parish council, or community council, or
- A body or investment scheme of “high credit quality”

49. The Council now defines “high credit quality” organisations as those having a credit rating of A- and above.

Non-specified investments

50. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and scheme not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Table 9: Non-specified Investment Limits

	Cash Limit
Total long-term investments	£15m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£3m
Total non-specified investments	£15m

Investment Limits

51. The Authority’s revenue reserves available to cover investment losses in a worst-case scenario are forecast to be £14.02 million on 31st March 2021. In order that no more than 40% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10.0 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 10: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£3m per country
Registered providers	£5m in total
Unsecured investments with any building society	£3m in total
Loans across unrated corporates	£5m in total
Money Market Funds	£25m in total

Treasury Management limits on activity

52. The Council measures and manages its exposures to treasury management risks using the following indicators.

a) Interest Rate Exposures

53. This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable will be:

Table 11: Interest Rate Exposure

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Upper Limit on fixed interest rate exposure	50%	50%	50%	50%	50%	50%
Upper Limit on variable interest rate exposure	100%	100%	100%	100%	100%	100%

54. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Principal Sums Invested over 1 year

55. This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. The limits on the long-term principle sum invested to final maturities beyond the period end are set at 50% of the sum available for investment (to the nearest £100k), as follows:

Table 12: Principal Sums Invested over 1 year

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Limit on Principal invested over 1 year	8,400	7,200	8,300	10,000	10,700	9,900

Policy on the use of financial derivatives

56. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
57. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
58. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Treasury Management Advisors

59. During 2019/20 the Council held a competitive tender process and as a result has new Treasury Management Advisors. Link Asset Services have been

appointed as the Council's treasury management advisors until 31st October 2022. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

60. Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

Member and Officer Training

61. The increased member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. In general, members training needs are reported through the Member Development Group, however, the Council will also specifically address this important issue by:

- Periodically facilitating workshops for members on finance issues;
- Interim reporting and advising members of Treasury issues via GSG;
- Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process;

With regards to officers:

- Attendance at training events, seminars and workshops; and
- Support from the Council's treasury management advisors.

Other Options Considered

62. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Manager – Finance and Corporate Services, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Commercial Investments

63. The definition of investments in CIPFA's definition of treasury management activities above (paragraph 20) covers all financial assets of the organisation as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework, which is outlined below.
64. The Council is committed to becoming self-sustainable as Central Government funding reduces. This includes ensuring that the Council maximises any income from existing assets and, where there is a business case, invests in assets where there is a commercial return. The Council is holding significant capital funding resources although going forward it may need to undertake borrowing. Current resources are invested with various financial institutions in line with the Treasury Management Strategy. However, other investments represent an opportunity to generate higher returns on these funds.
65. In recent years the Council identified specific sums for its Asset Investment Strategy (AIS) within the Capital Programme which has totalled £20m and includes commercial investment in areas such as investment in property and subsidiaries, or loans that support service outcomes.
66. The Council will maintain a summary of current material investments, subsidiaries, joint ventures and liabilities, including financial guarantees and the organisation's risk exposure. The current summary is included at Appendix (ii).
67. Individual commercial investment proposals included within the Asset Investment Strategy are subject to specific business appraisals. The governance surrounding such decisions is included in the AIS. As well as considering the Net Present Value, Internal Rate of Return and impact on the General Fund of any commercial investment proposals, the decision to invest also takes into account the following assessment matrix:

ASSESSMENT CRITERIA	Excellent / very good	Good	Satisfactory	Marginal	Uncertain
Tenancy strength	Multiple tenants with strong financial covenant	Single tenant with strong financial covenant	Single or multiple tenants with good financial covenant	Tenants with average financial covenant	Tenants with poor financial covenant strength
Lease length and break (for main tenants/income)	>15 years	11 - 15 years	10 - 8 years (10 year lease)	7 - 5 years (5 year break)	<5 years or vacant (break Dec 2021 &)
Rate of Return - % rent against capital	>8%	7%-8%	5%-7%	3%-5%	<3%
Portfolio mix (asset type is balanced in portfolio - no more than x% of)	<50%	50%-60%	>60%-70%	70%-80%	>80% of portfolio
Property Sector & Risk	Industrial (lower risk)	Office (lower-mid risk)	Warehouse Retail (med risk)	Retail, Leisure (higher risk)	Residential (not part of investment strategy)
Void (after Lease end including marketing, fit out and rent free)	0-9 months	9-12 months	12-18 months	18-24 months	>24 months
Location	Prime	Not prime but in established location	Secondary	Remote from other developments	Isolated, undeveloped area, limited infrastructure links
Tenure	Freehold	Lease >200 years	Lease 100 - 199 years	Lease 75 - 99 years	Lease <75 years
Repairing terms links to Building quality	Full repairing & insuring	Internal repairing 100% recoverable	Internal repairing partially recoverable	Internal repairing non recoverable	Landlord
Building Quality/Age	<10 years	10-20 years	21-30	31-35	>35
Rental Growth	within 1 year	within 2-5 years	within 5-7 years	within 7-10 years	>10 years
Purchase Price	<£2m	Between £2m and £3m	Between £3m and £4m	Between £4m and £7m	>£7m
Proximity to Borough	within Borough	within Nottinghamshire	within East Midlands	within the Midlands	National
Energy Rating (2018 legislation can't let with F/G assessment)	A/B	C	D	E	F/G

68. To be considered for investment 50% of the criteria above must be excellent, good or satisfactory.

69. The matrix above is supplemented by additional contextual information covering resale opportunities (liquidity), location, risks, benefits and economic conditions.

70. The Government has issued revised guidance on Local Government Investments, effective from April 2018. This guidance introduces additional disclosure requirements some of which are specific to investments of a commercial nature. These disclosures and indicators cover items included in the Council's Asset Investment Strategy, as well as pre-existing commercial investments and are detailed below:

a. Dependence on commercial income and contribution non-core investments make towards core functions

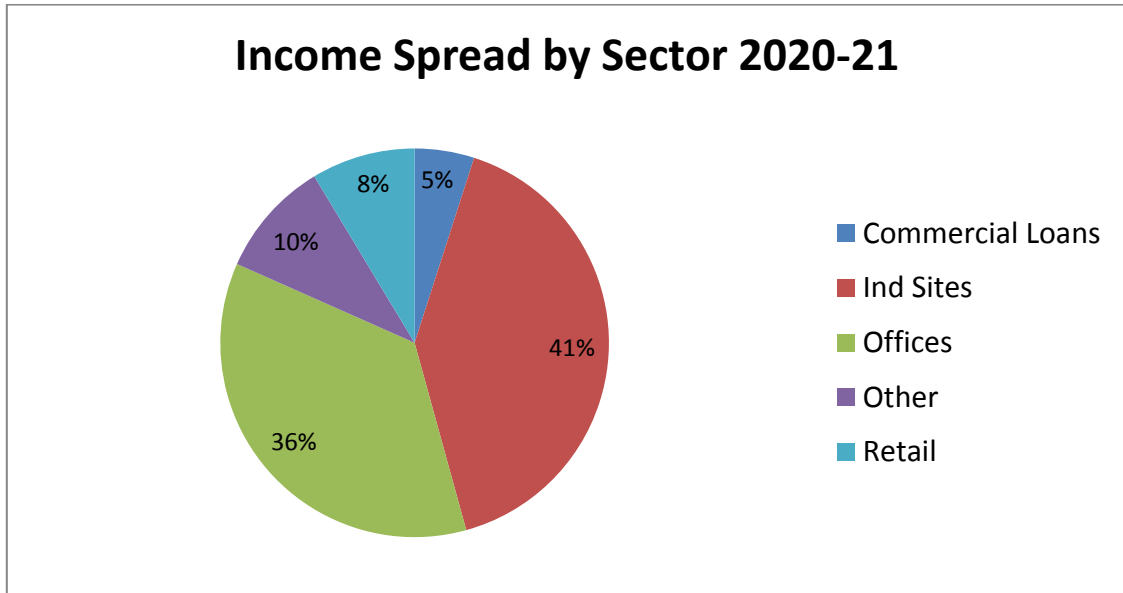
71. The expected contributions from commercial investments included in the Asset Investment Strategy are shown in Table 13. In order to manage the risk to the Council's budget, income from commercial investments should not be a significant proportion of the Council's income. Our objective is that this ratio should not exceed 30%, subject to annual review (as demonstrated below).

Table 13: Commercial Investment income and costs

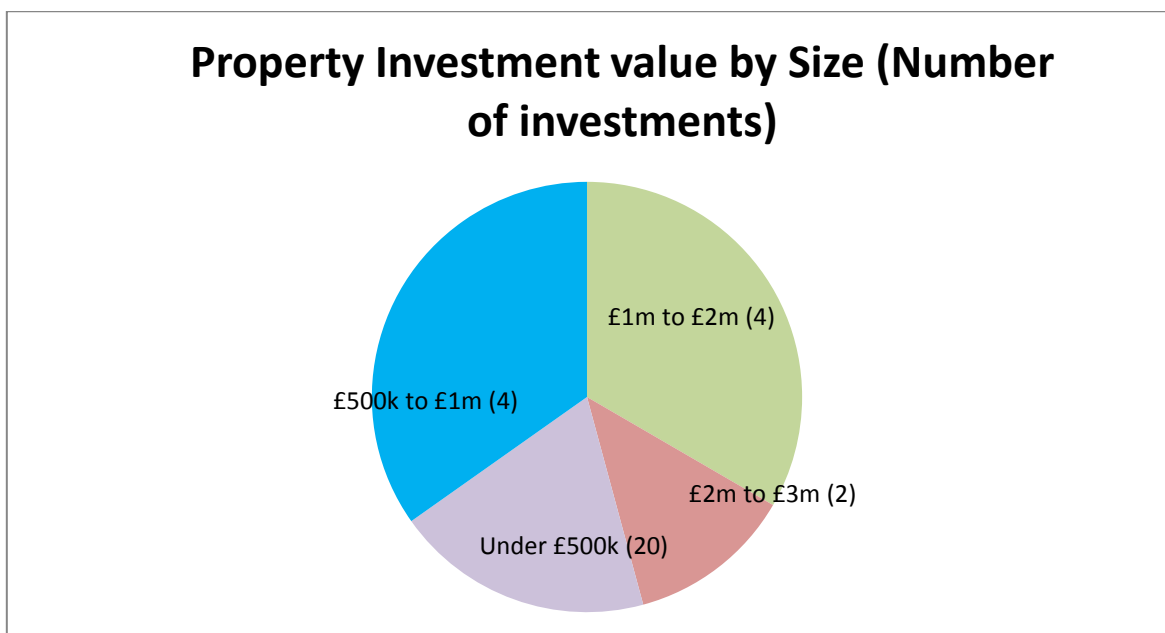
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Commercial Property Income	(1,330)	(1,524)	(1,718)	(2,038)	(2,083)	(2,130)
Running Costs	382	356	357	357	357	357
Net Contribution to core functions	(948)	(1,168)	(1,361)	(1,681)	(1,726)	(1,773)
Interest from Commercial Loans	(84)	(80)	(76)	(71)	(67)	(63)
Total Contribution	(1,032)	(1,248)	(1,437)	(1,752)	(1,793)	(1,836)
Sensitivity:						
+/- 10% Commercial Property Income	133	152	172	204	208	213
Indicator:						
Investment Income as a % of total Council Income	18.3%	19.8%	20.7%	24.1%	24.2%	24.7%

b) Risk Exposure Indicators

72. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large scale investments. Generally there is a spread of investment across sectors. The Council's commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful.



c) Security and Liquidity



73. Commercial investments are held for longer term asset appreciation as well as yield. Investments or sales decisions will normally be planned as part of the consideration of the 5 year capital strategy to maximise the potential return. Nevertheless, the local and national markets are monitored to ensure any gains are maximised or losses minimised.
74. To help ensure asset values are maintained the assets are given quarterly inspections, together with a condition survey every 3 years. Any works required to maintain the value of the property will then form part of Council's spending plans.
75. The liquidity of the assets is also dependent on the condition of the property, the strength of the tenants and the remaining lease lengths. The Council keeps these items under review with a view to maximising the potential liquidity and value of the property wherever possible.
76. The liquidity considerations for commercial investments are intrinsically linked to the level of cash and short term investments, which help manage and mitigate the Council's liquidity risk.

Counterparty Registrations under MIFID II

The Council is registered with the following regulated financial services organisations who may arrange investments with other counterparties with whom they have themselves registered:

- BGC Brokers LP
- Royal London Asset Management
- Tradition UK Ltd
- King & Shaxson
- Aberdeen Asset Management
- Aviva
- Institutional Cash Distributors Ltd
- Federated Investors (UK) LLP
- NEX Treasury
- Invesco Asset Management Ltd
- CCLA
- Goldman Sachs Asset Management
- Black Rock
- HSBC Asset Management

Existing Material Investments

	Book Value £000
The Point Office Accommodation	3.200
Hollygate Lane, Cotgrave Industrial Units	2.435
Bardon Single Industrial Unit	1.800
Trent Boulevard	1.400
Colliers Business Park Phase 2	1.250
Bridgford Hall Aparthotel and Registry Office	1.220
Finch Close	0.925
Bingham Land off Chapel Lane	0.900
Boundary Court	0.805
Unit 10 Chapel Lane	0.670
Colliers Business Park Phase 1	0.610
New Offices Cotgrave	0.345
TOTAL INVESTMENT PROPERTY*	<u>15.560</u>
Notts County Cricket Club Loan	2.700
TOTAL	<u>18.260</u>

* Material Investments



Governance Scrutiny Group

Thursday, 6 February 2020

Treasury Management Strategy

Report of the Cabinet Portfolio Holder for

1. Purpose of report

- 1.1. The purpose of this report is to provide members with details of the Capital and Investment Strategy for 2020/21 to 2024/25 focusing on both traditional treasury activity and the Council's commercial property investments.
- 1.2. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.
- 1.3. In 2018 revised guidance was issued by MHCLG on Local Authority Investments. In addition the CIPFA Prudential Code and CIPFA Treasury Code were updated in December 2017.
- 1.4. The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with the treasury management strategy.
- 1.5. The Capital and Investment Strategy 2020/21 reflects the changes in Government Guidance and CIPFA Treasury and Prudential Codes.

2. Recommendation

It is RECOMMENDED that

The Governance Scrutiny Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 8 to 16) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 17) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2020/21 to 2024/25 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 62).
- The Commercial Investments Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 63 to 76)

3. Reasons for Recommendation

- 3.1. To comply with Council Financial Regulations, and the Local Government Act 2003 which requires the Council to adhere to the CIPFA Prudential Code for Capital Finance in Local Authorities.

4. Supporting Information

- 4.1. Appendix A (paragraphs 8 to 16) of this report details the Capital Strategy and Capital prudential Indicators for 2020/21 to 2024/25.
- 4.2. The Capital prudential Indicators highlight the following:
- Projected capital expenditure plans and funding;
 - The Council's Borrowing Need (the Capital Financing Requirement CFR);
 - The on-going impact of the capital programme on the investment balance.

Minimum Revenue Provision Policy

- 4.3. Appendix A (paragraph 17) contains the Minimum Revenue Provision (MRP) Policy Statement, which details the methodology used to calculate the charge to the revenue account for the cost of borrowing to fund capital expenditure.
- 4.4. The Government Guidance and the Council's MRP Policy includes limits to the period over which the cost of borrowing can be recovered from the revenue account (a maximum of 40 and 50 years respectively for property and land).

Treasury Management Strategy

- 4.5. Appendix A (paragraph 18) details the Treasury Management Strategy which covers:
- The current economic climate and prospects for interest rates;
 - The Council's debt and investment projections;
 - The limits and prudence of future debt levels;
 - The affordability impact of the capital programme;
 - The Council's borrowing and investment strategies;
 - The Council's strategy on investments linked to the environmental, human rights and social agenda
 - Specific limits on treasury activities; and
 - Any local treasury issues.

Commercial Investments

- 4.6. The revised definition of investments in the CIPFA Treasury Code includes assets which the organisation holds primarily for financial returns, such as investment property portfolios.

4.7 Appendix A (Paragraphs 63 to 76) details the appraisal techniques used to assess commercial investments, and provides a risk assessment of the level of commercial investments by identifying:

- The limit on the Council's dependency on commercial income
- How risk is spread across;
 - The size of individual investments
 - The commercial sectors the Council's investments are spread across

Conclusion

4.8 The Capital Prudential Indicators and Treasury Management Strategy give both a position statement and details of the future position of the Council's Capital, Commercial Investment and Treasury plans. The documents comply with best professional practice and as such are recommended for approval by Full Council.

5. Alternative options considered and reasons for rejection

There are no other options

6. Risks and Uncertainties

6.1. The report identifies the risks relating to interest rates, use of counterparties for investments and the returns from commercial investments, particularly in the light of prevailing uncertainty in the global financial markets.

7. Implications

7.1. Financial Implications

7.1.1. Financial implications are covered in the body of the report

7.2. Legal Implications

7.2.1. None

7.3. Equalities Implications

7.3.1. None

7.4. Section 17 of the Crime and Disorder Act 1998 Implications

7.4.1. Not applicable

8. Link to Corporate Priorities

Quality of Life	No direct impact
Efficient Services	Ensuring efficient use of resources and maximising returns
Sustainable Growth	No direct impact
The Environment	Supporting the Council's environmental objectives with investment policy.

9. Recommendations

It is RECOMMENDED that

The Governance Scrutiny Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 8 to 16) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 17) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2020/21 to 2024/25 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 62).
- The Commercial Investments Indicators and Limits for 2020/21 to 2024/25 contained within Appendix A (paragraphs 63 to 76)

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Council Financial Regulations Treasury Management in the Public Services: Code of Practice (CIPFA) The Prudential Code for Capital Finance in Local Authorities (CIPFA) Guidance on Local Government Investments (CLG) Statutory Guidance on Minimum Revenue Provision (CLG)
List of appendices:	Appendix A – Capital and Investment Strategy 2020/21 – 2024/25

This page is intentionally left blank



Corporate Governance Group

Thursday, 6 February 2020

Work Programme

Report of the Executive Manager – Finance and Corporate Services

1. Summary

- 1.1. The work programme is a standing item for discussion at each meeting of the Corporate Governance Group. In determining the proposed work programme due regard has been given to matters usually reported to the Group and the timing of issues to ensure best fit within the Council's decision making process.
- 1.2. The table does not take into account any items that need to be considered by the Group as special items. These may occur, for example, through changes required to the Constitution or financial regulations, which have an impact on the internal controls of the Council.

2. Recommendation

It is RECOMMENDED that the Group agrees the work programme as set out in the table below.

3. Reasons for Recommendation

6 February 2020

- Internal Audit Progress Report
- Treasury Management Strategy
- Internal Audit Strategy
- External audit Strategy
- Certification of Grants and Return Annual Report 2017/18
- Work Programme

13 May 2020

- Internal Audit Progress Report
- Internal Audit Annual Report
- Risk Management Progress Report
- Annual Asset and Investment Strategy Report
- Annual Governance Statement
- Work Programme

For more information contact:	Peter Linfield Executive Manager – Finance and Corporate Services 0115 914 8349 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	None.
List of appendices (if any):	None.