

Governance Scrutiny Group

Chairman's Foreword

This brief foreword looks back on what has been another challenging year for the Governance Scrutiny Group. It has been a difficult time over the past few months, with the national economy slowly recovering from the outbreak of Covid-19 pandemic, which has had a severe impact on the national economy and the Council's finances. Before the pandemic, the Council steered a prudent course during a long period of national financial austerity and the uncertainties it presented. However, I am pleased to report that due to the dedication of both the staff and Councillors, and because of careful financial management over many years, the Council has managed exceptionally well to deal with this crisis. Although it should be noted that there are still difficult, uncertain times ahead and the Council's financial resilience going forward will be severely tested, it is encouraging to know that the Council has the appropriate governance arrangements in place to support this task.

The scrutiny process is vital to challenge and influence how the Council makes decisions to ensure a high service quality. This report demonstrates the variety of areas, which the Governance Scrutiny Group has scrutinised over the past year, and the actions taken to ensure the probity and soundness of the Council's decision making. Over the past year, the Group has judiciously and robustly scrutinised the Council's finances, approach to risk, as well as other corporate issues.

I wish to thank my Vice Chairman Councillor Ben Gray and the members of the Governance Scrutiny Group for their support and contributions. In these challenging times, when there is still so much uncertainty ahead, the work of this Scrutiny Group will remain vital and extremely important to the governance of Rushcliffe Borough Council.

Councillor Davinder Viridi
Chairman Governance Scrutiny Group



Councillor Davinder Viridi
Chairman



Councillor Ben Gray
Vice Chairman

What we are responsible for?

The Governance Scrutiny Group's responsibilities include:

- **Statement of Accounts** To examine the outturn and statement of accounts resulting in its approval
- **Annual Governance Statement** To consider the annual report on applying the Council's system of internal control. This statement ultimately comprises a key element of the Council's Statement of Accounts
- **Capital and Investment Management** To consider the annual and interim reports on capital and investment management activity. Ensuring that practice has complied with the approved Asset Management Strategy, making recommendations to Cabinet or Full Council as appropriate. Including changes to the Treasury and Capital Codes of Practice, which includes how we account for Commercial Investments and reporting on the position concerning both treasury and commercial investments
- **Protecting against fraud** To consider the annual report on fraud and irregularities in order to make an informed judgement on the corporate governance and internal control statements, making recommendations to Cabinet on improvements. To consider any matters arising as a result of irregularity referred to it by Cabinet
- **Internal Audit** To consider periodic reports on the more significant findings of internal audit in order to make an informed judgement on corporate governance and internal control statements, making recommendations to Cabinet on improvements
- **Risk Management** To consider periodic reports on controls over key risk areas as identified in the risk register in support of making an informed judgement on the corporate governance and internal control statements, making recommendations to Cabinet on improvements

Our work this year

During this year, the Group considered many service areas and issues within its scrutiny role, particularly:

- Internal Audit, including Progress Reports 2021/22, Annual Report 2021/22, and Strategy 2021 – 2023
- Risk Management
- Going concern Assessment Linked to Covid-19
- Capital and investment Strategy
- Approval of the Statement of Accounts
- Streetwise Annual Report
- Capital and Investment (mid-year review)
- Review of Investment Assets
- Risk Management

- Annual Fraud Report
- Annual Audit Letter
- External Audit Annual Plan 2021/22
- Annual Governance Statement
- Revision of the Council's Constitution

Internal Audit

Internal Audit Progress Reports 2021/22

The Group received and noted three progress reports throughout the year, prepared by the Council's internal Auditors, BDO. Mr Gurpreet Dulay, Senior Manager at BDO attended the meetings to update the Group.

At its meeting on 25 November 2021, the Group were provided a summary of the Internal Audit Progress Report reflecting the progress made against the Annual Internal Audit programme along with significant recommendations in respect of the audits completed during this period.

Mr Duly highlighted the emerging issues relevant to Local authorities and in particular a predicted budget shortfall that a number of Council's could face and how continued budget pressures and the mitigation of challenges does affect the audit planning process. The Group were advised that the Audit Plan for the next year would be reported at the next Governance Scrutiny Group meeting in February 2022.

At its meeting on 2 February 2022, the Group noted the completion of three audits; Housing Benefits, Business Continuity and Disaster Recovery. The Auditors reported a moderate opinion due to 4 out of 7 forms for the Business Impact Assessments having not been completed accurately. It was noted that the management team had disagreed with this rating of operational effectiveness.

Internal Audit Annual Report 2021/22

Mr Dulay from BDO, the Council's internal auditors, attended the meeting on 30 June 2022, and presented the Council's Internal Audit Annual Report 2021/22 for noting by the Group. This was the last report for the financial year and BDO concluded that the Council had a substantial system of internal control, substantial being the highest rating and that it should be noted that this was a significant achievement as this level of assurance is difficult to achieve and in particular against the backdrop of the Covid pandemic.

The Group noted that of the ten audits, four had received substantial assurance on both design and effectiveness, one received substantial assurance on design only, four received a moderate assurance on both design and effectiveness and one (Annual Fraud Report) was not classified in the same way.

Internal Audit Strategy 2021-23

Mr Dulay, Senior Manager at BDO, the Council's internal auditors attended the meeting on 3 February 2022, and presented the planned audits due to take place in Year 3 of the Internal Audit Strategy, 2022/23 and highlighted a small number of

changes in response to evolving situations and ongoing risks. The Group noted that the plan is set within the context of a multi-year approach, such that areas of key risk would aim to be looked at over a three year audit cycle.

The Group were asked to review the Internal Audit Charter, which defines the internal audits mission, purpose, authority, and responsibilities. The charter establishes the internal audit's position within the Council and defines the scope of internal audit activities and is a requirement of Public Sector Internal Audit Standards (PSIAS).

Risk Management

At its meeting on 23 September 2021, the Group were presented the Council's Risk Management Report which summarised the risks that had changed since last reported, including the risks identified by the Covid-19 pandemic. Members were advised that the Council's Risk Management Strategy is reviewed on a 3 year cycle by Zurich the Council's external risk advisors, it was noted that a risk health check had been completed by Zurich last year and that Risk Management is reported to Governance Scrutiny Group on a 6 monthly cycle.

Members noted the report in relation to existing risks and the progress of the risks identified in response to the global Covid-19 pandemic and the recommendations provided for risks that had a red alert status.

In respect of the Risk Management Report members requested to observe a full comprehensive register at its meeting in February 2022.

At its meeting on 3 February 2022, the Group were presented the Risk Management Progress report which provided an update on the Council's risk activity, including a summary of risks in the Council's Risk Registers that had changed.

The Group were advised that there were currently 45 corporate risks and 33 operational risks and 2 additional opportunity risks which had been identified. The Group noted that risks within the register will fluctuate throughout the year as active risk management is undertaken.

The Group noted that the Council's Risk Management Group meet twice yearly, and that risk is monitored day by day by officers and reported to their Service Managers monthly with any immediate issues highlighted and reported where necessary.

Going Concern Assessment Linked to Covid-19

The Council's External Auditors requested additional assurances in the assessment of Going Concern, these were:

- The Council's current financial position
- The Council's projected financial position
- The Councils' governance arrangements
- The regulatory and control environment applicable to the Council as a local authority

It was reported that as a local authority the Council has to operate within highly legislated and controlled environments. Adding that as well as the legal framework and central government control, there are other factors including the role undertaken by External Audit as well as statutory requirements for compliance with best practice and guidance published by CIPFA and other relevant bodies.

The Group noted the positive outcome of the assessment of the Council's going concern status for the purpose of the statement of accounts 2020/21.

Capital and Investment Strategy

At its meeting on the 23 September 2021, the Group were asked to consider the Council's Capital and Investment Strategy Outturn report, which summarised the transactions undertaken during the financial years 2020/21. The report also provided information on the Council's commercial investments and highlighted issues linked to the legacy of Covid-19, which had impacted on the Council's year end investment position and overall budget in 2020/21.

Members agreed the Capital and Investment Strategy Outturn report and requested more consideration be given to greener investments. It was noted however that the Council must consider security as a priority and that 'Green Investments' are still relatively new to the market and do not always have sufficient performance data.

At its meeting on 3 February 2022, the Group were asked to consider and approve for Council on 3 March 2022, the Capital and Investment Strategy for 2022/23 to 2026/27, focusing on traditional treasury activity and the Council's commercial property investments in light of CIPFA's updated Prudential and Treasury Management Codes.

The Group noted that the council holds usable reserves and working capital and that the council's current strategy is to use these resources, by way of internal borrowing on projects such as the Crematorium and Bingham Hub, to avoid commitment to external debt.

The Group also noted that that whilst the council was committed to being self-sustainable it had taken the decision to no longer invest in property for commercial gain and due to changes in the Prudential Code, local authorities will no longer be allowed to borrow to fund non-financial assets solely to generate a profit.

The Group were advised of an update to the Treasury Management Code which requires Local authorities to document a formal and comprehensive knowledge and skills schedule to ensure both members and officers dealing with treasury management are trained and kept up to date.

Annual Audit Report

At its meeting on 25 November 2021 the Council's external auditors presented the Audit Completion Report and Management Representation Letter and reports to those charged with Governance for the audit process 2021/2022.

Members were advised that the auditors were yet to complete work in respect of the Council's arrangements and Value for Money for the year ended 31 March 2021, but at the time of preparing this report the auditors had not identified any significant weakness in the Council's arrangements.

Annual Audit Letter

At its meeting on 30 June 2022, members of the Group received and noted the Annual Audit Letter including the Council's Value for Money arrangements. The report provided reasonable assurance that the council's financial statements are free from material error in line with the financial reporting framework applicable to the Council and that they give a true and fair view of the Council's financial position as at 31 March 2021.

Members noted that there had been a significant increase in the audit fees due to some additional testing requirements as a result of a change to the Code of Audit Practice and Value for Money reporting.

Approval of the Statement of Accounts and Annual Governance Statement

At its meeting on 25 November 2021, the Statement of Accounts for 2020/21, including the Annual Governance Statement were submitted to the Group for approval. It was noted that the closure of the accounts process had been complex for a second year due to the impact of Covid 19 and that the deadline for the certification of the accounts had been extended.

At its meeting on 30 June 2022, the Group were presented and asked to approve and certify the Annual Governance Statement which is published alongside the Council's Statement of Accounts and were reminded that significant Governance Issues will evolve over time as new risks and opportunities arise, including the impact on governance from the Covid pandemic and the financial Management Code which was introduced last year.

Streetwise Annual Report

At its meeting on 25 November 2021 the Managing Director – Streetwise Environmental Ltd presented the annual report for Streetwise Enterprises Ltd and Streetwise Enterprises Trading Ltd. The Group were asked to consider the companies' performance based on its key performance indicators, its ability to win contracts, its ability to delivered against contracts awarded, the companies financial standing, environmental credentials, appropriate governance measures and its response to Covid-19.

The Group noted that the contract with Metropolitan Housing had ended in August 2021, but its loss had not affected the companies' ability to compete for other contracts and had been awarded a 5 year contract to manage and maintain a housing development at Bingham. It was also reported that the company had been successful in gaining a number of nationally recognised accreditations.

The Group were encouraged by the companies' carbon initiatives and felt this needed to be highlighted when bidding for future contracts.

Capital and Investment

At its meeting on 25 November 2021, the Group were provided with a summary of the Council's capital and investment activities for the period 1 April to 30 September 2021 and were advised that the economy is slowly recovering from the Covid-19 pandemic. The Group were advised that in August 2021 the consumer price inflation rate in the UK jumped to 3.2% and with rising cost pressures and the reversal of temporary tax cuts will cause inflation to rise further.

In respect of Investment Income and in order to maintain returns and mitigate risks the Council had continued to diversify its investment mix with a view to maximising its rates of return.

In terms of borrowing the Group were advised that the Council had established a range of Prudential Indicators to monitor both Treasury and Capital and details of their performance were provided. The Group noted that a revised Prudential Code was expected to be published in December 2021.

The Group were advised that Treasury Management continues to be fraught with difficulty as the UK economy recovers, interest rates remain low affecting the returns on investments and changes in the accounting codes will restrict what local authorities can do.

It was noted that as a local authority Rushcliffe was unusual in that it does not have some of the pressures that other authorities have and has not had the need to borrow.

Review of Investment Assets

At its meeting on 25 November 2021 the Group were presented with a review of the Council's Investment Assets which provided an update on the performance of the commercial property estate, assessing the Council's commercial property portfolio and how individual properties are performing and what the expectations are for the next 5 to 10 years.

The Group were advised that the property sector is a fluid environment which carries some significant risk and were reassured that the Council's assets were under constant review and any issues or suggestions for disposal of an asset would be reported to Cabinet. The Group noted that occupancy rates were high and that the Council's assets had coped very well during the Covid pandemic.

Capital and Investment Strategy

At its meeting on 2 February 2021, the Group were presented with the Council's Capital and Investment Strategy report for 2021/22 to 2025/26, which focused on both traditional treasury activity and the Council's commercial property investments.

The Group were advised of the Capital Prudential Indicators that highlighted the Council's projected capital expenditure plans and funding, the Council's borrowing

need and the ongoing impact of the capital programme on the investment balance. The Group noted the Council's overall position with regard to borrowing, which showed an increase in the Capital Financing Requirement (CFR) reflecting the Council's capital commitment in respect of the Crematorium and Bingham Leisure Hub.

The Group were informed of the Council's Treasury Management Strategy and were advised of the UK's economic recovery which is likely to be gradual in wake of the Covid-19 pandemic. It was also identified that the Council may need to borrow externally which will result in borrowing costs.

The Group noted that the Council aims to minimise its exposure to risk by spreading its commercial investments across sectors to avoid single large-scale investments. This includes 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.

At its meeting on 30 June 2022, the Group were presented the Capital and Investment Strategy Outturn report which summarised the transactions undertaken during 2021/22, reporting against the Council's Capital and Investment Strategy 2021/22 – 2025/26.

The Group were advised that the ratio of financing costs to the net revenue streams are lower than originally estimated as a result of income investments exceeding expectations and larger investments balances due to additional S106 money and Community Infrastructure Levy (CIL), which had reduced the Council's need to borrow.

The Group noted that the Council were holding unusually large cash balances when interest rates remain low and were advised that the Council needs to ensure adequate liquidity for the revenue and capital activities, security for investments and to manage risks within all Treasury Management activities.

The Group noted that there would be more regular reporting of treasury management activities and supported the requirement of the updated Treasury Management Code for local authorities to ensure both officers and Councillors dealing with treasury management are trained and kept up to date.

The Group approved the Capital and Investment Strategy and the position of the Outturn 2021/22.

Risk Management Progress Report

The Group were presented with the Risk Management Progress Report which provided an update on the Council's risk activity. This report summarised risks in the Council's Risk Register that have been changed, including the risks identified as a result of the Covid-19 pandemic. Members were advised that there are currently 44 corporate risks and 32 operational risks and that the number of risks within the Risk Register would fluctuate throughout the year as active risk management is undertaken.

The Group were asked to note ten changes to risk, three increases to risk ratings and seven reductions to risk ratings which were summarised in the Risk Management Progress Report. One risk had been removed in respect of the Borough's Leisure facilities and their ability to recover following the initial lockdown in March to June 2020 and that this risk had been replaced by two new risks as follows:

- CRR_NS17a Impact on the Borough's leisure facilities if closed due to Covid-19
- CRR_NS17b Impact on the Borough's leisure facilities failure to recover after Covid-19

Additional information at the Group's request had been provided to help improve reporting including additional information in respect of red risks and mitigation of risks so that members can see clearly how Officers manage risks internally.

External Audit Annual Plan 2021/22

At the meeting on 30 June 2022, Mr David Hoose from Mazars, the Council's external auditors, presented the External Audit Annual Plan for 2021/22. The report highlighted three significant risks concerning management override controls, net defined benefit liability valuation, valuation of property, plant, and equipment.

An Audit Strategy Memorandum was provided that explained the audit scope, approach and timeline and explained that the regulatory expectations were challenging as additional information is required. Mr Hoose did not anticipate any issues with the 3 year reporting and confirmed there were no significant risks and was confident the plan would be delivered on time.

Members of the Group accepted the External Audit Annual Plan for 2021/22.

Annual Fraud Report

At its meeting on 24 June 2022, Mr Dulay from BDO, the Council's internal auditors, presented the Annual Fraud Report, which summarised the incidence of fraud and fraud prevention activities undertaken by the Council during 2021/22.

Mr Dulay highlighted a data matching exercise in respect of single person discount and the results revealed that the number of cases investigated, and additional council tax billed had reduced significantly compared to previous years. The Group noted this was due to other work pressures and resource constraints during the Covid pandemic and it was recorded as not reporting but not fraudulent. The Council had started a review in respect of single person discount in December 2021.

Mr Duly also highlighted the Council's Whistleblowing Policy and the lack of specific staff awareness campaigns and had made a management recommendation in relation to staff awareness and training.

Mr Duly confirmed that the Council operates a zero tolerance and looks at fraud on a case by case which demonstrates good practice.

Members noted the Annual Fraud Report 2021/22 and approved the requirement for further fraud awareness training.

Constitution Review

At its meeting on 24 June 2022, the Governance Scrutiny Group considered proposed revisions to the Constitution and recommended them for adoption to Council.

Member Panels

The Group did not establish any member Panels this year.

Call-ins

The Group did not discuss any call-ins this year.

Looking forward to the year ahead

The Governance Scrutiny Group will continue to help review and shape policy; ensuring improvements are implemented by developing a challenging work programme.