



RUSHMOOR BOROUGH COUNCIL

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

*at the Council Offices, Farnborough on
Monday, 26th September, 2022 at 7.00 pm*

To:

Voting Members:

Cllr P.J. Cullum (Chairman)
Cllr Jessica Auton (Vice-Chairman)

Cllr A. Adeola
Cllr M.S. Choudhary
Cllr K. Dibble
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Sarah Spall
Cllr Nem Thapa
Cllr S. Trussler
Cllr Jacqui Vosper

Non-Voting Member:

Mr. T. Davies – Independent Member (Audit)

STANDING DEPUTIES

Cllr C.P. Grattan
Cllr Mara Makunura

Enquiries regarding this agenda should be referred to the Committee Administrator,
Kathy Flatt, Democracy and Community, Tel. (01252 398829) or email
kathy.flatt@rushmoor.gov.uk.

A G E N D A

1. **MINUTES – (Pages 1 - 4)**

To confirm the Minutes of the Meeting held on 26th July 2022.

2. **REVIEW OF SCRAP METAL AND STREET TRADING LICENSING FEES – (Pages 5 - 12)**

To consider the Head of Operational Services' Report No. OS2216 (copy attached) setting out proposals for fees and charges for scrap metal and street trading.

3. **ANNUAL STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT OPINION - UPDATE NO. 2 – (Pages 13 - 16)**

To receive the Executive Head of Finance's Report No. FIN2231 (copy attached) which informs Members of audit progress for the Council's Statement of Accounts for 2019/20 and provision of the audit opinion since the meeting on 26th July 2022. The Report also provides an update on the outlined timetable for the audit of the 2020/21 and 2021/22 Financial Statements.

4. **ANNUAL GOVERNANCE STATEMENT - UPDATE – (Pages 17 - 26)**

To receive the Audit Manager's Report No. AUD2212 (copy attached), which provides an update on progress towards the implementation of the actions detailed within the Council's Annual Governance Statement.

5. **INTERNAL AUDIT - AUDIT UPDATE – (Pages 27 - 38)**

To receive the Audit Manager's Report No. AUD2211 (copy attached), which sets out work carried out by Internal Audit since the previous report, an update on the overall progress on the Audit Plan and an update on outstanding issues.

6. **TREASURY MANAGEMENT OUTTURN 2021/22 – (Pages 39 - 66)**

To consider the Executive Head of Finance's Report No. FIN2232 (copy attached), which sets out the main activities of the Treasury Management and Non-Treasury Investment Operations during 2021/22.

7. **WORK PROGRAMME 2022/23 – (Pages 67 - 70)**

To note the Committee's work programme for 2022/23 (copy attached).

PUBLIC PARTICIPATION AT MEETINGS

Members of the public may ask to speak at the meeting on any of the items on the agenda by writing to the Committee Administrator at the Council Offices, Farnborough by 5.00 pm two working days prior to the meeting.

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

Meeting held on Tuesday, 26th July, 2022 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr P.J. Cullum (Chairman)
Cllr Jessica Auton (Vice-Chairman)

Cllr A. Adeola
Cllr M.S. Choudhary
Cllr K. Dibble
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Nem Thapa
Cllr S. Trussler
Cllr Jacqui Vosper

Non-Voting Member:

Mr Tom Davies – Independent Member (Audit)

Apologies for absence were submitted on behalf of Cllr Sarah Spall.

7. MINUTES

The Minutes of the Meeting held on 26th May 2022 were agreed and signed as a correct record of the proceedings.

8. REVIEW OF ANIMAL LICENSING FEES

The Committee considered the Head of Operations' Report No. OS2212 which outlined the background and current fees for the animal licensing regime and proposed a new fee scale, as set out in Appendix A to the Report, to take effect from 1st August 2022.

Under the Animal Welfare Act 2018, local authorities could only charge on a cost recovery basis in respect of how fees should be calculated. It was noted that the current costs were not recovered by the Council. Appendix B to the Report set out a comparison of fees with neighbouring authorities. It was proposed that the Council's fees should be amended for the ongoing service to achieve full cost recovery as far as the Council was able to in accordance with current legislation.

The Committee considered the alternative options available to the Council, including no change, but this would mean that the Council would not recover the costs to

which it was entitled under legislation. Members were informed that the Licensing Team was currently producing a business case for the training of an in-house animal licensing inspector, to replace the current situation where inspection activities were contracted out to the City of London. This proposal was likely to reduce costs and thereby enable the Council to set fees accordingly. However, it was stressed that, if this approach was agreed, it would take some time for a member of staff to become qualified as this involved a lengthy period of study followed by the requirement to carry out a number of supervised inspections to demonstrate competence. It was felt that, as this would not resolve the issue of cost recovery in accordance with the legislation in the short term, it should be proposed that fees be set based on the current arrangements, as they would be reviewed again on a regular basis to take account of any changes in costs of service provision.

During discussion, Members raised queries regarding: informing current licence holders about the changes; the length of time required to carry out the business case process; the amount of staff time required to carry out inspections; the percentage increase to be faced by existing licence holders; and, the possibility of investigating the sharing an animal licensing inspector with Hart District Council.

It was noted that, if costs to the Council for providing this service reduced in the future then, under the regular review process, this benefit would be passed on to the customer and reflected in a reduction in licence fee as part of the legislation's requirement for cost recovery.

Members agreed that the Cabinet should be recommended to approve the recommendation, including the carrying out of a business case for an in-house animal licensing inspector with the aim of reducing costs to the Council which could be passed on to animal licensing regime customers.

RESOLVED: That the Cabinet be recommended to approve the new fees, as set out in Report No. OS2212, to take effect from 1st August 2022.

9. INTERNAL AUDIT - AUDIT UPDATE

The Committee received the Audit Manager's Report No. AUD2210 which provided Members with: an overview of the work carried out by Internal Audit in Quarter 4 2021/22 and Quarter 1 2022/23 to date; an update on progress towards completing the Audit Plan for 2021/22; a progress update on the 2022/23 Audit Plan; a schedule of work expected to be delivered in Quarters 1 and 2 of 2022/23; and, an update on the outstanding audit issues from reports covering 2019/20, 2020/21 and 2021/22, focusing on the high-risk issues.

During discussion, Members raised questions concerning: historic debts and reporting updates to the Committee; the fraud investigation set out in the Report which had arisen as a result of a "spear-phishing" attack and the subsequent recommendations made by Internal Audit regarding internal controls around updating supplier information in the Council's financial situation; and, monies paid to the Council under Section 106 legal agreements for SANGS which had not yet been used for the purposes collected and how long the Council could hold on to the money before it has to hand the money back.

Arising out of the discussion on management updates and revised target dates in some cases for outstanding high risk audit issues for the three years 2019/20, 2020/21 and 2021/22, the Committee requested that Heads of Service should be requested to report in person to the Committee when required on outstanding high risk audit issues.

RESOLVED: That

- (i) the audit work carried out in Quarter 4 2021/22 and Quarter 1 2022/23 to date be noted;
- (ii) the update to the expected deliverables for Quarters 1 and 2 2022/23 be noted; and
- (iii) the outstanding high-risk audit issues and engagement by the Services to address them be noted.

10. **ANNUAL STATEMENT OF ACCOUNTS 2021/22**

The Committee received the Executive Head of Finance Report No. FIN2226, which informed Members of the proposed timetable for the external audit of the 2020/21 and 2021/22 Statement of Accounts and provision of the Audit Opinion.

The Council had amended its 2021/22 accounts timetable closure process to meet the revised Accounts and Audit Regulation 2021 timetable, as follows:

- Draft Accounts completion – 1st August 2022
- Public Inspection period – First ten working days of September of the financial year immediately following the end of the financial year to which the Statement of Accounts relates
- Publication of Accounts – 30th September 2022

The Committee was advised that an initial discussion had taken place with the Council's external auditors (EY) around the timing of the external audit of the Council's Financial Statements for 2020/21 and 2021/22 with a view to ensuring these could be completed by the end of the current financial year. Subject to final confirmation, the audit of the 2020/21 Financial Statements would commence in September 2022 and conclude no later than late November/early December 2022. The audit of the 2021/22 Financial Statements would then commence in January 2023 and complete no later than March 2023. It was noted that initial walkthrough tests and confirmation for both audit years would take place during August and September 2022, allowing for key staff availability.

The Committee was advised that there would remain some risk and uncertainty around the timing of when the Council would receive the audited Financial Statements and EY's Audit Opinion given the issues reported to the Committee on

the audit issues for the 2018/19 and 2019/20 Financial Statements. The Committee would be kept updated on progress throughout the civic year.

During discussion, Members raised questions concerning: staffing availability for the audit process (both at Rushmoor and EY); additional fee implications for the Council of overrunning external audits with increased workload by the auditor and whether this was something for which the Council budgeted; and, the Committee's right to have an independent conversation with the external auditor up to two times per year.

RESOLVED: That the Executive Head of Finance's Report No., FIN2226 be noted.

11. **WORK PROGRAMME 2022/23**

RESOLVED: That the Work Programme for 2022/23, as circulated with the agenda, be noted and confirmed.

The meeting closed at 8.20 pm.

CLLR P.J. CULLUM (CHAIRMAN)

**CORPORATE
GOVERNANCE & AUDIT
STANDARDS
COMMITTEE**

**COUNCILLOR MAURICE SHEEHAN
(OPERATIONAL SERVICES PORTFOLIO
HOLDER)**

26TH SEPTEMBER 2022

REPORT NO. OS2216

KEY DECISION? NO

REVIEW OF SCRAP METAL AND STREET TRADING LICENSING FEES

SUMMARY AND RECOMMENDATIONS:

This report outlines background and current fees for the Scrap Metal and Street Trading licensing regimes and proposes a new fee scale as set out in the tables in Appendix A.

The Corporate Governance and Audit Standards Committee are recommended to:

- Approve the proposed Scrap Metal Dealer Fees as outlined in this report, to take effect from 1st October 2022; and
- Approve consultation in accordance with legislation in respect of the Proposed Street Trading Fees and where no significant representations are received that they take effect from 1st December 2022

1. INTRODUCTION

- 1.1. The purpose of this report is to seek the Committee's approval for the amendment of the current Scrap Metal and Street Trading Licensing fees.

2. BACKGROUND

- 2.1. The Council is facing significant financial pressures in the current financial year due to the impact of inflation on costs and uncertainty around interest rates and the wider UK economy.
- 2.2. In common with many other local authorities, the Council is also forecasting a funding gap over the Medium-Term Financial Strategy (MTFS) period. A Savings and Transformation Programme is already in place with the Council working on a number of cost reduction and income generation workstreams to mitigate the financial sustainability risk outlined in the MTFS.
- 2.3. In light of the current year's financial pressures and the funding gap over the medium-term, services are expected to review their services to ensure costs are minimised and income from fees and charges take into account issues

of cost recovery. This report sets out the position on Scrap Metal and Street Trading Fees and should be seen in the wider context of strong budgetary control and robust financial management as a proportionate and balanced response.

- 2.4. In addition, the current fee structure for these regimes does not separate the administration and enforcement costs as required by the Provision of Services Regulations 2009.

3. DETAILS OF THE PROPOSALS

General

Scrap Metal Dealers

- 3.1. Under the Scrap Metal Dealers Act 2013, local authorities may only charge on a cost recovery basis and there is guidance in respect of how fees should be calculated.
- 3.2. Having reviewed our current costs against some recent changes in structure and process, our current fees no longer accurately reflect the cost of administering the regime.
- 3.3. Our current fees are generally below our neighbouring authorities, the proposed fees would put us below some and above others dependent on the licence type. The comparison with neighbouring authorities is outlined in Appendix B – Table 1.
- 3.4. It is proposed that fees are amended for the ongoing service to achieve full cost recovery as far as we are able to in accordance with the legislation. The proposed new fee scale is outlined in Appendix A – Table 1.
- 3.5. The difference that the proposed fees are likely to make to the budget for the remainder of this financial year, and next financial year are outlined in Appendix C – Table 1.

Street Trading

- 3.6. Under the Local Government (Miscellaneous Provisions) Act 1982, local authorities may charge what is reasonable for the grant of a street trading consent.
- 3.7. Having reviewed our current costs against some recent changes in structure and process, our current fees and fee structure no longer accurately reflect the cost of administering the regime.
- 3.8. Both our current and the proposed fees are generally below our neighbouring authorities, although fee structures differ between authorities. The comparison with neighbouring authorities is outlined in Appendix B – Table 2. It also appears that some authorities include the cost of rent of the pitch itself where on Council land e.g. town centres. Rushmoor charge separately

for the rent of any land which is owned by them, therefore the fees proposed cover only the street trading consent element.

- 3.9. It is proposed that fees are amended for the ongoing service to achieve full cost recovery as far as we are able to in accordance with associated legislation. The proposed new fee scale is outlined in Appendix A – Table 2.
- 3.10. As part of this proposal, it is recommended that we remove the current fee for charitable street trading. If a trader is giving the profits from their trading to charity, this would fall under a charitable collection permitted by other legislation and licensed with no fee and is therefore exempt from street trading. In light of this, the charitable fee is not applied to any street trading application and is therefore not necessary.
- 3.11. The difference that the proposed fees are likely to make to the budget for the remainder of this financial year, and next financial year, based on current applications are outlined in Appendix C – Table 2. However, several event organisers choose not to have street trading at their event on liaison with the licensing team due to the current fee. Given that it is proposed that we separate events and have a different fee for them in the new structure, in acknowledgement of the short-term duration of the licence, we may see an increase in applications of this nature.
- 3.12. Before varying changes to the fees, the legislation requires local authorities to give notice to current licence holders and publish a notice in a local newspaper advertising the proposed changes and giving a reasonable period for representations. It is proposed that we allow a period of 28 days for representations, and if there are no significant representations received within this period, that the proposed fees are implemented with effect from 1st December 2022.

Alternative Options

- 3.13. No change. Fees would remain unchanged and we would not accurately recover the costs, or structure our fees appropriately.

4. IMPLICATIONS

Risks

- 4.1. There are no risks associated with this report.

Legal Implications

- 4.2. The Council is obliged to work within the relevant regulations to structure fees appropriately and avoid any income over and above a cost recovery basis. There are no other legal implications for this report.

Financial and Resource Implications

- 4.3. If fees are not amended, cost recovery is not achieved, and the budgetary impact is demonstrated by Appendix C.

Equalities Impact Implications

- 4.4. There are no equalities implications arising from this report.

Community Safety Implications

- 4.5. There are no community safety implications arising from this report.

5. CONCLUSIONS

- 5.1. The proposed fee scale for scrap metal dealers is recommended to the Committee to be implemented from 1st October 2022 to ensure cost recovery is achieved in accordance with the legislation.
- 5.2. The proposed fee scale for street trading is recommended to the Committee to be subject to public consultation for a period of 28 days, and if no significant representations are received to be implemented from 1st December 2022. Where significant representations are received, it is recommended that they are bought back to the Committee for consideration.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

Report Author – Shelley Bowman - Licensing Manager
Head of Service – James Duggin – Head of Operations

Appendix A Current and proposed fees

Table 1 – Scrap Metal Dealers

	Current Fee	Proposed Application Fee	Proposed Enforcement Fee (payable on grant)	Proposed Total	Variance (£)	Variance (%)
Collectors Licence						
New	£160	£228.07	£45.31	£273.38	+£113.38	+71%
Renewal	£160	£202.20	£45.31	£247.51	+£87.51	+55%
Change of details / replacement licence	-	£18	-	£18	-	-
Site Licence						
New	£400	£283.95	£90.62	£374.57	-£25.43	-6%
Renewal	£400	£193.33	£90.62	£283.95	-£116.05	-29%
Variation of Licence	£80	£193.33	-	£193.33	+£113.33	+71%
Change of details / replacement licence	-	£5.92	-	£5.92	-	-

Table 2 – Street Trading

	Current Fee	Proposed Application Fee	Proposed Enforcement Fee (payable on grant)	Proposed Total	Variance (£)	Variance (%)
New	£342	£183.60	£67.97	£251.56	-£90.44	-26%
Renewal	£342	£160.94	£67.97	£228.91	-£113.09	-33%
Charitable	£117.50	-	-	-	-	-
One off Event (up to 7 days)	£342	£183.60	-	£183.60	-£158.40	-46%
Change of Details e.g. name, address	-	£5.92	-	-	-	-

Appendix B Current fees charged by neighbouring authorities

Table 1 – Scrap Metal Dealers

Page 10

	Basingstoke & Deane	Guildford	Hart	Surrey Heath	Waverley	Rushmoor Proposed
Collectors Licence						
New	£313	£187	£363	£219	£443	£273.38
Renewal	£313	£187	£363	£219	£237	£247.51
Change of details / replacement licence	£28	-	£56	-	£422	£18
Site Licence						
New	£423	£204	£405	£435	£484	£374.57
Renewal	£423	£204	£405	£435	£278	£283.95
Variation of Licence	£79	-	£118	-	£484	£193.33
Change of details / replacement licence	£28	-	£36	-	-	£5.92

Table 2 – Street Trading

Basingstoke & Deane		Hart		Surrey Heath			Waverley		Rushmoor Proposed			
Street trading consents		<ul style="list-style-type: none"> • 12 months: £513 • three months: £131 (seasonal consent, only one issued per calendar year) 		Charge For	Initial Cost	Renewal Cost	Total Cost	Description	Fee	New	251.56	
Annual street trading consents (new)	£860			Fast Food / Ice Cream Vehicles or stalls	£2,158	£1,079	N/A	Sole trader, annual consent	£376	Renewal	228.91	
Annual street trading consents (renewal)	£503			Other Food Vehicles or Stalls / Non-Food Traders (incl stalls)	£1,262	£631	N/A	Schedule 2 event, up to 50 traders, annual consent	£484	One off event	183.60	
Each additional van	£36			Daily Charge for Stall in Town Centre	N/A	N/A	£48	Schedule 2 event, 51 traders or more, annual consent	£497			
Short term consents (monthly for example Xmas trees)	£276			Weekly Charge for Stall in Town Centre	N/A	N/A	£202	Schedule 2 event, up to 50 traders, single event	£441			
Replacement badge	£28			Monthly Charge for Stall in Town Centre	N/A	N/A	£664	Schedule 2 event, 51 traders or more, single event	£454			
Replacement consent	£28			Annual Charge – Out of Town Food Traders (One day per week)	£586	£293	N/A					
				Annual Charge – Camberley Town Centre – markets/events 37 days a year (to include 25 markets and 12 events)	£2,482	£1,241	N/A					
				Initial Licence Premium = Renewal x 2								

Appendix C Expected impact on income

Table 1 – Scrap Metal Dealers

October 2022 – March 2023			Financial Year 23/24		
Current Fees	Proposed Fees	Difference	Current Fees	Proposed Fees	Difference
£400	£283.95	-£116.05	£880	£1026.48	+£146.48

Table 2 – Street Trading

December 2022 – March 2023			Financial Year 23/24		
Current Fees	Proposed Fees	Difference	Current Fees	Proposed Fees	Difference
£1368	£915.64	-£452.36	£5130	£3343.03	-£1786.97

**CORPORATE GOVERNANCE, AUDIT
AND STANDARDS COMMITTEE
26 SEPTEMBER 2022**

**EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2231**

**ANNUAL STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT OPINION –
UPDATE #2**

SUMMARY:

The purpose of this report is to inform Members of audit progress for the Council's Statement of Accounts for 2019/20 and provision of the audit opinion since the meeting on 26 July 2022. The report also updates Members on the outlined timetable for the audit of the 2020/21 and 2021/22 Financial Statements.

RECOMMENDATIONS:

It is recommended that the committee

- i) Note the Annual Statement of Accounts and External Audit Opinion update report
- ii) Note the impact on the outline timetable for the external audit of the 2020/21 and 2021/22 Statement of Accounts approval of the 2020/21 and 2021/22 Statement of Accounts and receiving the Audit opinion.

1 BACKGROUND

- 1.1 This report updates members on the status of the 2019/20 Statement of Accounts and Audit Opinion, and the impact on the outline timetable for the external audit of the 2020/21 and 2021/22 Statement of Accounts and provision of the Audit Opinion.

2 INTRODUCTION

- 2.1 The Government have recognised the challenges around the timeliness of local audit and the downward trend nationally in the number of external audit opinions delivered on time. On 16 December 2021, the Government published further information and guidance for public audit stakeholders "Measures to improve local audit delays".
- 2.2 The Council finalised the draft Statement of Accounts for 2021/22 by the statutory deadline and has been updating the accounts to reflect adjustments required to 2019/20 accounts. These are available on the Council's website: <https://www.rushmoor.gov.uk/statementofaccounts>
- 2.3 The Council is required under regulation to obtain an independent external audit opinion on the true and fair nature of the statement of accounts. Following provision of the external audit opinion the relevant Council Committee (being Corporate Governance, Audit and Standards Committee) is required to approve

the accounts and publish both the approved set of accounts and the audit opinion by 30 September 2022.

- 2.4 As previously reported to the Corporate Governance, Audit and Standards committee, due to the delay in receiving the 2019/20 and 2020/21 audit opinions the statutory deadline for the 2021/22 accounts will not be met.

3 2019/20 UPDATE, 2020/21 AND 2021/22 STATEMENT OF ACCOUNTS AND AUDIT TIMINGS

- 3.1 The external audit opinion for the 2019/20 Accounts is expected in October 2022. The Accounts have been updated in respect of asset valuation differences which require review by external audit and consideration of the updated Going Concern Note and cashflow forecast.
- 3.2 This will clearly impact the timing of the external audit for the 2020/21 and 2021/22 accounts as opening and closing balances will need to be restated in light of adjustments made to the 2019/20 accounts.
- 3.3 Deadlines for the completion and publication of the 2020/21 and 2021/22 accounts were amended as part of the Government's response to the recommendations contained in the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond review reported on 08 September 2020.
- 3.4 The regulations will amend the draft and final accounts publication deadlines for relevant bodies from 1 June and 31 July to 1 August and 30 September for the next 2 accounting years – i.e., 2020/21 and 2021/22 and the position will be reviewed at that time. The regulations come into force on 31 March 2021.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Amendment) Regulations 2021
Draft Accounts completion	31 May	01 August
Public Inspection period	First 10 working days of June of the financial year immediately following the end of the financial year to which the statement relates	First 10 working days of September of the financial year immediately following the end of the financial year to which the statement relates
Publication of Accounts	31 July	30 September

- 3.5 As referenced in paragraph 2.2 of this report, the Council has published the draft Statement of Accounts for 2021/22. Members should be aware that these accounts will be updated on an-ongoing basis as adjustments made to the 2019/20 and 2020/21 accounts will need to flow through into the opening balances of the 2021/22 accounts.

- 3.6 With 3 years of active accounts, the complexity and workload of the finance team has increased. Producing the accounts for 2021/22 has been a testing process requiring significantly more time to work through all the corresponding accounting entries and adjustments. Over the coming months, the finance team will review the way in which the financial system is configured to reduce reliance on manual reconciliations and for the financial system to produce reports and supporting notes.
- 3.7 Recent discussions with the Council's external auditors (EY) around the timing of the external audit of the Council's Financial Statements for 2020/21 and 2021/22 indicate the proposal to completing audit work and issuing opinions for both sets of accounts by the end of the current financial year will be challenging. Subject to further discussions, it is likely the 2021/22 accounts will not be audited this financial year.
- 3.8 Initial walkthrough tests and confirmation for both audit years were undertaken in August 2022.

4 CONCLUSION

- 4.1 The delay in concluding the 2019/20 audit will have an impact on the timing of the audit of the 2020/21 and 2021/22 Financial Statements and it is likely the audit of the 2021/22 accounts will not be completed by the end of the current financial year.
- 4.2 There will remain some risk and uncertainty around the timing of when the Council will receive the audited financial statements and EY's Audit Opinion given the issues reported to the committee on the audit issues for the 2018/19 and 2019/20 Financial Statements. Members will be kept updated on progress through the civic year.
- 4.3 It is worth reassuring members that the additional time taken is not due to errors, omissions or matters concerning the quality of the final accounts.

Contact Details:

Report Author and Head of Service:
David Stanley – Executive Head of Finance
01252 398440
david.stanley@rushmoor.gov.uk

This page is intentionally left blank

26 SEPTEMBER 2022

ANNUAL GOVERNANCE STATEMENT - UPDATE**SUMMARY:**

This report describes the work carried out towards the implementation of the actions defined within the Annual Governance Statement, which was presented to this Committee in March 2022.

RECOMMENDATION:

Members are requested to:

- i. Note the progress towards the implementation of the actions detailed within the Council's Annual Governance Statement.


1 Introduction

- 1.1 The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement (AGS). Reporting publicly on the extent to which we comply with our own Local Code of Corporate Governance including how we have monitored the effectiveness of our arrangements in the year and on any planned changes to our governance arrangements in the coming year. The AGS was reported to this Committee on 28 March 2022.
- 1.2 The review of the effectiveness of the Council's governance framework in 2021/22 identified areas for improvement to be actioned during 2022/23, which included the carried forward actions from the 2019/20 & 2020/21 AGS. The progress against these actions is detailed within this report.

2 Progress towards actions within the Annual Governance Statement (AGS)

- 2.1 Members considered the AGS report (AUD22/08) which included a number of actions to be implemented during 2022/23 in response to Governance improvements identified in the AGS 2021/22.
- 2.2 The table below details the progress to date of items carried forward:

Actions outstanding from 2019/20


Action from 19/20 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
<p>Implementing a Capital Strategy to comply with the revised Prudential Code and the Treasury Management Code of Practice (b/f from previous year):</p> <p>Finalise development of the Asset Management Strategy which supports the approved annual Capital Strategy</p> <p>(Executive Head of Finance)</p>	December 2020	Issues regarding Capital and Investment need to be considered in the light of the overall Capital Strategy, Treasury Management Strategy and Asset Management Plan. The need for a separate Capital and Investment Strategy given the Council will purchase for regeneration or invest into its existing Portfolio is now questioned. This will be reviewed following completion of the Asset Management Plan	July 2022	<p>The Capital Strategy is approved by Council each year in February.</p> <p>The current Capital Strategy will be reviewed in light of any further capital expenditure decisions.</p> <p>Detailed Asset Management plans covering the Council's property assets will be included in the 2023/24 Capital Strategy.</p> <p>Detailed work has been undertaken by the Property Team over Q1 and Q2 of 2022/23 with the final version of the plan due in Q3.</p>	December 2022	 Progress


Actions outstanding from 2020/21


Action from 20/21 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
<p>The Council faces a significant funding gap over the Medium-Term Financial Strategy period.</p> <p><i>(Executive Head of Finance & ELT)</i></p>	December 2021	<p>Council approved the 2022/23 Revenue Budget and considered the MTFS at their meeting on 24 February 2022. The budget and MTFS included CREP opportunities with savings of £478k identified for 2022/23.</p> <p>The MTFS shows a significant funding gap remains across the MTFS and the Budget report to Council outlined the approach to be taken with the Savings and Transformation Programme (STP) to address the funding gap.</p>	July 2022	<p>The inclusion of this item as a significant governance issue in the 2020/21 AGS was due to the emerging funding gap identified in the February 2021 and the need for clear Governance actions around the mitigating measures.</p> <p>At the time of the 2020/21 AGS the Council was developing a centrally controlled and consistent approach to its savings programme – in terms of identification, approval, and monitoring. Governance around the programme was seen as a key part of the design phase to ensure greater clarity on the value and timing of savings delivery.</p> <p>The CREP programme design was agreed by ELT and Cabinet in March 2021 and moved into the delivery phase in April 2021.</p> <p>In January 2022 CREP and ICE programmes were merged with the Savings and Transformation (STP) Programme being repositioned to ensure savings and efficiencies were</p>	N/A	Completed



Action from 20/21 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
				<p>delivered alongside any transformation work.</p> <p>For the purposes of the AGS Actions list, the Governance issues identified in the 2020/21 AGS have been completed. The issue of the funding gap and the Council's continued financial sustainability remains but is outside the scope of the AGS Update.</p> <p>CREP/STP Savings of £478k have been included in the budget for 2022/23 and is on target.</p> <p>As reported to Cabinet in August, the Council is facing significant external economic pressures in the current financial year which will have an impact on the forecast funding gap.</p> <p>An in-year budget savings exercise is being undertaken to mitigate the impact on the 2022/23 revenue budget.</p> <p>Cabinet will receive the 2023/24 Budget Strategy and MTFs update report in October 2022 which will include a review of the prospects for 2023/24 and the medium-term</p>		


Actions outstanding from 2021/22

Action from 21/22 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
<p>Information Security Policy to be broken down is to different subject areas</p> <p><i>(Information Governance Officer and IT Services Delivery Manager)</i></p>	June 2022	<p>To develop a range of policies focussing on agreed subject areas which will make it easier for staff and members to understand and apply. Aim is to use the DWP government policies as templates to provide more focused and shorter policies on each subject area, agreeing which policies Rushmoor needs to adopt and make changes that apply to Rushmoor via IGG workshops. These policies will then need to be endorsed by Governance Group and signed off at ELT.</p>	N/A	<p>Policies have been grouped together – first set have all been reviewed and commented on over the summer. A number of actions that needs further discussion initially at Information Governance Group (IGG) has been drawn up as a result of these policy reviews. IGG did not meet over the summer period as no Information Governance Officer was in post. New incumbent starts in September 2022 so IGG meetings can be arranged for the specific actions resulting from the policy reviews. The 10-week pilot regarding Office 365 governance is yet to commence due the absence of an IGO. Once this is complete and the outcomes of the pilot work are known, the relating policies can be reviewed and updated.</p>	<p>Group 1 policies – first review complete</p> <p>Group 2 policies review – tbc</p> <p>Resulting actions for IGG to be discussed at IGG in September 2022 with a view to reviewing groups of policies.</p>	 Progress

Action from 21/22 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
Office 365 governance set-up <i>(Information Governance Officer and IT Services Delivery Manager)</i>	June 2022	When Office365 was implemented across RBC governance policies were not develop and applied which needs rectifying. The main aim of this to ensure that the Council's data is protected, retained and handled appropriately. Currently engaging with Silversands to provision a set of activities for a Data Protection Pilot to help focus on how to control sharing of a sample data set stored in Office365, assisting in the definition of internal policies providing technical advice and design of technical controls to implement agreed policies. In addition to provision a set of activities for an Information Governance Pilot that will help to focus on retention requirements for a sample data set from the pilot department which will assist in the development of a corporate retention policy and to map this policy to technical controls available in Office365.	N/A	Pilot service identified (Benefits). Start date to be agreed after new Information Governance Officer starts in September 2022 who will lead and co-ordinate this work.	TBC	 No change. Information Governance Officer resourced and will progress this action

Action from 21/22 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
		Outcomes of these pilots can then be assessed and applied across the rest of RBC, if agreed.				
Improving the robustness of estimates for schemes being considered for inclusion in the capital programme <i>(Executive Head of Finance)</i>	July 2022 (with adoption as part of the 2023/24 Budget Strategy October 2022)	The Executive Head of Finance will lead on the Council's Capital Programme planning process to ensure estimates of future capital expenditure are robust, to maintain the affordability of capital expenditure, revenue impacts are fully considered including mitigation of cost pressures.	N/A	<p>Robust estimates are in place for schemes being considered for inclusion within the capital programme.</p> <p>A review of the capital programme planning process will be considered by the Interim Executive Head of Finance as part of the budget setting planning process for 2023/24.</p>	N/A	Completed
Compliance with the CIPFA Financial Management Code <i>(Executive Head of Finance)</i>	March 2022	An assessment by the Executive Head of Finance against the CIPFA FM code is planned for March/April 2022	N/A	This will commence in September 2022 and was delayed due to ongoing recruitment and changes in roles within the finance team.	October 2022	 No change but further action planned

Action from 21/22 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
<p>External Audit have yet to provide an opinion for the 2019/20 or 2020/21 accounts.</p> <p><i>(Executive Head of Finance)</i></p>	November 2021 & October 2022	The external audit opinion has not yet been received. Expectation is this would be provided by June 2022.	June 2022	<p>The audit opinion for 2019/20 is expected in October 2022.</p> <p>Walkthrough tests were undertaken by external audit in August 2022 with a wider review of the audit workplan required once the opinion for 2019/20 has been received.</p> <p>Therefore, it is expected there will be a delay in the external audit of the 2020/21 and 2021/22 financial statements.</p>	October 2022	 No change
<p>Ensuring comprehensive compliance around cyber security in line with the guidelines provided by the National Cyber Security Centre.</p> <p><i>(Head of IT)</i></p>	October 2022	Enhancing our Cyber security Strategy and formalisation of a cyber security action plan. This is being actioned by the Cyber Security Treatment Plan.	N/A	2022 Annual PSN compliance achieved; 2023 compliance work planned. DLUHC Cyber Treatment Plan part 1 implemented, part 2 work linked to LGA Cyber Security 360 Peer Review (planned for w/c 14 November 2022). Internal Cyber Security Audit scheduled for October 2022. Members Cyber Security Briefing scheduled for 20 September 2022.	N/A	 Progress

Action from 21/22 AGS	Original target date	Last update from March 2022	Revised target date	Update September 2022	Revised target date	Direction of travel
Ensuring compliance with the mandatory elements of the Local Government Transparency Code <i>(Assistant Chief Executive, Information Governance Officer and relevant Heads of Service)</i>	July 2022	Relevant services to carry out the necessary work to ensure that the mandatory elements of the transparency code are appropriately published as required. The Corporate Governance Group will have oversight to ensure that this is implemented.	N/A	Changes to the Council website to increase transparency of this information will be introduced in September.	October 2022	 Progress

2.3 Services have balanced the impact of the Covid-19 pandemic and other external factors to achieve progress on the actions detailed within the AGS 2019/20, 2020/21 and 2021/22.

AUTHOR: David Thacker, Interim Audit Manager
 01252 398810
david.thacker@rushmoor.gov.uk

HEAD OF SERVICE: David Stanley, Executive Head of Financial Services

References:

- *Annual Governance Statement 2019/20 – reported to LA&GP Committee 28 July 2020.*
- *Annual Governance Statement 2019/20 – update report to LA&GP Committee 23 November 2020.*
- *Annual Governance Statement 2020/21 – reported to CGAS Committee 27 September 2021*
- *Annual Governance Statement 2020/21 – update report to CGAS Committee 28 March 2022*
- *Annual Governance Statement 2021/22 – reported to CGAS Committee 28 March 2022*

This page is intentionally left blank

26 SEPTEMBER 2022

INTERNAL AUDIT – AUDIT UPDATE**SUMMARY:**

This report describes:

- The work carried out by Internal Audit since the last report;
- A progress update on the 2022/23 Audit Plan; and
- An update on outstanding audit issues from reports issued in previous years.

RECOMMENDATION:

Members are requested to:

- i. Note the audit work carried out in Quarters 1 & 2 to date.
- ii. Note the update to the expected deliverables for Quarters 2 & 3.
- iii. Note the outstanding high-risk audit issues and engagement by the Services to address them.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work carried out by Internal Audit in Q1 and Q2 to date;
- A progress update on the 2022/23 Audit Plan;
- A schedule of work expected to be delivered in Q2 & Q3; and
- An update on the outstanding audit issues from previous financial years, focusing on specific high-risk issues that appear not to be progressing.

2 Overview of Work Carried Out in Q1 & Q2 to date

2.1 Since the last report, Internal Audit continued to work with Heads of Service and Service Managers to action and update the outstanding audit issues identified from previous financial years.

2.2 Two Internal Audit reports have been issued, with no specific issues to highlight to the Committee. A summary of findings is detailed in section 4 below.

2.3 Five Internal audits/ follow ups have commenced with findings expected to be delivered within quarter 3.

2.4 Internal Audit's strategy paper for the function and resource requirements is now with Senior Management for consideration and will be shared with the Committee in due course.

3 Progress towards the 2022/23 Audit Plan

- 3.1 Since the last update to the Committee, there have been no changes to the audit deliverables set out within the 2022/23 Audit Plan.
- 3.2 The table below provides a summary of progress to date:

Audit/ Audit follow up status	Number of reviews	%
Finalised	2	9.6
In progress	5	23.8
Audits not yet due to be started	14	66.6
Total	21	100%

NB: The figures within the table include 2 audits carried forward from the 2021/22 audit plan.

- 3.3 Whilst a significant number of audits are still to commence it is anticipated that the audit plan will be delivered by the end of the financial year to enable the Audit Manager to provide the annual audit opinion, especially as the Audit Manager has now returned full time as of September.

4. Audit Work Completed

- 4.1 The table below provides an overview of the assurance opinions, given to completed audits since the last update:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2021/22 Internal Audit Plan				
Voyager House (Capital Project)	Reasonable	0	5	0
2022/23 Internal Audit Plan				
The Park Crematorium	Reasonable	1	9	0

- 4.2 Below is a summary of the key findings from the audits.

Voyager House

The Voyager House audit did not have any high-risk issues. However, the main issues concerned the lack of finalising and billing for the outstanding financial contribution from the North East Hampshire & Farnham Clinical Commissioning Group (CCG), the long-term tenants, and the lack of the project's inclusion in the Council's Capital Bid Process. It is to be noted that all issues have been addressed.

The Park Crematorium

The Park Crematorium audit had one high risk issue, which involved the use of the CAMEO (Crematoria Abatement of Mercury Emissions Organisation) Reserve Fund for the purchase of a replacement cremator and the repair of another.

CAMEO was set up in 2006 by DEFRA to reduce mercury emissions in cremations and allowed crematoria to charge a levy, of which the Council is permitted to retain 50% annually to improve facilities for mercury abatement. However, the Council used over £300,000 from the CAMEO Reserve Fund for repairs to the last functioning internal cremator (#1) in 2019/20 and the purchase of the containerised external cremator (#2) in 2020/21, which did not assist the abatement of mercury emissions, as confirmed by the recent emissions report. Therefore, the spend was not in line with the purpose of the fund as set out by CAMEO.

The Executive Head of Finance agreed that the capital financing on the spend incurred to date would be put back into the CAMEO Reserve Fund and would only be drawn upon as part of the wider Crematorium project.

5. Expected Deliverables for Q2 & Q3 2022/23

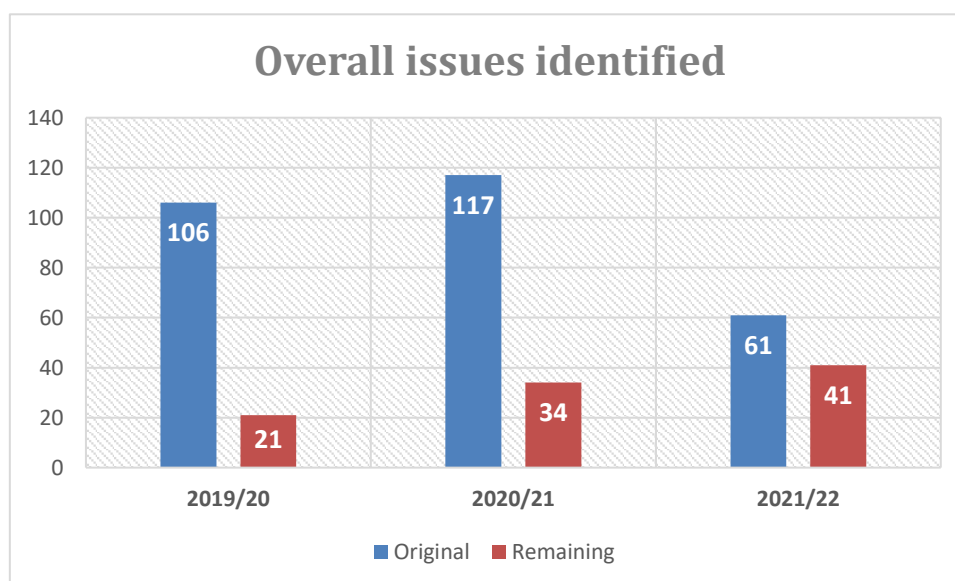
- 5.1 The work expected to be delivered in the remainder of quarter 2 & quarter 3 is detailed within the table below. These audits can be subject to change due to the evolving auditing environment. Updates on these will be provide at the next committee meeting:

Service	Audit/ follow up/descriptor	Expected to be finalised
Democracy	<i>Alderwood Leisure Centre – A follow-up of the audit from 2020/21</i>	<p style="text-align: center;">Q3</p> <p><i>NB: 5 of these audits/ follow ups have already commenced.</i></p>
HR&OD	<i>Staff Recruitment & Retention – A review over staff vacancies, especially key positions, and the measures taken to keep staff</i>	
Finance	<i>Covid-19 Business Grants – A review over the various grants totalling over £29m paid during the pandemic</i>	
Finance	<i>CIPFA Financial Code – A key financial system review looking at compliance with the code</i>	
Democracy	<i>Financial Grants to Organisations – A review over the process by which monies are granted to local organisations</i>	
Finance	<i>Cash Receipting – A review over key financial system</i>	
IT, Facilities & Customer Services	<i>Cyber Security – A review over the Council's IT infrastructure to ensure it is robust, secure and supports service delivery</i>	
ACE	<i>Procurement – A review of the procurement process in the Council and the interaction with Portsmouth CC under the SLA</i>	

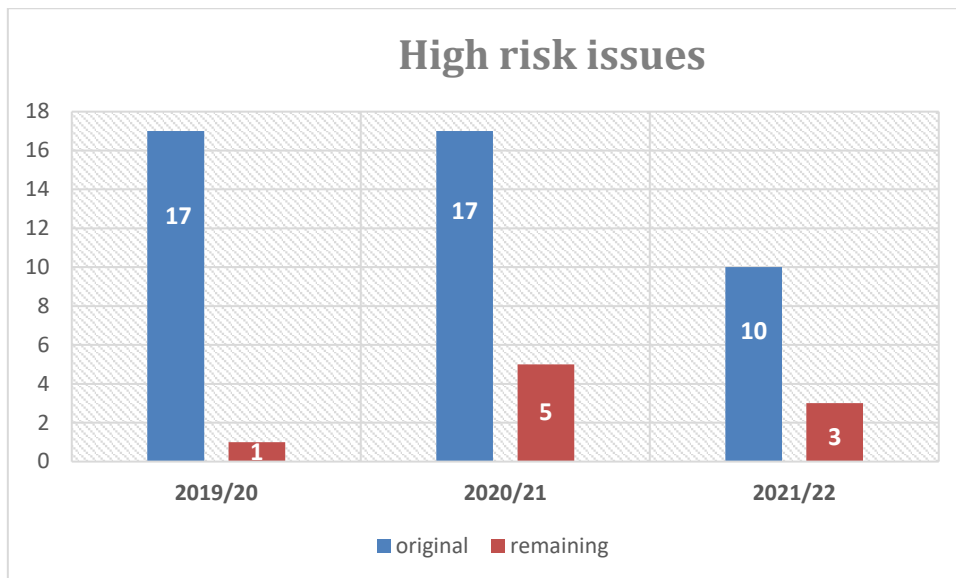
Service	Audit/ follow up/descriptor	Expected to be finalised
Finance	Council Tax Billing, Collection & Recovery – <i>A review of CT with a focus on debtors and recovery</i>	
Property, Estates and Technical Services	Concerto Property System – PIR Audit – <i>A review of the implementation of the new property system.</i>	
Operations	CCTV – <i>A review of the changes to CCTV</i>	
ELT	CREP – <i>A review of the Councils savings programme</i>	
Economy, Planning and Strategic Housing	SANGS - <i>A follow-up of the audit from 2019/20</i>	

6. Outstanding Audit Issues

6.1 Overall, there has been a steady progress in the implementation of outstanding audit issues since the last report to this Committee. The graph below shows the overall number of audit issues identified for each financial year and the number which remain outstanding as of September 2022.



6.2 The high-risk issues identified are ones which require focus by the organisation in order to implement the actions agreed to mitigate the high-risk issues identified. Below the graph shows the number of high-risk issues identified against the number implemented as of September 2022.



6.3 Since the last update to this Committee, 10 high risk issues have been implemented/ risk reduced.

6.4 There are 2 high risk issues which are highlighted within Appendix A which have a lack of progress. The Head of IT who has responsibility for implementing these actions will be in attendance at this meeting to provide the Committee an update on progress to date. It is in the Audit Manager's opinion that the other high-risk issues detailed within Appendix B are progressing sufficiently, and appropriate action is being taken to address them.

7. Recommendation

7.1 Members are requested to note the information provided within the report in relation to the progress of Audit work to date towards the 2022/23 audit plan, the expected deliverables for Q2 & Q3 and the outstanding high-risk audit issues.

AUTHOR: Nikki Fleming, Audit Manager
07867 377484

nikki.fleming@rushmoor.gov.uk

HEAD OF SERVICE: David Stanley, Executive Head of Financial Services

References: *Internal Audit – Audit Plan 2022/23*, presented to the Committee on 28 March 2022.

[Agenda for Corporate Governance, Audit and Standards Committee on Monday, 28th March, 2022, 7.00 pm - Rushmoor Borough Council](#)

OUTSTANDING HIGH-RISK AUDIT ISSUES TO HIGHLIGHT

Report	Key findings	Update on action	Action by whom and when
Year of Audit	2020/21		
Application Patch Management	<p>a) IT are in the process of documenting processes, although application change management/patching has not yet been covered. When this is documented both overall and system specific arrangement need to be addressed.</p> <p>b) Linked to this further investigation needs to be carried out regarding systems where there is limited user testing of changes (see findings below, on roles and responsibilities). Specific to Express future changes need to be applied to test and tested/signed off, prior to migration to live.</p> <p>c) Retain evidence for future nontrivial changes/patches applied. This should aim to capture:</p> <ul style="list-style-type: none"> • Identification of change/patch, i.e. what was applied. • Evidence of testing (unit, integration and user, as applicable) and outcomes. • Sign offs/approval. <p>d) Longer term a Configuration Management Database (CMDB) could be investigated, to store this information in a structured manner.</p> <p>e) IT are in the process of increasing the IT Team, specifically recruiting additional staff to support changes to applications, including bringing back in-house changes currently processed by third parties; this should continue as planned.</p>	<p>a) <i>In place and needs maintaining.</i></p> <p>b) <i>UAT In place and being used for core applications.</i></p> <p>c) <i>The interim solution for recording changes is that the change is discussed with the technical services and/or application support team and upgrade requirement is recorded in the meeting minutes. We will be implementing a new system that will provide better automation for Change Management in a new Service Desk System.</i></p> <p>d) <i>IT Asset Management – currently spreadsheets of assets are kept with information relating to assets recorded. Records are also kept of asset disposals. We will be implementing a new system where all asset information will be recorded in the CMDB in the new Service Desk System.</i></p> <p>e) <i>Ongoing and managed on a case-by-case basis.</i></p> <p>f) <i>Batching of patches will continue where appropriate but is assessed for each upgrade carried out.</i></p>	<p>Nick Harding, Head of IT, Facilities & Customer Services</p> <p>30/10/2021</p> <p>Revised 31/07/2022</p> <p>Revised 31/10/2022</p> <p>Revised: The contract needs to be agreed and finalised before some of this work can be planned to be carried out. Therefore, at this time a specific date cannot be provided but regular updates will be provided to the Committee.</p>

Report	Key findings	Update on action	Action by whom and when
	<p>Batching is a symptom of current under resourcing and reliance on third parties. While a pragmatic approach is sensible, current batching levels are excessive. How batching is approached needs to be covered in documentation (i.e. assessment and decision for each change) and, as far as possible, minimised.</p>		
<p>Application Patch Management</p>	<p>Locate/put in place fit for purpose contracts for all systems. At a high level these should:</p> <ul style="list-style-type: none"> • Be up to date/in date. • Refer/link to current legislation. • Set out performance expectations, ideally quantified. • Set out support arrangements/response times. • Set out a realistic level of reporting, to confirm that performance/support expectations are being met. For example, annual/quarterly reports, against contract expectations. <p>Identify a realistic level of oversight, for example, periodic calls/meetings with account managers.</p>	<p><i>Review of contracts status and update of Contract Register in March 2022. Policy and Performance and Legal currently undertaking reviews with each service to identify any gaps as many original contracts across the organisation cannot be located. However, this does not stop services being provided via annual maintenance renewals. When contract is up for renewal a new contract will be put in place. Reviews with suppliers are also conducted regarding the services provided on a regular basis</i></p>	<p>Nick Harding, Head of IT, Facilities & Customer Services Due to the wide variety of systems covered an end date cannot be provided but regular updates will be provided to the committee</p>

OUTSTANDING HIGH-RISK AUDIT ISSUES - PROGRESSING

Report	Key findings	Update on action	Action by whom and when
Year of Audit	2019/20		
PCI DSS	<p>a) The Council are allegedly paying a fine as a result of not being fully compliant with PCI DSS standards. This is due to the card terminal within the Princes Hall Theatre not transferring Cardholder data securely to the in-house CAPITA 360 system. This could not be confirmed at the time of audit.</p> <p>b) There is no management or oversight of the alleged fine within the Council, with no one being able to provide details i.e., start date, monthly amount, expiry date or whether this was still ongoing.</p>	<p>a) <i>The Council continues to pay additional processing fees.</i></p> <p>b) <i>The Council now understands the gaps in its PCI compliance and action is being taken and a technology solution is being implemented, which should be in place by March 2023.</i></p>	<p>Alex Shiell Digital Manager, IT 30/09/2022 Revised 31/03/2023</p>
Year of Audit	2020/21		
Contract Management Follow Up	<p>There is no Contract Management corporate framework in place to provide guidance for Contract Managers, Procurement and management to:</p> <p>a) Assess the level of contract management required, e.g. formal, ad-hoc, 'light touch';</p> <p>b) Assess the risk to the business, e.g. financial, Health and Safety, reputational, business continuity, etc;</p> <p>c) To re-assess the level of contract management as the contract becomes established and client relationships evolve;</p>	<p><i>The new Constitution and Contract Standing Orders covered elements of the original audit recommendation and therefore can be considered completed. Since September 2021, Portsmouth City Council have been providing procurement support to the Council have been promoting greater visibility across the organisation about the Contract Standing Orders and contract management.</i></p>	<p>Rachel Barker, Assistant Chief Executive 30/06/2022 Revised 30/09/2022 Revised 31/03/2023 – In addition an audit on Procurement will be carried out in Q3 which will review this, and outcomes will be reported to this Committee</p>

Report	Key findings	Update on action	Action by whom and when
	<p>d) Set out the requirement of recording meeting minutes / contract issues / progress, including the need for a standard template;</p> <p>e) Set out the steps to take if a contractor's performance / quality of delivery is inadequate, e.g. KPIs.</p> <p>f) Set out the process for the review / monitoring of continual contracts, e.g. HAGS/SMP Ltd, those contracts with expiry dates and any action required, e.g. PHS;</p> <p>g) Set out the process for adding on to the Contract Register;</p> <p>h) Set out the process when handing over an on-going contract to a new manager to oversee, e.g. PHS.</p> <p>i) Set out the reporting requirements to senior management and Members</p>	<p><i>Detailed work is also underway to understand contract management activity and capability across the Council, led by policy/performance teams and Legal. This work is substantially complete with a contract management review meeting having taken place across all relevant services.</i></p> <p><i>The conclusion of this work will inform next steps which will likely include training for key staff and the development of a set of support materials for contract managers.</i></p>	
Purchase Ledger	<p>The 2020/21 audit has confirmed the lack of segregation of duties continues to be the position. The same officer can raise a requisition and authorise payment if the amount is within their authorisation limit; they may also be the budget holder and therefore, responsible for monitoring expenditure on the account. In addition, no checks are made before a supplier is added to the system by the Purchase Ledger team. The IAS system does not enable a confirmation of receipt of the goods and services purchased; this increases the risk of duplicate payments and payment for goods/services not received.</p> <p>A new supplier form devised as a result of the previous audit concern raised in the 2017/18 to carry out validity checks on new suppliers has not been implemented.</p>	<p>The Systems Accountant started in the role on 01 August 2022 and has been reviewing the Council's financial system set-up. Further changes have been made to the finance team structure in August 2022 with additional management support to the Purchase Ledger team.</p> <p>A Business Process Review will be undertaken by Capita in early October 2022 that will identify actions that can be taken around improving the financial system including the areas identified in the Purchase Ledger Audit report.</p>	<p>Philippa Dransfield Finance Manager & Deputy s151 Officer January 2023</p>

Report	Key findings	Update on action	Action by whom and when
	A new supplier form devised as a result of the previous audit concern raised in the 2017/18 to carry out validity checks on new suppliers has not been implemented.	Therefore, it is proposed to defer any update on the audit issues until the meeting in January 2023.	
Year of Audit 2021/22			
Insurance	<p>Key Person Risk (Partial Repeat from 2019-20).</p> <p>a) Senior Management, e.g., CMT, need to urgently review how the insurance service is managed and what contingency plans need to be put in place to provide a continuous and effective service.</p> <p>b) A plan should be instigated to ensure that knowledge is acquired, and shared, to enable the delivery of the insurance service across all RBC services.</p> <p>c) Procedures/guidance to be implemented for administering the insurance service and communicating with other services, plus guidance for services with links to insurance, e.g., Property, Regeneration, IT, Legal, Operations, etc, to set out their responsibilities in managing assets and communicating with the service, e.g., claims handling, asset status and information flow, etc.</p> <p>d) Insurance guidance and documents, e.g., driving on company business, claim forms, year-end / renewal requirements, etc, should be placed on the RBC intranet for access to all officers.</p>	A number of recommendations were made in the Internal Audit report on Insurance in 2021/22. Actions around reinstatement valuations and property records have been completed. However, recommendations around key person risk and more widely the process for ensuring the Council's assets are adequately (and correctly) insured have not been fully completed. The Finance Manager has taken on operational responsibility for the Insurance function including liaison with the Council's insurers, brokers and the Hampshire Insurance Forum. In reviewing the current position around insurance, a number of weaknesses around documentation and process notes has been identified. Administrative support is being identified across the finance team to ensure relevant insurance and claim processing information is shared in a timely manner.	David Stanley, Executive Head of Finance / Tim Mills, Interim Head of Property, Estates and Technical Services Philippa Dransfield Finance Manager & Deputy s151 Officer
	Uninsured Properties (Partial Repeat from 2019-20).		

Report	Key findings	Update on action	Action by whom and when
	<p>As a matter of urgency, it should be verified whether the two properties identified are included in the current cover with the insurer.</p>	<p>It is likely these actions will take more time to implement than was indicated in the last update to the committee. Members will be kept apprised on progress in the regular Internal update reports over the coming months.</p>	
Sales Ledger	<p>Debt Management</p> <p>a) Accounts in arrears date back to 2006 and aged debts over 4 years old apply across various services.</p> <p>b) There is variable engagement from the services in regard to managing debts, replying to monthly reports, identifying next actions, write-offs, etc</p> <p>c) Property Services-Rent and Housing-Rent Deposits are the two highest debts (70% of total) and there is currently no specific approach to manage these with a greater focus.</p> <p>d) Within the services, there is uncertainty as to their role and responsibility in the management and recovery of debt and how this aligns with the role of the Finance team.</p> <p>e) The monthly debt report provided by Finance to the services is in PDF format, which is not user friendly for filtering, analysing, note making, etc.</p> <p>f) The use of Enforcement Agency / Bailiffs for sundry debtors was put on hold in March 2020 and debts have not been identified by the services, in conjunction with Finance, for recovery via this route.</p>	<p>A Corporate project team has been established as part of the Savings and Transformation Programme and is reviewing the processes in place to collect income and debt.</p> <p>The Executive Head of Finance will, upon conclusion of the project, provide updated guidance for Heads of Service and Service Managers on the process for collecting income, aged debt collection and recovery.</p> <p>The Executive Head of Finance will also review the relevance, timeliness and accuracy of management information that is provided to Heads of Service and Service Managers.</p>	<p>Philippa Dransfield Finance Manager & Deputy s151 Officer 30/09/2022</p>

Report	Key findings	Update on action	Action by whom and when
	<p>g) The 000999 Holding/Suspense Account balance is £13,540.29 (as at mid-May 2022). The recent high-value items are regularly cleared but the historical items dating back to July 2000 need review. Additionally, services are not aware of how to access the account for their debt follow up purposes.</p> <p>h) Notes on Integra on debt monitoring and follow up action were sporadic ranging from none to detailed narrative.</p>		

**CORPORATE GOVERNANCE, AUDIT AND
STANDARDS COMMITTEE
SEPTEMBER 2022**

**EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2232**

**TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT
OPERATIONS 2021/22**

SUMMARY:

This report sets out the main activities of the Treasury Management and non-Treasury Investment Operations during 2021/22. Prudential indicators for the 2021/22 financial year have been updated for all treasury management and non-treasury activity during 2021/22.

RECOMMENDATIONS:

Members are requested to:

- (i) Note the contents of this report in relation to the treasury management and non-treasury investment operations carried out during 2021/22

1. INTRODUCTION

- 1.1 This report sets out the Treasury Management and Non-Treasury Investment operations for 2021/22. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.
- 1.2 Full Council originally approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for 2021/22 on 25 February 2021. The Council has invested substantial sums of money and is therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management and non-treasury investment strategies.

2. PURPOSE

- 2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2017 ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
- 2.2 The CIPFA "Prudential Code" 2017 edition, "Treasury Management Code of Practice" 2017 edition and MHCLG revised guidance February 2018 focus on "non- treasury" investments. With attention on the purchase of investment

property and other commercial activities that aim to generate income; but may require external borrowing (or the use of existing cash balances) to raise the cash to finance such activities. Non-treasury investments have been incorporated into the operations report for 2021/22.

- 2.3 The appendices (A to C) set out the Treasury Management operations, Non-Treasury Investment Operations and Prudential Indicators for 2021/22 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management operations** which sets out how the Council's treasury service operated during 2021/22, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The **Treasury Management Borrowing operations** which sets out the Council's borrowing during 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management, and;
- The **Treasury Management Investment operations** which sets out the Council's Treasury Management investment operations during 2021/22, in accordance with CIPFA's Code of Practice on Treasury Management.

Appendix B

- The **Non-Treasury Investment operations** sets out the Council's Non-Treasury investment performance during 2021/22, in accordance with MHCLG Investment Guidance.

Appendix C

- the **Prudential indicators forecast** sets out the prudential indicators position at the end of 2021/22. Performance is compared to the indicators set out in the Annual Capital Strategy for the year 2021/22.

3 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2021/22

- 3.1 The Council's treasury team continued to concentrate on the security of investments taking due regard for the returns available.
- 3.2 The return on treasury management activity is in line with the revised budget for 2021/22. Pooled funds have proven to be robust and have performed well given the wider economic downturn as a result of COVID-19.
- 3.3 With increased levels of borrowing the treasury team continually reviews the borrowing strategy, weighing up interest rate levels and risk of refinancing. During the 2021/22 financial year short-term interest rates have remained low and are forecast to remain low. However, borrowing levels have increased, raising refinancing risk. Levels of borrowing will be continually reviewed to mitigate refinancing risk.

- 3.4 Total borrowing at 31 March was £100m, an decrease of £2m from that at 31 March 2022. The decreased level of borrowing has been offset by reduced interest rate of borrowing. This has resulted in interest cost of borrowing decreasing by £83,000 compared with 2019/20 costs.
- 3.5 The Council's non-treasury investments risk exposure at 31 March 2022 of £155.1m of which £91.6m is funded via external loans.
- 3.6 Rate of return across all Council's investments have been variable. However, aggregate rate of return on all Council investments is in line with estimated return for 2021/22 due to the cost associated with commercial property being clarified during the financial year and the impact of COVID-19.

Contact Details:

Report author:

Philippa Dransfield - Finance Manager

philippa.dransfield@rsuhmoor.gov.uk

Head of Service:

David Stanley - Executive Head of Finance

01252 398440

David.Stanley@rushmoor.gov.uk

TREASURY MANAGEMENT OPERATION FOR 2021/22

1 INTRODUCTION

- 1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2 TREASURY MANAGEMENT ADVICE

- 2.1 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2021/22. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.
- 2.2 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose, and having due regard to information from other sources such as the financial press and credit-rating agencies.
- 2.3 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.
- 2.4 The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2021/22, staff attended relevant workshops provided by Arlingclose and other service providers.

3 EXTERNAL CONTEXT

- 3.1 The Council's treasury management advisors have provided commentary on the economic background that prevailed during 2021/22. This commentary is provided at **Appendix D**.

4 LOCAL CONTEXT

- 4.1 On 31 March 2022, the Council had net borrowing of £62.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes for the 2021/22 financial year is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The projected CFR is summarised in **Appendix C**.
- 4.2 The treasury management position on 31 March 2022 and the change during the year is shown in Table 1 below.

Table 1: Treasury Management Summary

	31-Mar-21 Balance £m	Movement £m	31-Mar-22 Balance £m	31-Mar-22 Rate %
Long Term Borrowing	-		-	-
Short Term Borrowing	102.0	(2.0)	100.0	0.19%
Total Borrowing	102.0	(2.0)	100.0	
Long Term Investments	21.9	1.0	22.9	4.19%
Short Term Investments	-		-	
Cash & Cash Equivalents	4.8	10.0	14.8	0.09%
Total Investments	26.7	11.0	37.7	
Net Borrowing/(Investments)	75.3	(13.0)	62.3	

- 4.3 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as CFR, but

that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	2021/22 Budget £m	2021/22 Outturn £m
Outstanding Borrowing	154.1	100.0
Investment Minimum	(10.0)	(10.0)
Investments held that can be redeemed	23.9	36.7

5 BORROWING ACTIVITY IN 2021/22

5.1 At 31 March 2022 the Council held £100m of loans, a decrease of £2m since 31 March 2021, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March 2022 are summarised in Table 3 below.

Table 3: Borrowing Position

	31-Mar- 21 Balance £m	Movement £m	31-Mar- 22 Balance £m	31-Mar- 22 Rate %
Long Term Borrowing	-		-	-
Short Term Borrowing	102.0	(2.0)	100.0	0.19%
Total Borrowing	102.0	(2.0)	100.0	

5.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

5.3 With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use short-term loans.

6 INVESTMENT ACTIVITY IN 2021/22

6.1 The Council holds significant invested funds. During the year, the Council's investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31-Mar- 21 Balance £m	Movement £m	31-Mar- 22 Balance £m	31-Mar- 22 Rate %
<u>Managed In-house</u>				
Money Market Funds	4.8	10.0	14.8	0.09%
<u>Managed Externally</u>				
<u>Pooled Funds</u>				
CCLA LAMIT Property Fund	3.9	-	3.9	4.51%
M&G Investments Strategic Corporate Bond Fund	4.0	-	4	2.45%
UBS Multi Asset Fund	5.0	-	5	4.01%
Kamas	2.0	-	2	5.14%
Threadneedle Investments	2.0	-	2	2.09%
Schroder Income Maximiser Fund	5.0	-	5	5.99%
Total Investments	26.7	10.00	36.7	

6.2 The following chart illustrates the spread of investment by type of investment

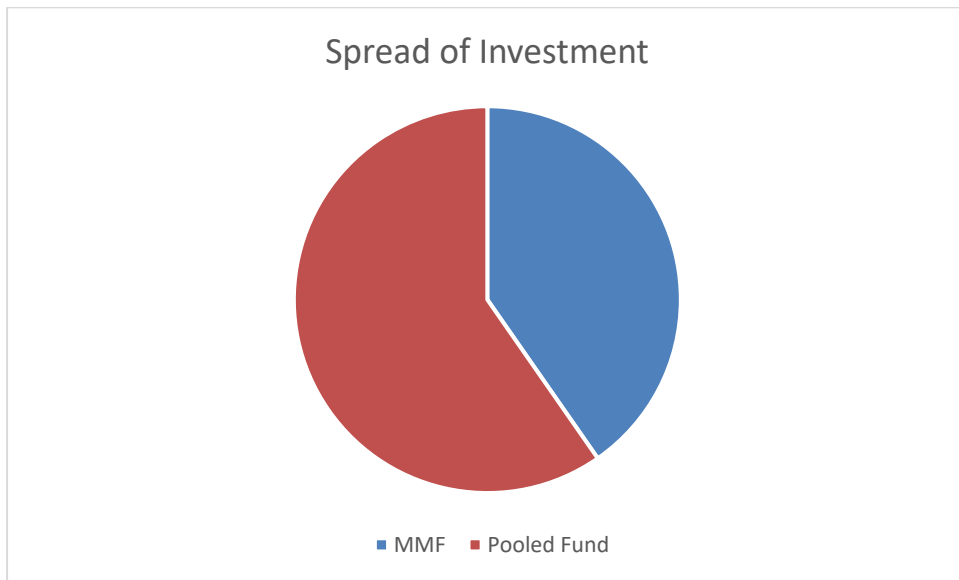
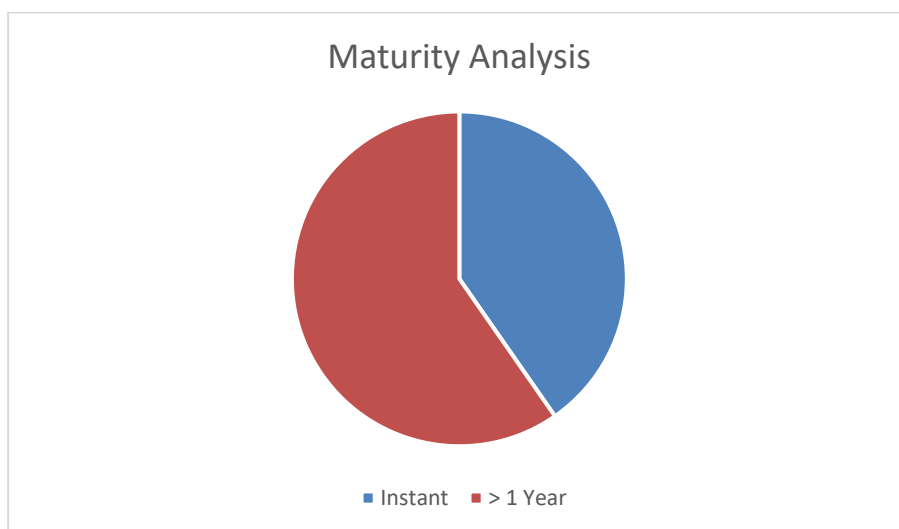


Table 5: Maturity analysis

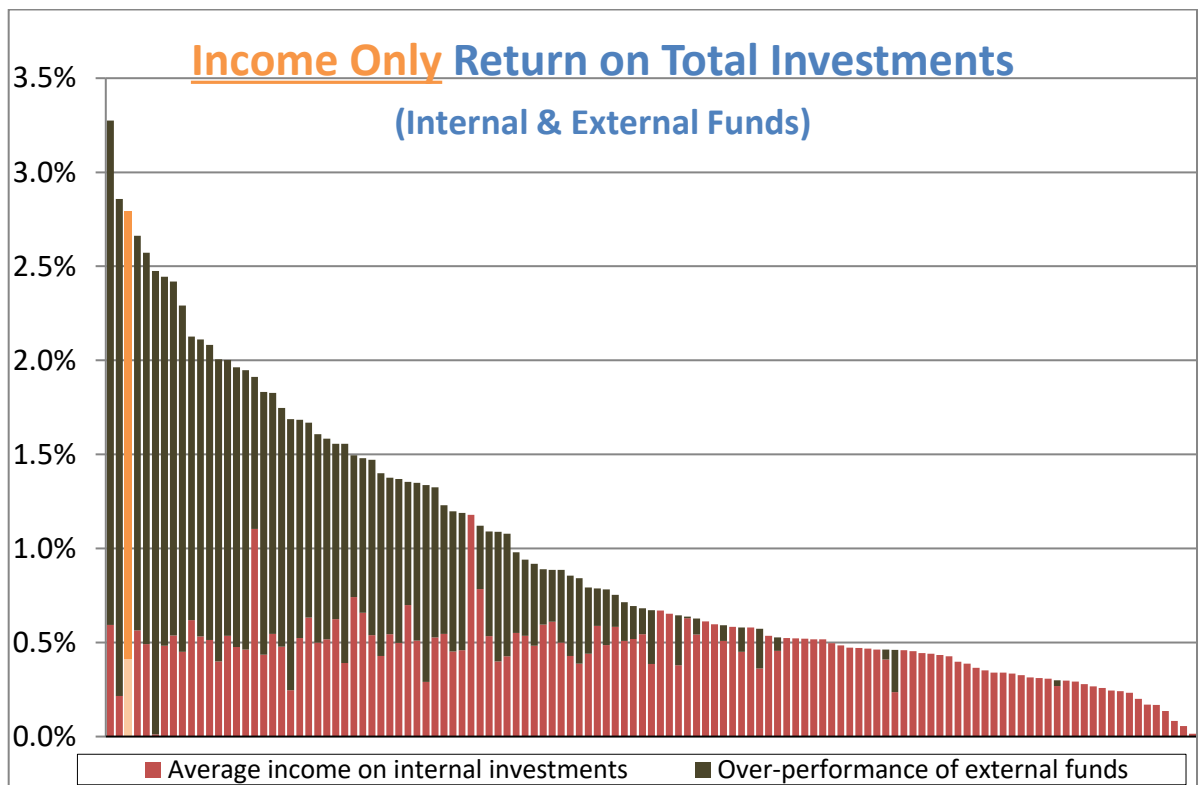
Maturity Analysis for all Investments	Type of Counter Party	Amount Invested	%of Total Investments
Instant	MMF	14.8	40%
> 1 Year	Pooled Fund	21.9	60%
Total for all duration periods		36.7	100%



6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. 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 unsuitably low investment income.

6.4 Treasury management total investment income return during 2021/22 was 4.19% as compared with 3.61% in 2020/21.

6.5 Investment Income Benchmarking: The graph below has been produced by Arlingclose and demonstrates that the Council income only returns on total investment portfolio for the last 12 months up to March 2021 was 4.03%.



6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose’s quarterly investment benchmarking in Table 6 below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure
31.03.2021	5.13	A+	100%
31.03.2022	4.96	A+	100%
Similar LAs	4.68	A+	65%
All LAs			

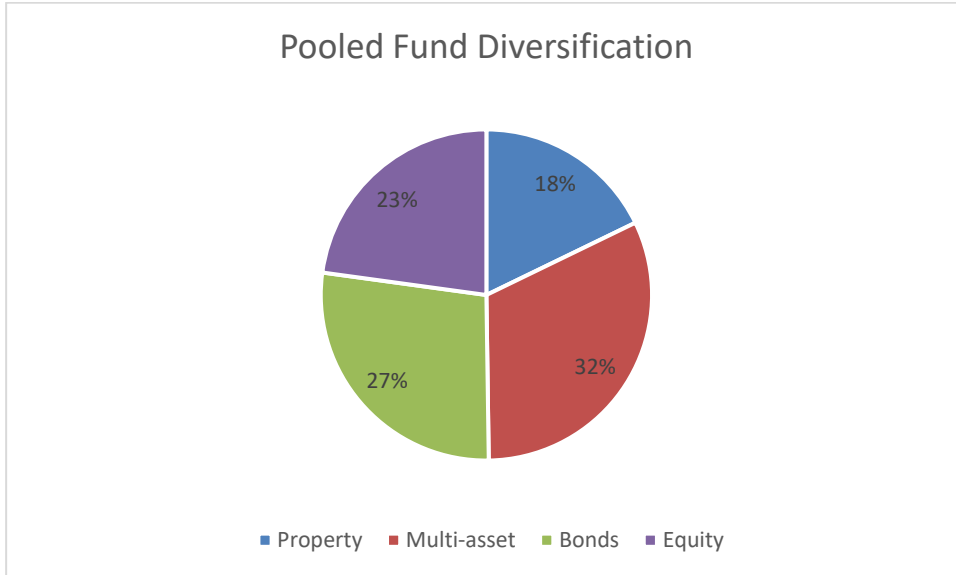
External Strategic Pooled Funds

6.7 £21.9m of the Council's investments are held in externally managed strategic pooled equity funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. During 2021/22 these funds generated an average total return of £1.7m (7.5%), comprising a £1.0m (4.19%) income return which is used to support services in year, and £0.7m (3.28%) of unrealised capital gain.

6.8 A summary of returns and diversification is set out below.

Table 7: Pooled fund diversification

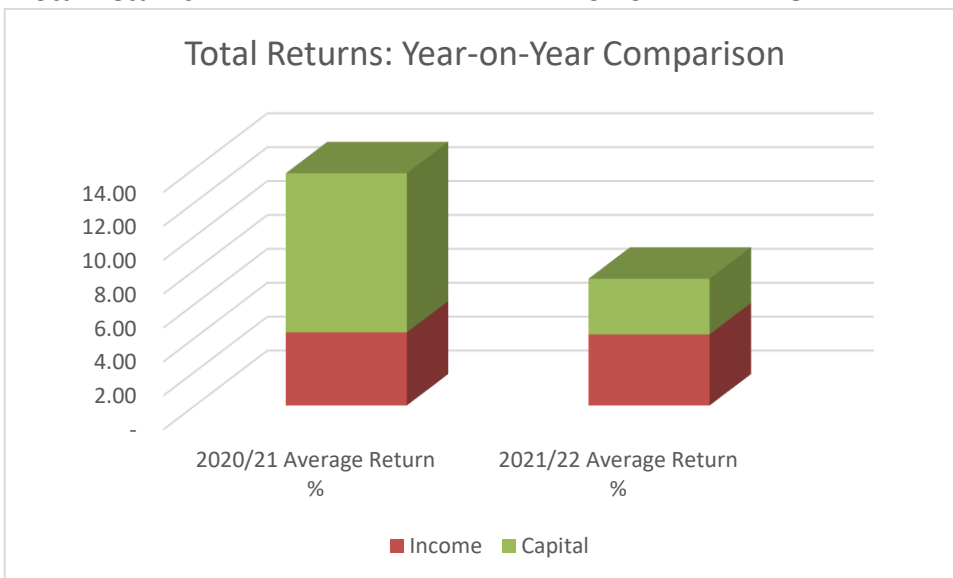
Type of Pooled Fund	Amt invested £m	% of Total Investments
Property	3.9	18%
Multi-asset	7.0	32%
Bonds	6.0	27%
Equity	5.0	23%
Total	21.9	100%



6.9 Total Return Breakdown

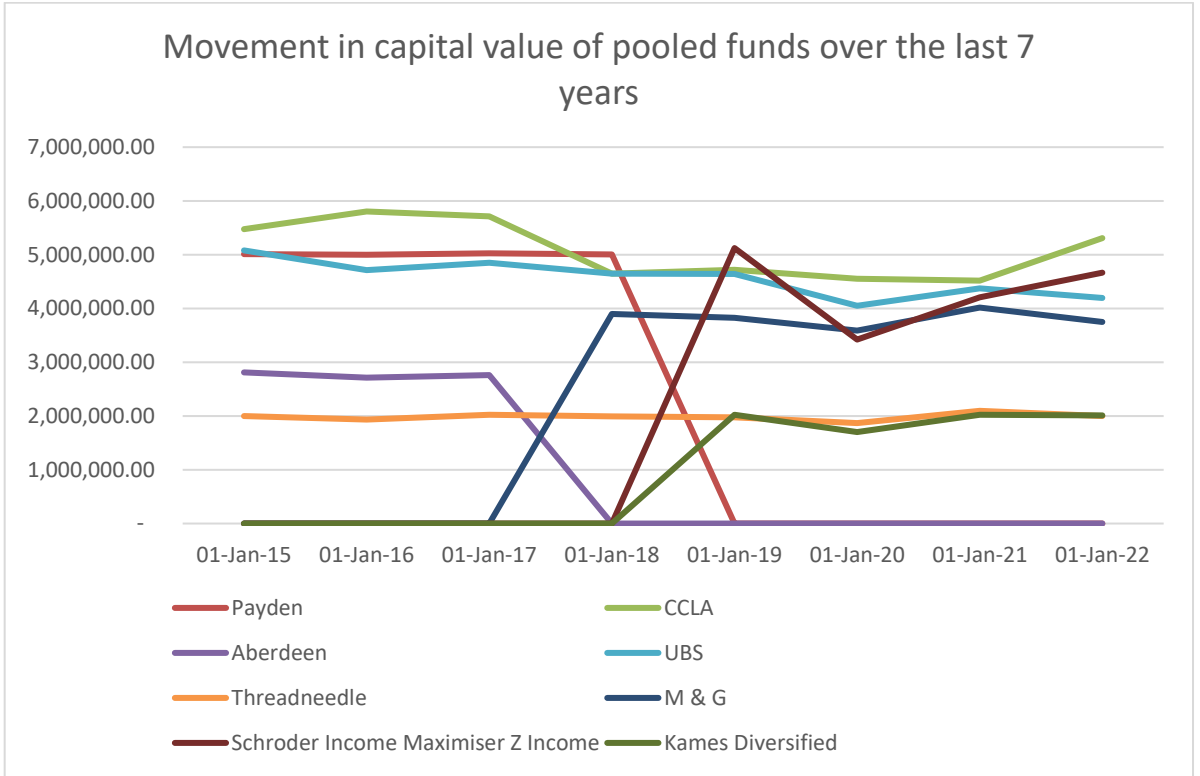
Table 8: Total return breakdown

Type of Return	2020/21 Average Return %	2021/22 Average Return %
Income	4.31	4.19
Capital	9.39	3.28
Total Returns	13.70	7.48

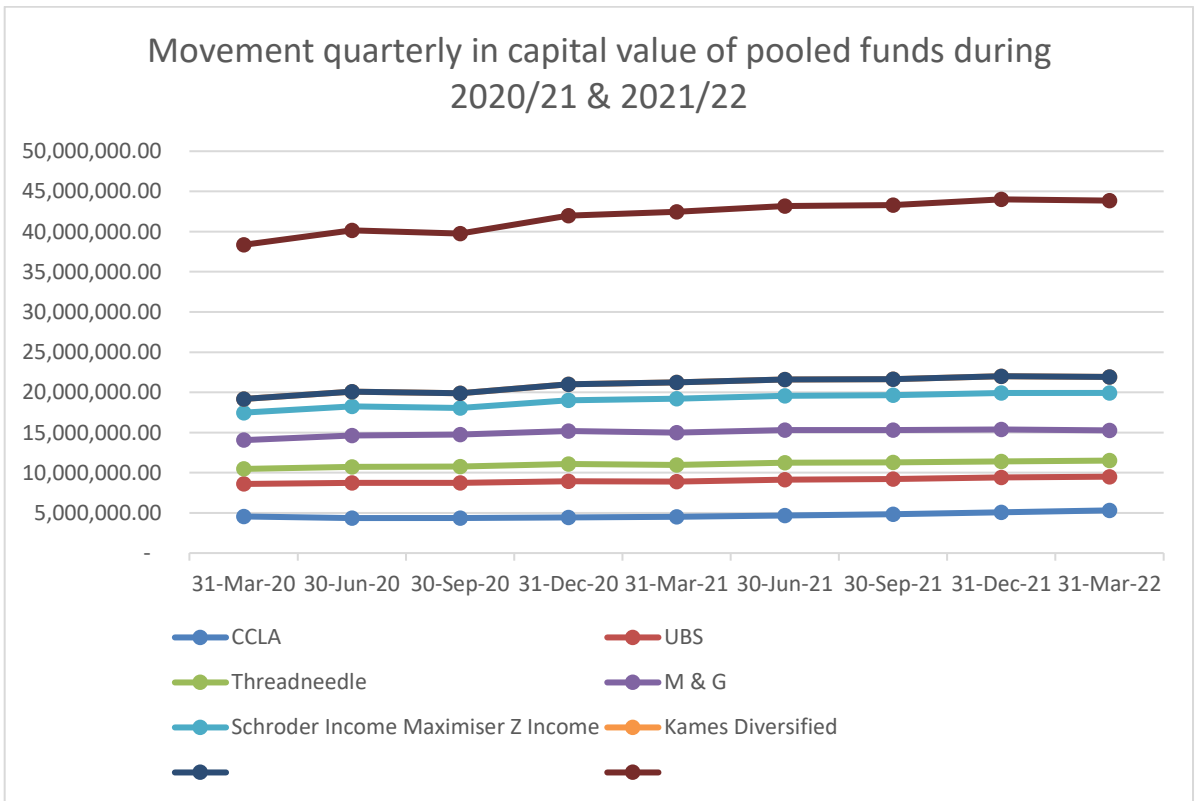


The Council is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds' fair value losses to the Pooled Investment Fund Adjustment Account until 2023/24.

- 6.10 As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-/long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.
- 6.12 Details of the Council's investment activity together with returns generated during 2021/22 are outlined as follows:
- 6.13 **Capital returns** – the Council's pooled funds continued to experience some variations in performance during the year 2021/22 and COVID-19 had a significant impact on the UK economy during 2021/22. Against this background the Council's pooled funds have performed well, returning an overall net increase in fair value for the year 2021/22 of £1.0m (an aggregate increase of 3.28% of overall pooled funds invested).
- 6.14 There is variation in performance across the portfolio as shown graphs below



Where investment drop to zero, this is because the council divested. Where investment commences at zero, this is because the council invested during the last 7 years



6.15 **Income Returns** – The income returned by fund for the period to 31 March 2022 is analysed below:

- CCLA's Local Authorities' Mutual Investment Trust - £3.9 million investment at commencement of the year. The Property Fund is designed to achieve long-term capital growth and income from investments in the commercial property sector. The fund has returned 4.51% annualised income during 2021/22.
- UBS Multi-Asset Income Fund - £5 million investment. This fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has returned 4.01% annualised income during 2021/22.
- Threadneedle Strategic Bond Fund - £2 million investment. The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has returned 2.09% annualised income during 2021/22
- M & G Corporate Bond Fund - £4m investment. This fund aims for a target total return of 2.45% from a combination of investment income or capital appreciation. This fund has returned 2.07% annualised income during 2021/22.
- Schroder Income Maximiser Fund - £5m investment made in December 2018. The fund aims to provide both income and capital growth, delivering a target income of 5.41% per annum. The fund has returned 5.99% annualised during 2021/22.
- Kames Diversified Monthly Income Fund - £2m investment made in February 2019. The fund aims is to provide income with the potential for capital growth over the medium term. The fund has returned 5.14% annualised during 2021/22.

7 TREASURY MANGEMENT COMPLIANCE PERFORMANCE

7.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

7.2 **Compliance** - The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy with the exception of current account balance limits.

7.3 Compliance with specific investment limits is demonstrated in table 9 below.

Table 9: Investment Limits

	2020/21 Actual £m	2020/21 Limit £m	Complied
Any group of pooled funds under the same management	21.9	25.0	Yes
Money Market Funds	14.8	25.0	Yes

8 TREASURY MANAGEMENT INDICATORS

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

8.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2020/21 Actual	2020/21 Target	Complied
Portfolio average credit rating	A+	A-	Yes

8.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

	2020/21 Actual £m	2020/21 Target £m	Complied
Total sum borrowed in past 3 months without prior notice	-	1.0	Yes

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

	2021/22 Actual	2021/22 Limit	Complied?
Upper limit on one-year impact of a 1% rise in interest rates.	£332,000	£500,000	YES
Upper limit on one-year impact of a 1% fall in interest rates.	£356,000	£500,000	YES

8.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

8.6 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2020/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	100%	100%	0%	Yes
12 months & within 24 months	0%	100%	0%	Yes
24 months & within 5 years	0%	100%	0%	Yes
5 years & within 10 years	0%	100%	0%	Yes
10 years & above	0%	100%	0%	Yes

8.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

8.8 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23 £m	2023/24 £m	2024/25 £m
Actual principal invested beyond year end	21.9	21.9	21.9
Limit on principal invested beyond year end	90.0	90.0	90.0
Complied	Yes	Yes	Yes

8.9 **Total Investment Yield:** The Council's revised estimates regarding investment yields and costs compared to the actual outturn for 2021/22 is shown in the table below.

Budgeted Income and Outturn	2021/22 Actual £m	2021/22 Budget £m	Variance £m
Interest Receivable	(0.9)	(0.9)	-
Interest Payable	0.3	0.4	0.1
Net Amount	(0.6)	(0.5)	0.1

NON-TREASURY INVESTMENT OPERATIONS FOR 2021/22

1 INTRODUCTION

- 1.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 1.2 The purpose of non-treasury investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.
- 1.3 The second main function of investment management is to generate potential returns and monitor performance of returns on a regular basis.
- 1.4 The Council also holds £130.5m of such investments at as 31 March 2022 in:
- directly owned property £123.7m
 - loans to local businesses and landlords £6.7m
 - loans to subsidiaries £1.0m

2 PROPORTIONALITY

- 2.1 The Council is becoming increasingly dependent on profit generating investment activity to achieve a balanced revenue budget. Table 1 below shows the forecast proportion of gross service expenditure funded by investment activity.

Table 1: Proportionality of Investments

	2021/22 Estimate	2021/22 Outturn
Proportion	16.4%	13.4%

3 SERVICE IMPROVEMENT LOANS

- 3.1 The Council lends money to its subsidiaries, local businesses, and its employees to support local public services and stimulate local economic

growth. The Council is a funding partner of Farnborough International Limited. The loans have enabled the development of the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough and is a reinvestment in local business.

3.2 The Council performance and upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2: Loans for service purposes in £ millions

Category of Borrower	2020/21 Approved Limit £m	2020/21 Actual £m
Local businesses	6.7	6.7
Subsidiaries & Partnerships	3.5	1.0
Employees	0.1	0.1
Total	10.3	7.8

Category of Borrower	2020/21 Approved Limit £m	2020/21 Actual £m
Local businesses	6.7	6.7
Subsidiaries & Partnerships	3.5	1.0
Employees	0.1	0.1
Total	10.3	7.8

Service loans have not generated a material rate of return for the Council during 2021/22 financial year. The rate of return on Service loans is lower than estimated due to follow two events:

- delays in issuing loans to Rushmoor Housing Company – two loans were made during 2021/22 totalling £0.7m
- funding consortium partnership agreeing to defer interest payments on loans to provide cashflow support to by Farnborough International Limited (FIL) following the cancellation of the 2020 Air show. Further detail is given in report FN2115

4 COMMERCIAL INVESTMENT: PROPERTY

- 4.1 The Council invests in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services. The forecast transactions during 2021/22 will increase the overall portfolio to £123.7m as outline in table 4 below.

Table 3: Property held for investment purposes in £ millions

Property by Type	2020/21	2021/22 transactions	
	Carry Forward	Purchase Cost	Year end value
Mixed Use	4.5	-	4.5
Industrial Units	24.3	-	24.3
Retail	49.9	1.5	51.4
Offices	29.3	15.7	45.0
Total	108.0	17.2	125.2

Return on Commercial investment

- 4.2 Commercial property investments generated £4.03m of net investment income for the Council after taking account of direct costs, cost of borrowing and Minimum Revenue Provision (MRP). This is lower than the estimated return of £4.57m. This represents a rate of return of 3.0%.

5 NON-TREASURY INVESTMENT INDICATORS

- 5.1 The Council measures and manages its exposures to non-treasury investment risks using the following indicators.
- 5.2 **Total risk exposure:** This indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 5: Total investment exposure in £millions

	2021/22 Estimate £m	2021/22 Actual £m
Total Investment Exposure		
Treasury Management Investments	23.9	36.7
Service Investments: Loans	13.0	7.8
Service Investments: Shares	0.6	-
Commercial Investments: Property	124.4	125.2
Total Exposure	161.9	169.7

- 5.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

	2021/22 Estimate £m	2021/22 Actual £m
Treasury Management investment	-	-
Service Investments: Loans	8.4	7.8
Service Investments: Shares	0.6	-
Commercial Investments: Property	89.9	92.2
Total Funded by Borrowing	98.9	100.0

- 5.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

	2021/22 Estimate %	2021/22 Actual %
Treasury Management Investments	3.7	4.2
Service Investments: Loans	2.2	0.1
Service Investments: Shares	-	-
Commercial Investments: Property	3.5	6.3
Total Exposure	9.4	10.6

- 5.5 The above table shows variable performance across all types of investment. However, in aggregate the total rate of return is in line with the estimate for 2021/22.
- 5.6 The Council has considered the following additional indicators prudent to report given the investment activities.

Table 8: Other investment indicators

	2021/22 Estimate	2021/22 Actual
Debt to net service expenditure ratio	11.6	7.6
Commercial income to net service expenditure ratio	0.8	0.6

APPENDIX C

PRUDENTIAL INDICATORS

- 1.1 **Prudential Indicators:** The following indications are required by the CIPFA “Prudential Code” 2017 edition
- 1.2 **Estimates of Capital Expenditure:** The Council’s planned capital expenditure and financing may be summarised as follows.

Table 1: Capital Expenditure and Financing in £ million

	2021/22 Budget	2021/22 Outturn
General Fund services	38.5	9.0
TOTAL	38.5	9.0
External sources	10.3	6.0
Own resources	0.0	0.0
Debt	28.2	3.0
TOTAL	38.5	9.0

- 1.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 2: Replacement of debt finance in £ million

	2021/22 Budget	2021/22 Actual
Own resources	2.5	2.5

- 1.4 **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council’s underlying need to borrow for a capital purpose.

Table 3: Estimates of Capital Financing Requirement in £ millions

	2021/22 Budget	20120/21 Actual
General Fund services	148.0	124.0
MRP	-2.5	-2.5
IFRIC 4 Lease Adjustment	-0.4	-0.4
TOTAL CFR	145.1	121.2

- 1.5 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 4: Gross Debt and the Capital Financing Requirement in £ millions

	2022/22 Budget £m	2022/22 Outturn £m
Debt (incl. leases)	154.1	101.7
Capital Financing Requirement	143.8	121.6
Difference	(10.3)	19.9

- 6 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 5: Affordable borrowing limit in £m

	2021/22 Limit	2021/22 Actual
Authorised limit – total external debt	160.1	115.0
Operational boundary – total external debt	155.1	110.0

- 1.7 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 6: Ratio of financing cost to net revenue stream

	2021/22 Budget	2021/22 Forecast
Financing costs (£m)	3.2	2.8
Proportion of net revenue stream	31.8%	26.9%

Market commentary regarding the year 2021/22 from the Council's treasury management advisors Arlingclose

External Context

Economic background:

The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets:

Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instances, led to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Credit review:

Credit default swap spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Bank Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review

This page is intentionally left blank

Corporate Governance, Audit and Standards Committee

Programme of Future Work 2022/23

(i) Items in the planned cycle of the Committee's work

Committee Date	Expected Items	Summary
28th November 2022	Treasury Management Mid-Year Report 2022/23	Report on the mid-year position on Treasury Management and Non-Treasury Management activities for 2022/23 [including any proposed to the Treasury Management Strategy for 2022/23]
	Annual Statement of Accounts/External Audit Opinion - Update #3	Report from the Executive Head of Finance which informs Members on the status of the external audit of the Council's Financial Statements and Value for Money conclusion for 2020/21
	Internal Audit – Audit Update	Report from the Audit Manager with an update on audit work and outstanding issues.
	Audit Charter Annual Review	Charter for annual review and approval
	Corporate Risk Management	Report from the Assistant Chief Executive on the Corporate Risk Register
	Cyber Security	Report from Head of ICT, Facilities and Projects
	Mayoral Selection Criteria	Report back on recommendations for updating the current criteria
30th January 2023	Selection of the Mayor and Deputy Mayor 2023/24	To report on the outcome of the selection process

Committee Date	Expected Items	Summary
	Annual Capital Strategy 2023/24	Report from the Executive Head of Finance which seeks approval of the Council's Annual Capital Strategy for the year 2023/24 for submission to the Council on 23 February 2023.
	Annual Treasury Management and Non-Treasury Management Strategy 2023/23	Report from the Executive Head of Finance which seeks approval of the Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy (Investment Strategy) for the year 2023/24 for submission to Council on 23 February 2023.
	Annual Statement of Accounts/External Audit Opinion - Update #4	Report from the Executive Head of Finance which informs Members on the status of the external audit of the Council's Financial Statements and Value for Money conclusion for 2021/22
	Internal Audit – Audit Update	Report from the Audit Manager with an update on audit work and outstanding issues.
	Annual Governance – Actions Update	AGS Actions Update
27th March 2023	Treasury Management Update Report 2022/23 [Optional report]	Report on the Q3 position on Treasury Management and Non-Treasury Management activities for 2022/23
	Annual Statement of Accounts/External Audit Opinion - Update #5	Report from the Executive Head of Finance which informs Members on the status of the external audit of the Council's Financial Statements and Value for Money conclusion for 2021/22 and planned activity regarding the external audit of the Council's Financial Statements and Value for Money conclusion for 2022/23 (*planned activity for 2022/23 may be at the 25 May 2023 meeting)

Committee Date	Expected Items	Summary
	Audit Plan 2022/23	Internal Audit Plan for approval
	Internal Audit – Audit Update	Report from the Audit Manager with an update on audit work and outstanding issues.
	Pay Policy Statement	Approval for a Pay Policy Statement for 2023/24 for recommendation to Council

(ii) Other work and items expected during 2022/23

Work/Item	Details
Arrangements for the appointment of the Council's Designated Independent Person for Standards (DIP)	The Council's current DIP's term of office concludes at the end of 2022/23, following a two-year extension (report to Council 22nd April 2021 refers).
Annual Review Letter of the Local Government and Social Care Ombudsman	Annual Review Letter for 2022 with the outcome of the Ombudsman's complaint review letter
Rushmoor Community Award	Nominations
Update report from the Rushmoor Development Partnership	Progress against the RDP's Business Plan
Ad hoc items requiring an update to documents in the Council's Constitution	
Licensing Hearings (alcohol and entertainments matters under the Licensing Act and taxi licensing)	The Members of the Committee who are currently trained to form a Panel for licensing hearings are Councillors: Guinness, Vosper, Cullum, Auton, Gani and Trussler.

(iii) Forthcoming training presentations for CGAS Members

Topic	Date
Corporate Risk – introduction and refresher training	7.00 p.m. Tuesday 18th October on Teams
Financial Management and Accounting – introduction and refresher training	7.00 p.m. Monday 7th November on Teams (tbc)
Treasury Management – Introduction and refresher training	To be confirmed
Role of the external auditor	6.30 p.m. Monday 28th November in the Concorde Room preceding the CGAS Committee Meeting

Copies of past training presentations are accessible to all Rushmoor Councillors on the [Members SharePoint site \(electronic link here\)](#)