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RUSHMOOR BOROUGH COUNCIL

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

at the Council Offices, Farnborough on

Wednesday, 27th September 2023 at 7.00 pm

To:

Voting Members:

Cllr P.J. Cullum (Chairman)
Cllr S Trussler (Vice-Chairman)

Cllr A. Adeola
Cllr C.W. Card
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Nadia Martin
Cllr Sarah Spall
Cllr Nem Thapa
Cllr Jacqui Vosper
Cllr Gareth Williams

Non-Voting Member:

Mr Tom Davies – Independent Member (Audit)

Standing Deputies:
Conservative Group: Cllr Peace Essien-Igodifo and Cllr S.J. Masterson
Labour Group: Cllr K. Dibble and Cllr C.P. Grattan
Liberal Democrat: Cllr T.W. Mitchell

Enquiries regarding this agenda should be referred to Kathy Long, Democratic Support Officer, Democracy Team
Tel. (01252 398829) or email kathy.godden@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 2023 (copy attached).

2. **ANNUAL OMBUDSMAN COMPLAINT REVIEW LETTER 2023 - LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN –** (Pages 5 - 10)

   To receive the Monitoring Officer's Report No. CS231907 (copy attached), which summarises the outcome and findings of the annual review letter from the Local Government and Social Care Ombudsman, which reviews complaints received by the Ombudsman.

3. **TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2022/23 –** (Pages 11 - 40)

   To consider the Executive Head of Finance Report No FIN2314, which sets out the main activities of the Treasury Management and Non-Treasury Investment Operations during 2022/23.

4. **ANNUAL STATEMENT OF ACCOUNTS/EXTERNAL AUDIT OPINION - UPDATE –** (Pages 41 - 70)

   To receive an update from the Executive Head of Finance on the latest position in respect of the 2020-21 Annual Statement of Accounts and External Audit Opinion. The final version of the Annual Audit Letter for the year ended 31st March 2020 is attached for noting and information. (Previously this letter was circulated to the Committee as a draft).

5. **INTERNAL AUDIT - AUDIT UPDATE –** (Pages 71 - 74)

   To receive the Audit Manager's Report No. AUD2307 (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. **FREEDOM OF INFORMATION - ANNUAL UPDATE –** (Pages 75 - 78)

   To consider the Corporate Manager, Legal Services Report No. LEG2301 (copy attached), which sets out the Council's Annual Report on Freedom of Information requests.

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 Wednesday, 26th July, 2023 at the Council Offices, Farnborough at 7.00 pm.

Voting Members:

Cllr P.J. Cullum (Chairman)
Cllr S. Trussler (Vice-Chairman)

Cllr A. Adeola
Cllr C.W. Card
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Nadia Martin
Cllr Sarah Spall
Cllr Jacqui Vosper
Cllr G. Williams

Non-Voting Member:

Mr Tom Davies – Independent Member (Audit)

Apologies for absence were submitted on behalf of Cllr Nem Thapa.

10. **MINUTES**

The minutes of the meeting held on 1st June 2023 were agreed and signed as a correct record of the proceedings.

11. **STATEMENT OF ACCOUNTS**

The Executive Head of Finance introduced the draft Statement of Accounts for 2022/23. It was explained that the external auditors (EY) were not yet in a position to audit the accounts due to the current backlog of audits.

The Executive Head of Finance advised the Committee that a letter had been received from Mr Lee Rowley MP, Parliamentary Under-Secretary of State for Local Government and Building Safety (Department for Levelling UP, Housing and Communities (DLUHC). A copy of this letter would be circulated to the Committee following the meeting. The letter concerned local audit delays and made proposals for addressing the current local audit backlog, including longer-term changes. A consultation exercise would to take place on the proposals and it was understood that implementation of agreed actions would take place in December 2023. The Executive Head of Finance reminded Members that the Council would need to be mindful of possible implications for the Authority.

The Chairman welcomed Kalthiemah Abrahams (Audit Manager, EY) who joined the meeting remotely via Teams. Ms. Abrahams advised the Committee that EY had started the 2020/21 audit, which was estimated to be completed by the end of September/early October 2023. When completed, EY would give the Council time to roll forward for the 2021/22 audit and it was intended that EY would commence its audit of the 2021/22 financial statements in late November/early December. It was the intention that both the 2020/21 and 2021/22 audits would be completed by the end of March 2024.

During discussion, Members raised questions regarding the Council's assets, funding sources, estimated investment returns, and the current and future spend on Union Yard, Aldershot.

RESOLVED: That the draft Statement of Accounts for 2022/23 be noted.

12. **QUARTERLY REPORTING OF TREASURY PRUDENTIAL INDICATORS**

The Committee received the Executive Head of Finance Report No. FIN2312, which set out the Prudential Indicators compliance for the first quarter of the 2023/24 financial year, as required by the CIPFA Code for Local Authorities.

The Chief Finance Officer advised that all treasury management activities undertaken in the areas of specific investment limits, security and liquidity during the first quarter of the year had complied fully with the CIPFA Code of Practice.

RESOLVED: That the Executive Head of Finance Report No. FIN2312 be noted.

13. **SCHEME OF DELEGATION - TAXI LICENSING HEARINGS**

The Committee considered the Executive Head of Operations Report No. OS2310, which proposed an amendment to the Scheme of Delegation in respect of Taxi Licensing Hearings.

It was noted that the Council's Scheme of Delegation currently stated that, where the Executive Head of Operations or Delegated Officer was minded to refuse or revoke a licence for a private hire operator or a hackney carriage and/or private hire driver, the case be referred to the Committee for a decision. It was proposed that the Scheme of Delegation should be amended to ensure expediency of decision making in accordance with the Council's Taxi Licensing Policy, the best use of resources, and that the contentious and most appropriate decisions were referred to a taxi licensing hearing. For this purpose, it was recommended that the Scheme of Delegation should be amended to read:

"Where the Executive Head of Operations (or delegated officer) proposes to refuse or revoke a licence for a private hire operator or a hackney carriage and/or private hire driver, the matter shall be referred to a taxi licensing hearing for decision in the following circumstances:

- The proposed decision would not be in accordance with the Council's Taxi Licensing Policy and is not deemed urgent on public safety grounds;

- The Executive Head of Operations (or delegated officer) considers it appropriate in a particular case (e.g. it is a contentious matter)

Decisions by the Executive Head of Operations (or delegated officer) to suspend, refuse or revoke a licence for a private taxi hire operator or a hackney carriage and/or private hire driver, which are in accordance with the Council's Taxi Licensing Policy and not deemed urgent on public safety grounds, shall be made in consultation with the Chairman of the Corporate Governance, Audit and Standards Committee."

It was advised that, in urgent cases, the current delegated powers to officers should remain in place, in accordance with Department for Transport guidance, to allow for expedient decisions to be made where appropriate.

The Committee was advised that officers were mindful of the implication of resourcing for hearings and the importance of objectivity in decision making and were of the feeling that the proposed amendments should assist with this.

RESOLVED: That approval be given to

(i) the amendment of the Scheme of Delegation as set out in Part 3, Section 4, Para. 4.5.3 of the Constitution (taxi and private hire licensing and associated licensing arrangements), as follows:

"Where the Executive Head of Operations (or delegated officer) proposes to refuse or revoke a licence for a private hire operator or a hackney carriage and/or private hire driver, the matter shall be referred to a taxi licensing hearing for decision in the following circumstances:

- The proposed decision would not be in accordance with the Council's Taxi Licensing Policy and is not deemed urgent on public safety grounds;

- The Executive Head of Operations (or delegated officer) considers it appropriate in a particular case (e.g. it is a contentious matter); and

(ii) the addition of a further paragraph as Para. 4.5.4 as follows:

"Decisions by the Executive Head of Operations (or delegated officer) to suspend, refuse or revoke a licence for a private taxi hire operator or a hackney carriage and/or private hire driver, which are in accordance with the Council's Taxi Licensing Policy and not deemed urgent on public safety grounds, shall be made in consultation with the Chairman of the Corporate Governance, Audit and Standards Committee."

14. EXCLUSION OF THE PUBLIC

RESOLVED: That the public be excluded from the meeting during the discussion of the undermentioned item to avoid the disclosure of exempt information within the paragraph of Schedule 12A to the Local Government Act 1972 indicated against such item:

Minute No.	Para. No.	Category
15	1	Information relating to an individual

THE FOLLOWING ITEM WAS CONSIDERED IN THE ABSENCE OF THE PUBLIC

15. **APPOINTMENT OF HONORARY ALDERMEN**

The Committee considered the Corporate Manager – Democracy Report No. DEM2305, which set out details of two nominations to be approved as Honorary Aldermen of the Borough. This item had been added to the agenda as a matter of urgency.

Provisions for the appointment of Honorary Aldermen were contained in the Local Government Act, 1972 and the criteria adopted by the Council had been circulated to Committee members. The criteria included that former councillors were required to have not less than 16 years' service with the Council or its constituent authorities and should normally be a resident of the Borough. If the proposals were supported by the Committee then arrangements would be made for an Extraordinary Meeting of the Council to be held on 5th October 2023 to enable the honour to be bestowed on those who accepted their invitation to become an Honorary Alderman.

The Committee discussed each of the nominations and was of the unanimous opinion that Mr. T.D. Bridgeman and Mr. J.H. Marsh should be appointed as Honorary Aldermen of the Borough in recognition of their eminent and long service to the Borough.

RESOLVED: That the Council, at an Extraordinary Meeting arranged for this purpose, be asked to appoint Mr. T.D. Bridgeman and Mr. J.H. Marsh as Honorary Aldermen of the Borough in recognition of their eminent and long service to the Council and Borough.

The meeting closed at 7.38 pm.

CLLR P.J. CULLUM (CHAIRMAN)

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE
27 SEPTEMBER 2023

MONITORING OFFICER'S REPORT NO. CS231907

ANNUAL OMBUDSMAN COMPLAINT REVIEW LETTER 2023 (LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN)

The Council receives an annual summary from the Local Government and Social Care Ombudsman (LGSCO). This reviews how many complaints have been received by the Ombudsman. Following an original investigation that will have been conducted under the Council's own Complaint's Policy. This year's review period covered 1 April 2022 to 31 March 2023.

The LGSCO feel that the information provided by them, can give an organisation intelligence, insight and enable transformation. It can indicate problems in specific areas of service delivery. Or provide perspective of an organisations culture and ability to learn. Providing information to assist with governance, audit, risk and scrutiny functions.

It is worth noting that the LGSCO is continuing to work with the Housing Ombudsman Service, to provide a joint complaint handling code. Providing standards for organisations to work to. They will be consulting on this code and any implications this may have prior to a launch.

1. Purpose:

To update the Committee on the positive response and outcome of the review letter (attached).

2. Findings:

The LGSCO received 8 complaints.
4 - Closed on initial enquiry
3 - Refer back to Council
1 - Not upheld

Meaning no detailed investigations during this period were carried out. Matching the Council's record during the previous year. Therefore, there are no further recommendations for service improvement.

3. Conclusion:

It is recommended the Committee note the position and that the Council carry on managing any complaints through the current complaints policy and ensure that the Council continue to monitor and review the effectiveness of its policy and responses. This report provides the Council with the evidence that the Council is responding well to complaints and is in effect a "clean bill of health" from a credible third party.

Ian Harrison, Executive Director and Monitoring Officer
Contact: marybeth.quaintmere@rushmoor.gov.uk, Service Manger – Customer Services and Facilities

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19 July 2023

By email

Mr Shackley
Chief Executive
Rushmoor Borough Council

Dear Mr Shackley

Annual Review letter 2022-23

I write to you with your annual summary of complaint statistics from the Local Government and Social Care Ombudsman for the year ending 31 March 2023. The information offers valuable insight about your organisation's approach to complaints. As always, I would encourage you to consider it as part of your corporate governance processes. As such, I have sought to share this letter with the Leader of your Council and Chair of the appropriate Scrutiny Committee, to encourage effective ownership and oversight of complaint outcomes, which offer such valuable opportunities to learn and improve.

The end of the reporting year, saw the retirement of Michael King, drawing his tenure as Local Government Ombudsman to a close. I was delighted to be appointed to the role of Interim Ombudsman in April and look forward to working with you and colleagues across the local government sector in the coming months. I will be building on the strong foundations already in place and will continue to focus on promoting improvement through our work.

Complaint statistics

Our statistics focus on three key areas that help to assess your organisation's commitment to putting things right when they go wrong:

Complaints upheld - We uphold complaints when we find fault in an organisation's actions, including where the organisation accepted fault before we investigated. We include the total number of investigations completed to provide important context for the statistic.

Over the past two years, we have reviewed our processes to ensure we do the most we can with the resources we have. One outcome is that we are more selective about the complaints we look at in detail, prioritising where it is in the public interest to investigate. While providing a more sustainable way for us to work, it has meant that changes in uphold rates this year are not solely down to the nature of the cases coming to us. We are less likely to carry out investigations on 'borderline' issues, so we are naturally finding a higher proportion of fault overall.

Our average uphold rate for all investigations has increased this year and you may find that your organisation’s uphold rate is higher than previous years. This means that comparing uphold rates with previous years carries a note of caution. Therefore, I recommend comparing this statistic with that of similar organisations, rather than previous years, to better understand your organisation’s performance.

Compliance with recommendations - We recommend ways for organisations to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

Satisfactory remedy provided by the authority - In these cases, the organisation upheld the complaint and we were satisfied with how it offered to put things right. We encourage the early resolution of complaints and credit organisations that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your organisation with similar authorities to provide an average marker of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data, and a copy of this letter, will be uploaded to our interactive map, Your council’s performance, on 26 July 2023. This useful tool places all our data and information about councils in one place. You can find the detail of the decisions we have made about your Council, read the public reports we have issued, and view the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

Supporting complaint and service improvement

I know that complaints offer organisations a rich source of intelligence and insight that has the potential to be transformational. These insights can indicate a problem with a specific area of service delivery or, more broadly, provide a perspective on an organisation’s culture and ability to learn. To realise the potential complaints have to support service improvements, organisations need to have the fundamentals of complaint handling in place. To support you to do so, we have continued our work with the Housing Ombudsman Service to develop a joint complaint handling code that will provide a standard for organisations to work to. We will consult on the code and its implications prior to launch and will be in touch with further details.

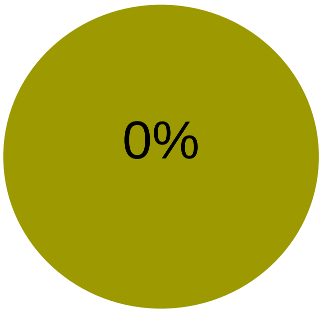
In addition, our successful training programme includes practical interactive workshops that help participants develop their complaint handling skills. We can also offer tailored support and bespoke training to target specific issues your organisation might have identified. We delivered 105 online workshops during the year, reaching more than 1350 people. To find out more visit www.lgo.org.uk/training or get in touch at training@lgo.org.uk.

Yours sincerely,

P. Najsarek

Paul Najsarek
Interim Local Government and Social Care Ombudsman
Interim Chair, Commission for Local Administration in England

Complaints upheld



0% of complaints we investigated were upheld.

This compares to an average of **59%** in similar organisations.

0

upheld decisions

Statistics are based on a total of **1** investigation for the period between 1 April 2022 to 31 March 2023

Compliance with Ombudsman recommendations

No recommendations were due for compliance in this period

Satisfactory remedy provided by the organisation

The Ombudsman did not uphold any detailed investigations during this period

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CORPORATE GOVERANCE, AUDIT AND STANDARDS COMMITTEE
SEPTEMBER 2023

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2314

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2022/23

SUMMARY:
This report sets out the main activities of the Treasury Management and non-Treasury Investment Operations during 2022/23. Prudential indicators for the 2022/23 financial year have been updated for all treasury management and non-treasury activity during 2022/23.

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 2022/23

1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operations for 2022/23. 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 2022/23 on 24 February 2022. 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 December 2021 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 2022/23.

2.3 The appendices (A to C) set out the Treasury Management operations, Non-Treasury Investment Operations and Prudential Indicators for 2022/23 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management operations** which sets out how the Council’s treasury service operated during 2022/23, 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 2022/23 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 2022/23, 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 2022/23, in accordance with MHCLG Investment Guidance.

Appendix C

- the **Prudential indicators forecast** sets out the prudential indicators position at the end of 2022/23. Performance is compared to the indicators set out in the Annual Capital Strategy for the year 2022/23.

3 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TRESURY INVESTMENT OPERATIONS DURING 2022/23

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 2022/23. Pooled funds have proven to be robust and have performed well

3.3 With increased levels of borrowing the treasury team continually reviews the borrowing strategy, weighing up interest rate levels and risk of refinancing. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Also, borrowing levels have increased, raising refinancing risk. Levels and length of borrowing will be continually reviewed to mitigate refinancing risk.

3.4 Total borrowing on 31 March was £120m, an increase of £20m from that on 31 March 2023. The increased level of borrowing has been together with the increased interest rate of borrowing, has resulted in an increased cost of borrowing of £0.865m compared to 2021-22 (this was budgeted for).

3.5 The Council's non-treasury investments risk exposure on 31 March 2023 of £125.9m of which £111.9m 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 2022/23 due to the cost associated with commercial property being clarified during the financial year.

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APPENDIX A

TREASURY MANAGEMENT OPERATION FOR 2022/23

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 2022/23. 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 2022/23, 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 2022/23. This commentary is provided at **Appendix D**.

4 LOCAL CONTEXT

4.1 On 31 March 2023, the Council had net borrowing of £96.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes for the 2022/23 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 2023 and the change during the year is shown in the table below.

	31-Mar-22 Balance £m	Movement £m	31-Mar-23 Balance £m	31-Mar-23 Rate %
Long Term Borrowing	-	5.0	5.0	4.2%
Short Term Borrowing	100.0	15.0	115.0	1.1%
Total Borrowing	**100.0**	**20.0**	**120.0**	
Long Term Investments	22.9	(1.6)	21.3	4.5%
Short Term Investments	-	-	-	
Cash & Cash Equivalents	13.7	(11.9)	1.8	2.1%
Total Investments	**36.6**	**(13.5)**	**23.1**	
Net Borrowing/(Investments)	**63.4**	**33.5**	**96.9**	

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.

	31-Mar-23 Budget £m	31-Mar-23 Outturn £m
Outstanding Borrowing	125.0	120.0
Investment Minimum	(10.0)	(10.0)
Investments held that can be redeemed	23.9	20.4

5 BORROWING ACTIVITY IN 2022/23

5.1 At 31 March 2023 the Council held £120m of loans, an increase of £20m since 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March 2023 are summarised in the table below.

	31-Mar-22 Balance £m	Movement £m	31-Mar-23 Balance £m	31-Mar-23 Rate %
Long Term Borrowing	-	5.0	5.0	4.2%
Short Term Borrowing	100.0	15.0	115.0	1.1%
Total Borrowing	**100.0**	**20.0**	**120.0**	

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.

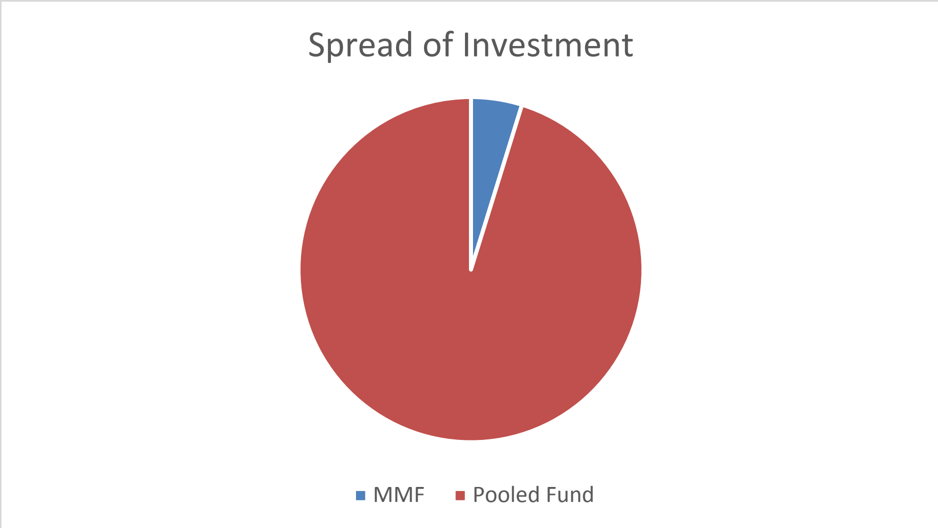
5.4 During August 2022, the Council commissioned Arlingclose to review and advise upon a strategy for borrowing going forward. They advised that a strategic allocation to short-term borrowing of around £60m for the Council to take advantage of the lower interest rates available and that borrowing in excess of this figure should at long-term fixed rates to limit the Council's interest rate risk. The Council is in the process of creating a structured approach to moving some of the short-term debt to long-term.

6 INVESTMENT ACTIVITY IN 2022/23

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

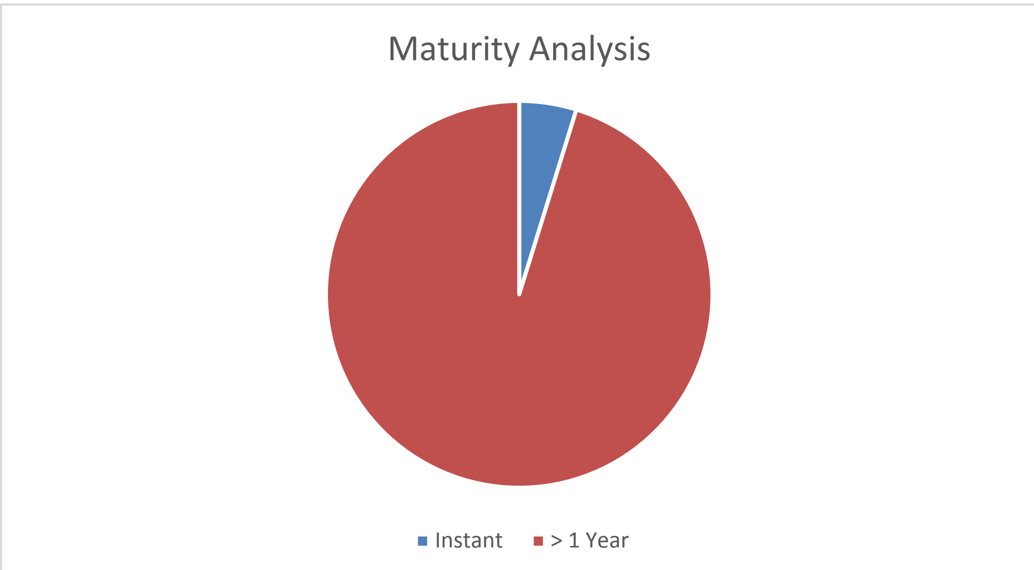
	31-Mar-22 Balance £m	Movement £m	31-Mar-23 Balance £m	31-Mar-23 Rate %
Managed In-house				
Money Market Funds	14.5	(13.4)	1.1	2.11%
Managed Externally				
Pooled Funds				
CCLA LAMIT Property Fund	3.9	0.5	4.4	7.52%
Aegon Strategic Corporate Bond	2.0	(0.2)	1.8	5.41%
M&G Investments Strategic Corporate Bond Fund	4.0	(0.6)	3.4	2.21%
Schroder Income Maximiser Fund	5.0	(0.6)	4.4	3.05%
UBS Multi Asset Fund	5.0	(1.5)	3.5	2.53%
Threadneedle Investments	2.0	(0.2)	1.8	2.69%
Total Investments	**36.4**	**(16.0)**	**20.4**	

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



The table and chart below illustrate the maturity analysis of investments.

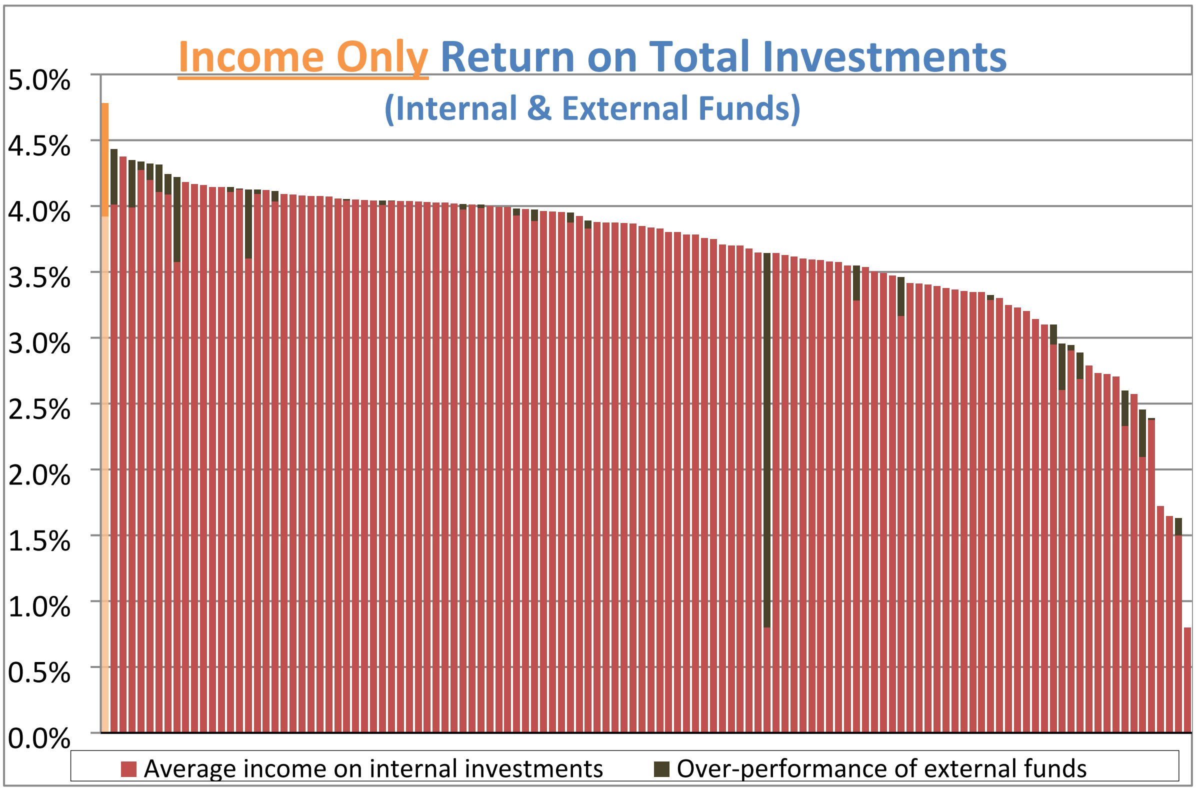
Maturity Analysis for all Investments	Type of Counter Party	Amount Invested	%of Total Investments
Instant	MMF	1.1	5%
> 1 Year	Pooled Fund	21.9	95%
Total for all duration periods		**23**	**100%**



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 2022-23 was 3.65% as compared with 4.19% in 2021-22

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 2022 was 4.83%.



	Credit Score	Credit Rating	Bail-in [1]Exposure
31-Mar-22	4.97	A+	40%
31-Mar-23	4.89	A+	5%

[1] Requirement to invest to ensure the entity remains solvent

Similar LA's	4.74	A+	63%
All LA's	4.71	A+	59%

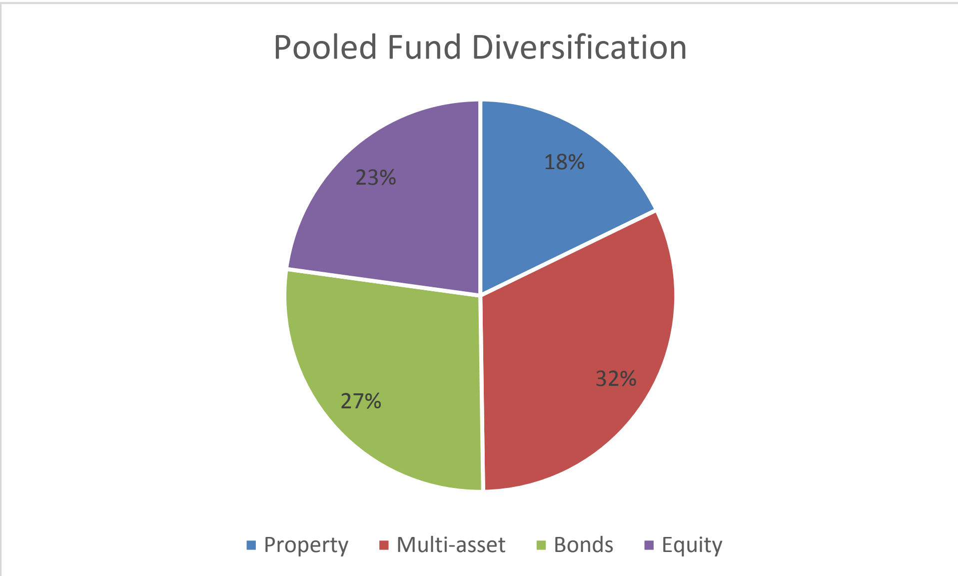
6.6 The benchmarking relating to treasury investments managed in-house, from Arlingclose's quarterly investment benchmarking report, is detailed in the table below.

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 2022/23 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.

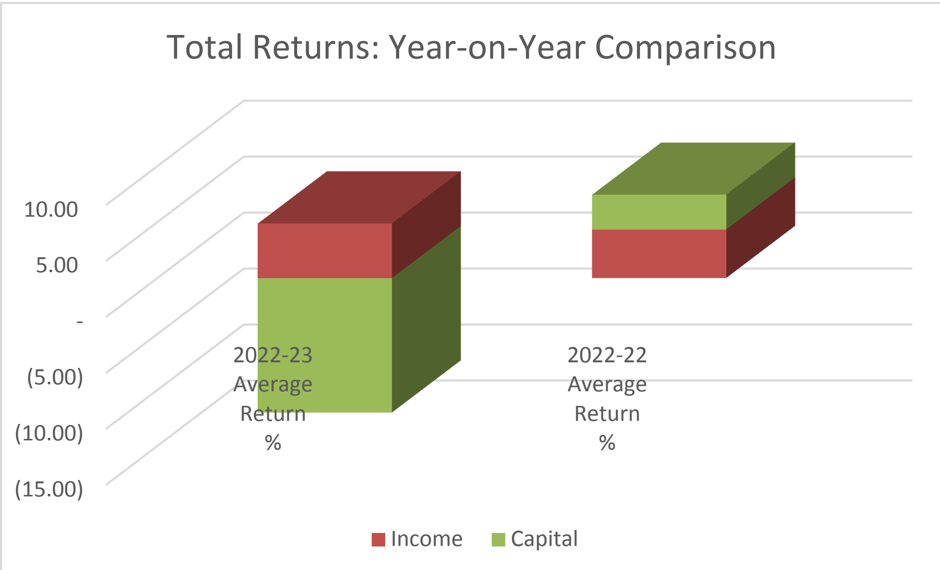
6.8 A summary the diversification of pooled funds is set out in the table and chart below.

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 Average Return Breakdown

Type of Return	2022-23 Average Return %	2022-22 Average Return %
Income	4.83	4.33
Capital	(12.02)	3.07
Total Returns	**(7.19)**	**7.40**



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.

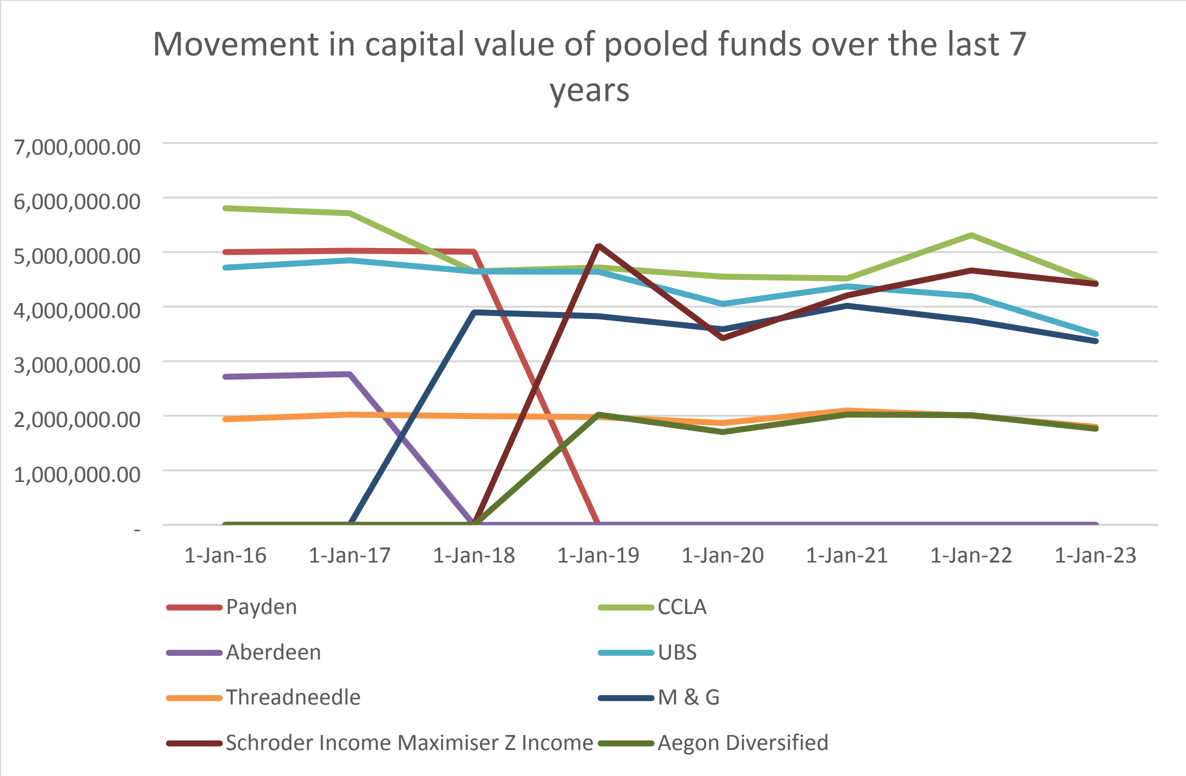
6.12 Details of the Council's investment activity together with returns generated during 2022/23 are outlined as follows:

6.13 **Capital returns** – the Council's pooled funds continued to experience some variations in performance during the year 2022/23 and property values had a significant impact on the UK economy during 2022/23. Against this background the Council's pooled funds have performed in line with other local authorities returning an overall net decrease in fair value for the year 2022/23 of £2.59m (an aggregate decrease of 12.02% of overall pooled funds invested).

Comparison of other local authorities decrease in fair value is detailed in the table below.

	% decrease
Rushmoor	12.02
Similar LA's	11.14
All LA's	11.85

6.14 There is variation in performance across the portfolio as shown graphs below



Where an investment drops to zero, this is because the council divested during the last 7 years. 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 2023 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 7.52% annualised income during 2022/23.

- 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 2.53% annualised income during 2022/23.

- 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 2.69% annualised income during 2022/23

- 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 2.21% annualised income during 2022/23.

- 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 3.05% per annum. The fund has returned 5.99% annualised during 2022/23.

- Aegon Strategic Corporate Bond (formerly known as 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 5.41% annualised during 2022/23.

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 the table below.

	2022-23 Actual £m	2022-23 Limit £m	Complied
Any group of pooled funds under the same management	21.9	25.0	Yes
Money Market Funds	1.1	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.

	2022-23 Actual	2022-23 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.

	2022-23 Actual £m	2022-23 Target £m	Complied
Total sum borrowed in past 3 months without prior notice	-	1.0	Yes

8.4 **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:

	2022-23 Actual £m	2022-23 Limit £m	Complied
Upper Limit on one-year impact of 1% rise in interest rates	0.2	0.5	Yes

Upper limit on one-year impact of 1% fall in interest rates	0.4	0.5	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:

	2022-23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	96%	100%	0%	Yes
12 months & within 24 months	4%	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 2022/23 is shown in the table below.

Budgeted Income and Outturn	2022-23 Actual £m	2022-23 Budget £m	Variance £m
Interest Receivable	(1.5)	(1.5)	-
Interest Payable	1.2	1.0	(0.2)
Net Amount	**(0.3)**	**(0.5)**	**(0.2)**

APPENDIX B

NON-TREASURY INVESTMENT OPERATIONS FOR 2022/23

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 £133.9m of such investments at as 31 March 2023 in:

- directly owned property £125.9m
- loans to local businesses and landlords £6.7m
- loans to subsidiaries £1.3m

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

	2022/23 Estimate	**2022/23 Outturn**
Proportion	14.3%	

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 enables to 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:

Category of Borrower	2022-23 Approved Limit £m	2022-23 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 generated 5.5% rate of return for the Council during 2022/23 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 2022/23 totalling £0.6m
- 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. Transactions during 2022/23 increased the overall portfolio to £125.2m as outline in the table below.

Property by Type	31-Mar-2022 Carry Forward	2022-23 Purchase Cost	Year end value
Mixed Use	5.2	-	5.2
Industrial Units	26.9	-	26.9
Retail	20.0	23.0	43.0
Offices	46.3	4.5	50.8
Total	**98.4**	**27.5**	**125.9**

Return on Commercial investment

4.2 Commercial property investments generated £4.7m of net investment income for the Council after taking account of direct costs, cost of borrowing and Minimum Revenue Provision (MRP). This represents a rate of return of 3.7%.

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.

Total Investment Exposure	31-Mar-23 Estimate £m	31-Mar-23 Actual £m
Treasury Management Investments	23.9	20.4
Service Investments: Loans	13.0	8.1
Service Investments: Shares	0.6	-
Commercial Investments: Property	124.4	125.9
Total Exposure	**161.9**	**154.4**

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.

	31-Mar-23 Estimate £m	31-Mar-23 Actual £m
Treasury Management investment	-	-
Service Investments: Loans	15.0	8.1
Service Investments: Shares	0.6	-
Commercial Investments: Property	112.0	111.9
Total Funded by Borrowing	**127.6**	**120.0**

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.

	2022-23 Estimate %	2022-23 Actual %
Treasury Management Investments	3.7	3.7
Service Investments: Loans	2.2	0.1
Service Investments: Shares	-	-
Commercial Investments: Property	6.1	6.5
Total Exposure	**12.0**	**10.3**

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 2022/23.

5.6 The Council has considered the following additional indicators prudent to report given the investment activities.

	31-Mar-23 Estimate	31-Mar-23 Estimate
Debt to net service expenditure ratio	10.8	9.3
Commercial income to net service expenditure ratio	0.7	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.

	2022-23 Budget £m	**2022-23 Outturn £m**
General Fund Services	37.0	22.5
External Sources	8.6	1.3
Own Resources	1.0	2.1
Debt	27.4	19.1
Total	**37.00**	**22.5**

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:

	2022-23 Budget £m	**2022-23 Outturn £m**
Own Resources	2.7	2.1

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

	2022-23 Budget £m	2022-23 Outturn £m
General Fund Services	150.0	143.5
MRP	(2.4)	(2.1)
IFRIC 4 Lease Adjustment	(0.3)	(0.3)

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.

	2022-23 Budget £m	2022-23 Outturn £m
Debt (incl. leases)	125.0	120.0
Capital Financing Requirement	146.1	141.1
Difference	21.1	21.1

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.

	2022-23 Budget £m	2022-23 Outturn £m
Authorised limit - total external debt	134.8	125.0
Operational Boundary - total external debt	129.8	120.0

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.

	2022-23 Budget	2022-23 Outturn
Financing costs (£m)	1.0	1.2
Proportion of net revenue stream	0.1	0.1

APPENDIX D

Market commentary regarding the year 2022/23 from the Council's treasury management advisors Arlingclose

External Context

Economic background:

The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%.

March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets:

Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review:

Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

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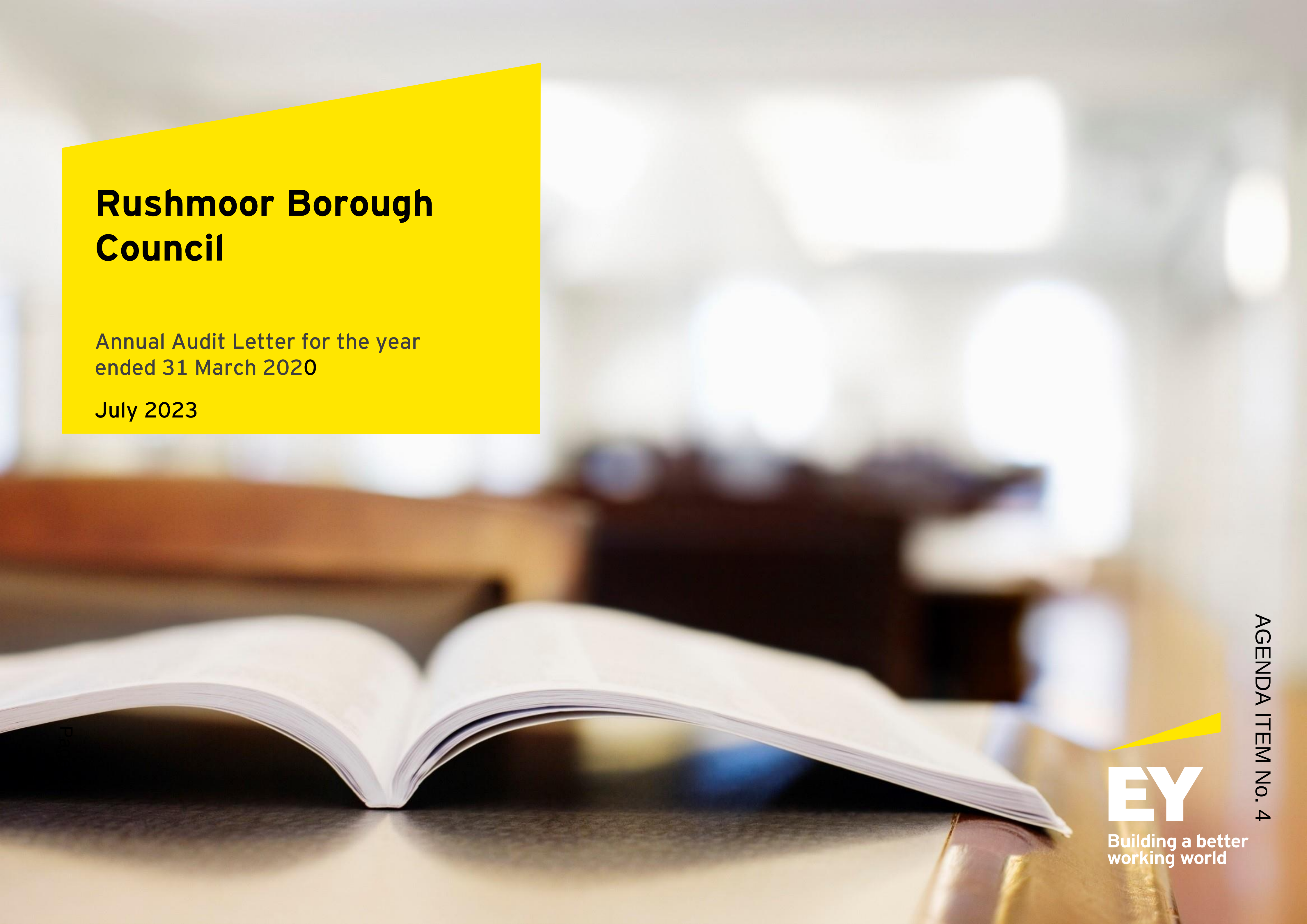

Rushmoor Borough Council

Annual Audit Letter for the year ended 31 March 2020

July 2023

AGENDA ITEM No. 4

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Rushmoor Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
► Valuation of land and buildings in PPE, IP and surplus assets	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings in property, plant and equipment, investment properties and surplus assets.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Adoption of IFRS16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2024. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of other information	The other information was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 January 2023 and further updated at the conclusion of the audit on 27 March 2023
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 March 2023.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Maria Grindley

Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 27 July 2021 Corporate Governance, Audit & Standards Committee with further updates through 2022 and 2023 and a final update at the Committee on 1 June 2023 detailing the contents of the Report and the audit findings and conclusions. The Corporate Governance, Audit and Standards Committee in this regard is those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 24 March 2021 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements, including the pension fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the other information is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 March 2023.

Our detailed findings were reported to the 27 July 2021 Corporate Governance, Audit and Standards Committee , and the Committee was updated at regular meetings to the completion of the audit at its meeting on 1 June 2023.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position. A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Assessed accounting estimates for evidence of management bias; and • Evaluated the business rationale for significant unusual transactions. We did not identify any material weaknesses in controls or evidence of material management override in relation to the incorrect capitalisation of revenue expenditure. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared outside the Council's normal course of business. There were no further matters identified that we need to report to you.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of land and buildings The value of property, plant and equipment was £98.966k as at 31 March 2020. Investment properties were valued at £106,605k as at 31 March 2020. These represent significant balances in Rushmoor Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations.	We have: • Considered the work performed by the Council's valuers, including the scope and timing of the work performed on valuations and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Reviewed any assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated. We have considered changes to useful economic lives as a result of the most recent valuation; • Tested accounting entries to ensure they have been correctly processed in the financial statements; and • Reviewed valuer reports and findings, which determined our specialist EY valuer was required to review of methodologies, data and assumptions. We identified issues around the valuations and classifications of PPE & IP. Specifically we identified issues around the lack of supporting evidence available to support individual assets. We reported the following matters: ***Land & Buildings (L&B) & Investment Properties (IP):*** 1) Ski Centre, Aldershot; Fair Value £647,000 - We held discussions with management and the valuer on this asset and are not comfortable with the approach being adopted to value the ski slopes nor have we, or the authority, been able to provide any benchmark data or original build cost data to support the adopted rate. We are therefore unable to conclude on this asset and have included as an unadjusted misstatement. Our recalculation of the site area based on the site plan provided by management suggests that the site area adopted by the valuer is incorrect in addition to the land value being too low 2) Our experts sampled a total of 7 other assets excluding the ski centre referenced above. The cumulative value of the Gross Book Value (GBV) of the 7 assets as valued by the external valuer of the Council was £44.86 million. Using the point in range estimate developed by our internal valuers the 7 assets in total were within an acceptable range across the total with some slight variations on a small number of assets individually. We followed up on a number of points of clarification in relation to the assets sampled by our internal specialists and concluded that the explanations were reasonable.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of land and buildings The value of property, plant and equipment was £98.966k as at 31 March 2020. Investment properties were valued at £106,605k as at 31 March 2020. These represent significant balances in Rushmoor Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations.	3) We challenged the assumptions supporting asset valuations and specifically raised concerns to both management and those charged with governance in respect of the assumptions around obsolescence. This focused on the useful life and depreciation factor being applied on a number of assets. This had the effect of materially overstating a number of key assets: Aldershoot Pool; Aldershot Lido; the Gymnastics Academy and Farnborough Leisure Centre. Revised valuations were supplied in respect of these assets and the revised valuations agreed as being materially reasonable. 4) Updated asset valuations were provided and agreed on a number of investment properties. These adjustments were made and agreed.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Going concern disclosures (higher inherent risk) Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Council's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We reviewed the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We considered whether the necessary disclosures had been included regarding any material uncertainties that do exist. We considered whether these disclosures also included details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these included consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; ▸ Sensitivities and stress testing; and ▸ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias. We have reviewed the disclosures and supporting assessment, and the final updated cash flow covering the forecast period to March 2024, and we have gone through our professional consultation process to confirm whether or not we intend to issue an EOM. We are satisfied that the accounts are produced correctly on a going concern process and there is no need for an emphasis of matter due to Covid-19.

Financial Statement Audit (cont'd)

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Other Key Findings	Conclusion
Valuation of Pension Fund Assets and Liabilities (higher inherent risk) The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £48.6 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We have: ▸ Liaised with the auditors of Hampshire County Council, to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council; ▸ Assessed the work of the pension fund actuary (AoN Hewitt) including the assumptions they have used; and ▸ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. There were 2 unadjusted mis-statements: 1) Pension liability difference of £0.48 million arising from the reconciliation of planned assets used by the actuaries with the audited assets of the pension fund as at 31 March 2020; 2) Pension liability arising from the Goodwin case. The assessed value of the difference was £0.292 million. The Council have not adjusted for this judgmental difference based on the value and also the fact of the uncertainty in respect of future liabilities. No other issues were identified.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	For the main accounts, we determined planning materiality to be £1,512k, which is 2% of gross expenditure reported in the accounts of £75,600k. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £75.6k.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Disclosure is numerically and politically sensitive. Therefore, the general materiality level is not felt to be appropriate. Errors in the note would be considered material. Where figures are in bandings, it is considered that a materiality of £1k as this is the rounding point in the accounts
- Related party transactions. Disclosure is numerically and politically sensitive. As the note is split between Organisations and Individuals and the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction, we will set materiality for the Organisational element at the same level as the audit and the individuals element is to be considered on a case by case basis.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

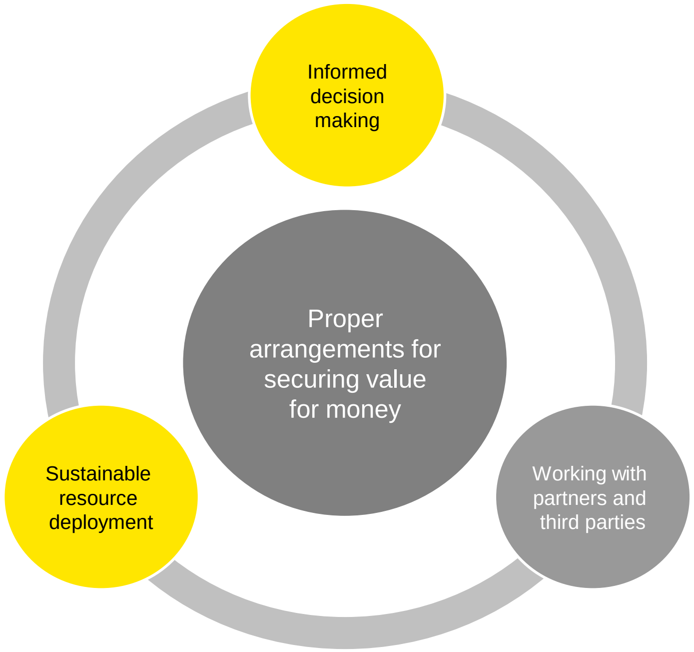
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified a significant risk in relation to these arrangements. The table below presents the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We did however raise some recommendations.



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Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 31 March 2023.

Significant Risk	Conclusion
Effectiveness of the Council's Governance and Risk Management Framework	We carried out local risk-based work to form a view on the adequacy of the Authority's arrangements for Informed Decision Making – specifically around the effectiveness of the council's governance and risk management framework During our 2018/19 audit, we identified issues with Council's formal risk management framework, which resulted in further examination of the arrangements in place. As a result, we issued an "except for" qualified value for money conclusion in relation to formal risk management arrangements. We reviewed whether risk management was better embedded, during 2019/20, with corporate risks being aligned to the delivery of the Council's strategic objectives in the Council Delivery Plan and whether the management of these risks was reported to members appropriately. Adequate risk management is required for members and officers to take informed decisions. We reviewed the effectiveness of the Council's Risk Management Framework and how this may be further improved. **Adequacy of the Council's risk management arrangements** The Council's Risk Management arrangements are adequate. The Council's Corporate Leadership Team and its Corporate Risk Management Group both review the Council's Corporate Risk Register which has "Additional Mitigation Planned – including Timelines/Deadlines" and a residual risk score for each risk. Whilst there has been improvements in the Council's Governance and Risk Management Framework, during 2019/20, we suggest that risk management can be further embedded in the day to day business and reporting of the Council; We recommend that the Council considers the following suggestions: 1) The risks to the delivery of the Council's strategic objectives, in the Council's Business Plan 2020 to 2023, should be recorded on the Corporate Risk Register on a strategic objective by objective basis, rather than on a thematic basis; for example, the following high corporate risks such as Equalities – Breach of Statutory Duties, Increased Focus on Recycling improvements from Central Government, Retail Sector general downturn, Restrictions on PWLB borrowing. These themes should be incorporated into the Council's business planning process.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 31 March 2023.

Significant Risk	Conclusion
Effectiveness of the Council's Governance and Risk Management Framework	**We suggest the Council considers the following suggestions (cont'd):** 2) The Corporate Risk Register and underpinning service risk registers should also be aligned to these strategic objectives, which will allow for a golden thread enabling the Council's risk management issues and resulting actions to be integrated into the Council's Performance Management Framework. This will give the Council a holistic view of the effectiveness of service delivery and better reflect a more mature risk model, such as the Enterprise Risk Management approach. 3) The Corporate Governance, Audit and Standards Committee should consider providing overall assurance to the Cabinet over the effectiveness of the Risk Management Framework arrangements. The Committee should receive an annual report on the adequacy of the Council's risk management, before the end of the financial year, as evidence underpinning the disclosures on the effectiveness of risk management in the Council's Annual Governance Statement. **Disclosures in the Council's 2019/20 Annual Governance Statement on the effectiveness of the Council's Governance and Risk Management Framework** The disclosures in the 2019/20 AGS could be improved so that the AGS better describes the effectiveness of the Council's governance arrangements in year, any significant weaknesses and action plans for the resolution of prior year issues and issues going forward. The Council could better disclose how the Council's risk management framework enables the Council to achieve its strategic objectives and addressing areas for improvement.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 08 March 2022. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

During our audit we identified the following which we will raise recommendations for improvement on:

1. **Provision of property information:** We have reported on the critical delays in the provision of property information to support the material PPE and IP valuations in the Council's Balance Sheet. This included a lack of management challenge of key assumptions and we would highly recommend that management ensure that this challenge is factored into 2020/21 and future years
2. **2. Capacity of the finance department:** Our audit team has been working on the fieldwork for the audit of the Council's 2019/20 financial statements since 28 September 2020. Whilst there were some delays due to officer work pressures e,g, the audit was also delayed in January 2021 and 2022 as officers needed to prioritise the production of the 2021/22 accounts, some of the information promised to us has failed on a number of occasions to meet agreed timelines
3. **3. Declarations of interest**: We note that the Declaration of Interest Form was not returned by one of the members and we will not be able to conclude on that

Other Reporting Issues (cont'd)

<u>In addition we raised the following specific recommendations:</u>

Books and Records – Property, Plant and Equipment & Investment Properties (High)

The availability of basic asset information was a critical factor in the delay of the signing of the 2018/19 audit opinion. Throughout the audit we have identified numerous instances where the Council has struggled to provide upon request the information supporting an asset valuation on the Balance Sheet.

- Lease documentation provided has often been found to be out of date or not readily available;
- Rent Review Memoranda provided has often been found to be out of date and/or not signed as approved; and
- Land Registry deeds supporting title and ownership has been difficult to obtain and in a number of instances is still outstanding which is delaying the completion of our work.

Discussions with senior officers have re-iterated the importance of the maintenance of proper books and records.

Recommendation: The Council should ensure appropriate documentation is retained and accessible in relation to property plant and equipment and investment properties held.

<u>**Policies and procedures (Moderate)**</u>

We have found that key policies and procedures appear to be out of date (year in brackets) for example:

- Whistleblowing Policy (June 2016);
- Financial Procedure Rules (December 2006);
- Antifraud and Corruption Policy (June 2016);
- Officer Code of Conduct (February 2015);
- Councillor Code of Conduct (October 2014);
- Contract Stander Orders (April 2015) .

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The Council needs to ensure that its corporate polices on key governance topics, including business planning, anti-fraud, information security, equalities and diversity, health and safety and whistle blowing are complete and up to date.

Recommendation: The Council should have a central list of policies and procedures with a current date and due date for review. This should be regularly reviewed by senior management and capacity built in so these are kept up to date. Management should consider how the current situation, its impact and planned actions is reflected in the Corporate Risk Register.

Other Reporting Issues (cont'd)

Officer capacity (Moderate)

The audit has been delayed due to the capacity of officers to respond to audit queries on a timely basis. In some instances this is due to the timing of the audit coinciding with other key finance duties e.g. budget setting, but on the majority of occasions, whilst we have agreed timelines with officers for

information in our weekly meetings, the information has not been provided and the delivery has continued to slip. If we are to get the Council back on track with the audit timeline we need to be able to rely on the agreed timelines.

Recommendation: The Council should ensure that there is appropriate capacity to respond to audit queries and deliver the required information to

agreed timelines.

Declarations of interest (Moderate)

The Declaration of Interest Form was not returned by one of the members and therefore we were not able to conclude on that.

Recommendation: All Declaration of interest forms should be collected for all Members and key Officers and retained to ensure this control is in place and working and provide evidence of this.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Council Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local Council accounts from the 2022/23 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2022/23 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local Council accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2022/23 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 7

Audit Fees

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Audit Fees

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Our fee for 2019/20 is in line with the scale fee set by the PSAA and reported in our November 2020 Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC**	66,466*	38,375	105,702

We confirm we have not undertaken any non-audit work.

*Note 1 – The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

*Note 2 – The impact of Covid-19 on the audit, the updated requirements on VfM conclusion, use of experts for the work on valuation of PPE and the work on going concern will all impact the work that is required to be done. We have discussed a proposed additional fee with officers which is currently under review by PSAA. Once approved we will then be in a position to discuss this with the Committee.

Final fees for 2019/20 are subject to PSAA review.

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ED None

EY-000070901-01 (UK) 07/18. CSG London.

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CORPORATE GOVERNANCE AUDIT AND STANDARDS COMMITTEE

AUDIT MANAGER REPORT NO. AUD2307

27TH SEPTEMBER 2023

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:
This report describes:
- A progress update on the 2023/24 Audit Plan.

RECOMMENDATION:
Members are requested to:
i. Note the audit work completed.
ii. Note the update to the deliverables for Quarter 3.

1 Introduction

1.1 This report is to provide Members with:
- An overview of the work completed towards the 2023/24 audit plan;
- A progress update on the 2023/24 Audit Plan; and
- A schedule of work to be delivered in Q3.

2 Audit Work Completed

2.1 Due to the difficulty with recruiting to the Audit and Investigation officer posts and contract auditor availability some of the audits originally proposed to be completed within Q1 & Q2 have been scheduled for later in the year.

2.2 We are currently still advertising for 1.6FTE Audit and Investigation officers. As it stands at the moment there are currently 6 audits which cannot be covered under the current arrangement with Portsmouth City Council. In addition to still advertising for the roles work is underway to source further contract auditors. ELT are fully supportive for resources to be obtained to ensure the delivery of the audit plan.

2.3 If additional resources cannot be obtained, it is believed that an assurance opinion can still be provided and a limitation of scope would not be provided, due to the coverage of audits across the Council, follow ups carried out on recommendations made, involvement with governance and risk management, and some other external assurance. However, a further update on this position will be provided to the Committee in November.

2.4 Work has been carried out to ensure that all elements of the Public Sector Internal Audit Standards (PSIAS) have been complied with prior to the external assessment being carried out by the Head of Audit at Basingstoke Borough

Council. Documentation has been submitted and the results of the assessment will be reported to the Committee in due course.

3 Progress towards the 2023/24 Audit Plan

3.1 Since the Committee approved the 2023/24 audit plan in March 2023, there has been no changes to the audits due to be completed. One audit has been carried forward from the 2022/23 audit plan.

3.2 The table below provides a summary of progress to date (21/08/23):

Audit/ Audit follow up status	Number of reviews	%
Finalised	0	0
Draft report	0	0
In progress	4	25
	4	**25%**
Audits to be started	12	75
Total	**16**	**100%**

NB: The figures within the table include 1 audit carried forward from the 2022/23 audit plan.

4. Expected Deliverables for Q3 2023/24

4.1 The work expected to be delivered in 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
ELT	CREP – C/f from 2022/23
Operations	Serco contract management - A review of the Serco contract to ensure SLAs and additional costs are in line with the contract.
Finance	Procurement cards - Review the process for procurement cards.
Finance	Purchase Ledger - Key financial system reviewed on a 3-year cycle.
CMT (IT/ACE)	Cyber Security within the Supply chain - A review of the internal processes and requirements of suppliers from a cyber security aspect.
Property & Growth	H&S of Council Buildings - Review the process for H&S checks and related maintenance of Council buildings, including commercial assets.
IT	Intune mobile device management - To ensure that the implementation of the Council's new mobile device management is appropriate.

Service	Audit/ follow up/descriptor
Finance	CIPFA financial code - To review the Council's compliance towards the CIPFA financial code.
ELT	Rushmoor Homes Limited - Review the processes in place for RBC involvement with RHL including the process for drawing down funding.

5. Recommendation

5.1 Members are requested to note the information provided within the report in relation to the progress of Audit work to date towards the 2023/24 audit plan, and the expected deliverables for Q3.

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HEAD OF SERVICE: Peter Vickers, Executive Head of Financial Services and S151 Officer

References: *Internal Audit – Audit Plan 2023/24*, presented to the Committee on 27 March 2023.
Agenda for Corporate Governance, Audit and Standards Committee on Monday, 27th March, 2023, 7.00 pm - Rushmoor Borough Council

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CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE
27 SEPTEMBER 2023

COUNCILLOR CANTY
LEGAL SERVICES PORTFOLIO HOLDER
REPORT NO. LEG2023/1

KEY DECISION? ~~YES~~/NO

FREEDOM OF INFORMATION – ANNUAL UPDATE REPORT

SUMMARY AND RECOMMENDATIONS:

SUMMARY:
The Freedom of Information Act 2000 (FOIA 2000) provides public access to information held by a local authority. Freedom of Information requests are a fundamental part of local government and encourage openness and scrutiny of the Council's decisions. Rushmoor Borough Council has a statutory duty to fulfil its obligations under FOIA 2000.

RECOMMENDATION:

(i) For the Corporate Manager of Legal Services to review the FOI system for logging requests to make as robust as possible (assuming no additional budget for 2023/2024)

(ii) For officers to continue their work to reduce the number of overdue FOIs within the system by December 2023, following the Information Commissioner's Office (ICO) guidance notes.

1. INTRODUCTION

1.1 Public authorities spend money collected from taxpayers and make decisions that can significantly affect many people's lives. Access to information helps the public make public authorities accountable for their actions and allows public debate to be better informed.

1.2 Any member of the public or external organisation can submit a freedom of information request to Rushmoor Borough Council. Rushmoor Borough Council is under a duty to comply with the statutory timeframes to respond to requests (20 working days to process for a normal FOI request). This can be extended for more complex requests.

2. FOI ANNUAL UPDATE

2.1 From a quarterly perspective, we were pleased to see a 3% increase in response times in Q1 of 2023/34 compared with Q4 of 2022/23. This reflects the hard work from colleagues around the council prioritising responding to requests for information. We are hopeful that the response times will continue to improve over the coming months as there is ongoing work to deal with the outstanding and overdue FOIs.

2.2 We are pleased to report a 43.65% reduction in overdue requests since 7 June 2023 and hope to be able to reduce this much further by the December 2023.

2.3 The regulatory body, the Information Commissioner's Office (ICO) expect to see 90% responded to within the 20 working-day statutory timeframe - as a minimum.

2.4 There could be a potential financial penalty from the ICO or a decision notice due to lack of responses/not responding in time and therefore not complying with our obligations under the Freedom of Information Act 2000 (FOIA).

2.5 On 1 March 2023 the ICO actioned a decision notice in relation to an FOI request received at RBC. The ICO supported RBC withholding the information as we did in the first instance however the ICO noted that we had failed to comply with our obligations under the FOIA 2000, as we failed to respond within the statutory timeframe.

2.6 By way of information Shropshire Council had 143 overdue FOI requests and were issued an enforcement notice by the ICO in May 2023: https://ico.org.uk/action-weve-taken/enforcement/shropshire-council/

2.7 FOI performance and management is being discussed regularly at the Information Governance Group (IGG) and the Corporate Governance Group (CGG). Sophie Thorp, the Legal Service Corporate Manager and our Data Protection Officer (DPO) are liaising with Service Managers and individual officers in order to continue reducing those FOIs that go overdue.

2.8 The Legal team have implemented steps to keep FOIs at the forefront across the Council; and to provide assistance in increase response times. A list of all open and overdue FOIs are sent to Service Managers so that they are able to chase up any that are nearing the deadline and that are overdue. This also serves as providing reminders to the service.

2.9 We have enquired about using MS Lists as a potential solution to manage FOI handling. We are in the early stages of investigating this with support from Technical Services. This would allow the FOI service representatives to help manage the FOI log sheet as well as being able to send automatic reminders to the relevant services when an FOI was nearing the end of the time to comply. This is in progress along with other commitments within the IT service.

2.10 One way to reduce the burden of dealing with FOIs would be to publish data that we can publish. This is ideal for requests that we receive on a frequent basis. If we were to get requests for information that we published or are due to be publish on our website it would be a simple refusal response from the service detailing that the information is already in the public domain with a link to the data under section 21 of the FOIA or that the information is intended for future publication under section 22 of the FOIA (if the data was not yet published).

2.11 As of 31 August 2023, the overdue FOIs are as follows:

- 2021 – 4 overdue
- 2022 – 29 overdue
- 2023 – 38 overdue

TOTAL – 71 overdue

Compared with as of 7 June 2023:

- 2021 - 577 FOIs received, 32 are open and overdue
- 2022 – 544 FOIs received, 58 are open and overdue
- 2023 - 292 FOIs received thus far up to 5 June 2023, 71 are open and 36 of those are overdue.

TOTAL – 126 overdue

3 IMPLICATIONS

3.1 As above, Rushmoor Borough Council is under a statutory obligation to respond to FOI requests within the timeframes.

3.2 The ICO is taking a robust approach with local authorities who do not comply with FOIA 2000 and/or who do not have a clear action plan in place to reduce any backlog of overdue FOIA request.

4 FINANCIAL AND RESOURCE IMPLICATIONS

4.1 There are no additional financial implications. The processing of FOIs across the Council takes considerable officer time and resource.

4.2 There is a continuing requirement to ensure that any overdue FOIs are reduced to zero.

5 EQUALITIES IMPACT IMPLICATIONS

5.1 There are no issues relating to this report.

6 RECOMMENDATIONS:

6.1 That the Corporate Manager of Legal Services reviews the FOI system for logging requests to make as robust as possible (assuming no additional budget for 2023/2024);

6.2 For officers to continue their work to reduce the number of overdue FOIs within the system by December 2023, following the Information Commissioner's Office (ICO) guidance notes.

CONTACT DETAILS:

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