

## **Annual Governance Statement 2022-2023**

**Version 2: 23/5/23**

### **Introduction**

As Leader and Chief Executive, we are acutely aware that everything the Council does relies upon a foundation of solid governance. Whilst still recovering from the impacts of the COVID-19 Pandemic, we continue to be significantly impacted by the geo-political challenging landscape - the war in Ukraine and a “Cost of Living Crisis”. The Cost of Living created new pressures for our residents, businesses, communities and for the Council itself. This means that 2022-23 was yet another particularly challenging year for the Council..

### **LGA Peer Review**

During 2022-23 the Council invited the Local Government Association (LGA) to undertake a Corporate Peer Challenge (CPC) Review of the Council. A Corporate Peer Review challenge is where experienced officers and leaders from other councils visit a council to review how its governance operates, how it understands and responds to its financial challenges, how its management and leadership is working, how it engages with its communities and understands and responds to the challenges they are facing. LGA Peer challenges are designed to support councils to drive improvements and efficiency and to assist local authorities to respond to local priorities and issues in their own way to the greatest effect. The Peer Review took place in November 2022 and the Council received its report on 1<sup>ST</sup> February 2023 which was published [Spelthorne BC CPC Report November 2022](#), and was considered by Full Council on 23 February 2023. This included a recommendation that Council agree to the development of an Action Plan to address the recommendations in the CPC report. Council agreed to accept these recommendations, subject to amending Recommendation 2 of the covering report to state, “to agree to the development of an Action Plan to address those recommendations and for this to be directed through the Corporate Policy and Resources Committee”.

The CPC Team’s report contains a number of observations and suggestions covering such areas as:

- a. The positive work undertaken by the Council, including our ‘brilliant’ response to COVID.
- b. The strength of cross-service working and the friendly and caring staff culture.
- c. The strength of partnership working and how this could be further enhanced.
- d. How a cohesive functioning Councillor cohort and the development of a clearer strategic vision for the future could help the Council to deliver more, and the effects the poor behaviour of a small number of Councillors is having on the organisation.
- e. The need to clearly define and respect how the roles of officers and Members interrelate, in order to create trust and a more effective working environment.
- f. Issues with the Council’s current committee system, and the opportunity for this to be reviewed.
- g. How delays in decision making by Members, particularly on some key issues, affects the Council’s ability to unlock the value of its own development sites, deliver the required homes and may ultimately risk service delivery and timely achievement of corporate priorities.

h. The need to recognise that the current lack of cohesive working is affecting the Council's reputation, is costing the Council money, is affecting staff morale, and could ultimately affect the delivery of Council services for local residents and businesses.

Based on their findings the CPC team made 12 key recommendations to the Council within their report:

1. All Members need to identify what they have in common in terms of shared priorities and objectives for your Borough and your residents and use them to progress the delivery of your shared ambitions for Spelthorne.
2. Then share your agreed political ambitions for the Borough to create a longer-term vision embodied in a broadly agreed Corporate Plan.
3. Take the opportunity you now have to reset the officer / Member working relationship and agree how it will work differently going forward for the benefit of your residents.
4. The discrete but complementary roles of officers and Members need to be better understood by all to improve working relationships.
5. Take the time today to plan for tomorrow. Do not put off the 'non-urgent strategic' work you need to do.
6. Members need to respect officers' roles and give them the time and space to focus on delivering the important priorities you have agreed.
7. Recognise the risk of continued poor behaviour by some Members and the likely impact on the organisation and your reputation as a Council and a place. Take steps to address it.
8. Continue your efforts to address the issue of outstanding audits of the financial accounts.
9. Review the working of the committee system by looking at best practice elsewhere to consider how to create a system that is fit for purpose.
10. Engage in financial training for Members to promote a better understanding of financial implications, project viability and creating robust business cases.
11. Improve the balance between communication and meaningful engagement whereby people feel listened to and heard. Use this in the context of evidence and need, to drive priorities and take people with you.
12. Consider how the LGA can continue to assist with the above recommendations on this reset journey.

Measures are already in place to address a number of the issues outlined in the CPC Team's comments/recommendations, such as a review of the current committee system, the development of a Member training programme for successful candidates in this year's May election, and an ongoing Establishment Review, which will cover issues such as staff recruitment and retention. An Action Plan has been developed which will outline these measures and any additional actions to be taken to address all 12 of the recommendations made by the CPC Team. Where appropriate these will be cross-referenced with other planned actions, for example where similar feedback was received from recent employee and

Councillor surveys. The Action Plan will be considered by the June meeting of the Corporate Policy and Resources Committee.

We are charged by government to run the Council efficiently, effectively and economically. As a resident, you will rightly want reassurance that proper systems are in place and running properly to deliver the vital services on which you depend and we are pleased to present this Annual Governance Statement to explain how we deliver on these expectations, to outline what has been achieved over the last year and tell you about the improvements we are currently working on. We also set out action taken in the year to address any significant governance issues identified in the previous year's Governance Statement (2021/22).

In May 2021 the Council, following consultation moved its governance system from a Cabinet/Leader model to a Committee model. Whilst as to be expected there has been a few teething issues, which are being addressed on an ongoing basis by a Constitution Review Group which it is anticipated will be making further recommendations later in 2023.

We have continued to apply an overarching strategic framework, i.e. a Corporate Plan, setting out the Council's priorities and values. Following the May 2023 elections the Council will focus on agreeing a new four year Corporate Plan

We hope that in reading this Statement you will be encouraged to explore further the work of your Council. You can read all the documents to which we refer on our website and view Council meetings online to see how we do business. You can also discuss any of these matters with your local Councillor.

### **Cost of Living Crisis**

The overwhelming challenge for us in the past year has been responding to the emerging cost of living crisis and inflationary pressures and managing the ongoing uncertainty.

Some headlines from responding to the Cost of living crisis includes setting up and processing Household Support Grants allocations under the Government scheme to get additional support to households in need .

### **The Council's vision for the Borough**

The Council currently has a Corporate Plan for the period 2021-23, a new Plan for period 2023-27 will be considered and approved during 2023-24. The Plan sets out five key priorities under the acronym CARES.

**Community** – supporting our communities across the Borough

**Affordable housing** – delivery the affordable housing the Borough's residents need

**Recovery** – supporting our communities and businesses recovery from the impact of COVID-19

**Environment (Climate Change)**– ensuring the Council contributes towards tackling climate change

**Service Delivery**

The Council is committed to continuing to address climate change and with various energy audits undertaken the Council is continuing to look at becoming net zero by 2030. Following planning permission being gained for a flagship ultra-low energy use (Passivhaus) leisure centre construction has begun on what will be the UK's first fully Passivhaus leisure centre. . We continue to work with other authorities in Surrey to seek funding and improve best practice in developing climate change measures. We received £12k funding from the Net Zero Innovation Programme to develop a community led initiative with Talking Tree, The Open University and Cobra collective with the aim of bringing together local people to respond to the climate emergency, develop new practical initiatives and inform Council policy.

The Council has also supported various biodiversity initiative in our parks and looked to communicate on a regular basis climate change messages covering a range of topics.

Spelthorne Borough Council ran its first Carbon Literacy training and 23 members of senior staff including the Chief Executive and Deputy Chief Executives are now certificated as Carbon Literate. This training gives staff an understanding of the causes and effects of climate change as well the knowledge and motivation to reduce carbon emissions in their personal and work lives. Each member of staff that attends training makes 2 pledges about how they will reduce carbon emissions at work helping to reduce the council emissions.

Every year SBC organises a conference for pupils from the Primary Schools within the borough and the programme is now in its 14th year. Each school is invited to bring up to 6 students to take part in a daylong conference dealing with Environmentalism, Sustainability, Environmental Responsibility and Personal Environmental impact.

The Council continues to actively participate in the development and Development Consent Order process for the River Thames Scheme which will mitigate the impact of flooding in the Borough.

## **Service Delivery**

In 2022 we developed our digital transformation strategy and after procurement are implementing a new customer portal to make it easier for residents to access services when and how they wish. We continue to work within all services to ensure we are as efficient and effective as possible. The project management process was digitally improved to make it easier for services to complete relevant documents and introduced better reporting systems .the changing needs of our communities, adapting to meet new challenges, new ways of working and different ways of interacting with our communities.

The Corporate Plan also sets out the core values of the Council under the acronym PROVIDE. A set of organisational values defines the guiding principles and the culture of the Council and explains how the Council will act to achieve corporate priorities and objectives. The Council's values apply to all Officers and Members. These will be followed by a set of defined organisational behaviours to supplement the core values.

The Corporate Plan feeds into the service plans of the different Council Services so that the organisation pulls in the same direction.

The Corporate Plan takes account of the following types of issues for the residents of Spelthorne, all of which align closely with corporate priorities:

- **Corporate Priority Area – Recovery. COVID-19** – ensuring that the Council delivers an effective recovery plan to help its communities, businesses and the Council itself recover from the impacts of the COVID-19 pandemic. It is going to take a few years for a full recovery to be made and this is further exacerbated and influenced by the ongoing adverse impact of wider externalities such as the macroeconomic environment (in particular inflation and the rising cost of living) and the geo political uncertainty arising from the war in Ukraine.
- **Corporate Priority Area – Affordable Housing..** The Council has an ambitious plan to address the issue of affordable housing in our borough, particularly for key workers.. We have started to address this issue by building affordable rental homes and by setting up a housing company, Knowle Green Estates Ltd.
- During 2022-23 an emerging risk has been the exposure of the Council as a housing authority to potentially having to respond to refugees particularly Afghans and Ukrainians who may present in the future as homeless as a result of the evolving Government approach to supporting those cohorts. The Council knows that by the end of August 2023 the Bridging hotel for Afghans in the Borough will close. The Council, has put additional resources, funded by the Home Office, into supporting the Afghans to help them look for alternative accommodation.
- **Corporate Priority Area – All.** Cost inflation – the cost of living crisis continues to be felt across all communities that the Council serves – need to identify as key challenge and pressure both for revenue budget and for residential delivery and delivery of new facilities such as Leisure centre.
- **Corporate Priority Area – Supporting our Communities.** The Council have approved a Refugee policy and welcomed Afghan families and now Ukrainian families. Under the ARAP scheme Spelthorne have provided support to Afghan Families.

## How we run the Council

The Council is governed by democratically elected councillors and managed by professional staff. There is a clear demarcation of roles and numerous systems and processes in place to make sure that things get done properly:

**Constitution.** This document remains a modern and effective document. ( <https://democracy.spelthorne.gov.uk/ieListMeetings.aspx?CIId=209&Info=1&MD=constitution> ) This has been reviewed as part of the Council's move to a committee system of governance and will be reviewed again during the course of the next year as amendments

need to be made in the light of development of the committee system, recent events and changes in legislation.

**Policy Framework.** We have a number of important policies which are approved by a majority of all councillors. These are reviewed regularly. The most important policy is the Local Plan and this is being reviewed at the present time.

**Governance Framework.** We adhere to standards jointly published by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA). We ensure that these are kept under review.

**Scrutiny of decisions.** During the period to which this Annual Governance Statement covers, the majority of decisions are made by the Committees or delegated to staff, there are structures and processes in place to hold these to account. We have an Audit Committee which have cross party representation to review our risk management arrangements, performance, influence policy and review our decisions. Under the constitution which took effect in 2021-22, we added an independent lay member to the Audit Committee to bring additional experience and expertise to the work of the Committee. Under the new Constitution we have ceased to have an Overview and Scrutiny Committee with the service committees undertaking the scrutiny function including the areas of statutory scrutiny. As a result of our strategic property investment that generates fund to support our regeneration, housing and green initiatives, there continues to be a focus on how these decisions are made and the risks around property management. Under the Constitution agreed in May 2021, a new sub-committee of Policy and Resources was established to deal with certain decisions relating to the delivery of housing, regeneration and assets projects, to enable timely decision making and to ensure appropriate democratic oversight.

**Knowle Green Estates Ltd (KGE).** As our wholly owned company becomes more important in the delivery of our housing targets, we have ensured that it has independent auditors and that such audits feed into the Council's overall Statement of Accounts. In December 2020 two experienced Non-Executive Directors, following a competitive recruitment process were appointed. During 2022-23 Knowle Green Estates published its first Annual Report. The Knowle Green Estates accounts are independently audited, as well as being reviewed by the Council's external auditors when they audit the Council's consolidated Group Accounts. The Accounts for 2021-22 have been independently audited with a clean audit opinion issued and show a small profit generated by KGE. Work has now started on preparing for the audit of the 2022-23 Accounts.

**Spelthorne Direct Services Ltd (SDS):** During 2020-21 the Council set up to provide new local commercial waste services to businesses in the Borough and to help them more effectively recycle and minimise waste. SDS accounts are independently audited. The Accounts for 2021-22 have been independently audited with a clean audit opinion issued. Work has now started on preparing for the audit of the 2022-23 Accounts.

## **How we manage the finances**

Nothing can happen in the Borough unless there is the money there to provide it. We have successfully delivered a programme of financial change. Our previous, *Towards a Sustainable Future* programme, delivered the sound basis on which we now proceed.

**Commercial Property Investments.** Thirty percent of the money we need to run the Council and provide services for residents now comes from our investment property investments. It is essential that these investments work for us and that we protect those investments for the long-term. We have a range of measures in hand to ensure that this happens. We have already strengthened our staff resources and implemented changes to our governance systems to ensure that we are proactively and professionally managing this multi hundred million pounds portfolio. We will continue to do this. . . In response to the challenges of COVID-19 the Council put in place weekly review meetings, involving both senior councillors and senior officers, to assess performance collecting commercial rent. The Council's portfolio performed very well with more than 99.8% of the commercial rent invoiced for 2021-22 collected, and so far 99% collected for 2022-23 and most of the balance covered by rent deferral agreements with most of the balance due being expected to be collected. The Council has continued its strategy of mitigating future risk by setting aside a proportion of rental income into sinking funds to ensure that if required the Council has funds to offset short term dips in rental income. At the end of 2022-23 the Sinking Funds Reserves balances had increased to £37m. During 2022-23 the Council approved a new Sinking Funds Reserves strategy and during 2023-24 a will be undertaking a review of its sinking fund methodology and modelling and agree a refreshed strategy for the next fifty years.

During 2022-23 the Department for Levelling Up-Housing and Communities (DLUHC) initiated a review of a number of Councils with relatively high levels of debt. Spelthorne fell into this group due to the nearly £1 billion it borrowed at fixed rates to acquire in the period up to 2018 its investment assets and also due to its need to finance its ambitious housing delivery plans over the next few years. The Council constructively engaged with DLUHC officers during summer/autumn 2022 and explained the Council's approach to mitigating debt on its investment assets through its Sinking Funds reserves. In February 2023 DLUHC Ministers decides to conclude the review by asking the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a further review with the authorities within scope. This work was undertaken in February and March 2023 and the Council will learn the conclusions and any recommendations from DLUHC following the May 2023 elections. The Council will positively engage with DLUHC in responding to and addressing any recommendations.

**Capital Strategy.** On 2<sup>nd</sup> February 2023 an Extraordinary Council meeting considered options for ensuring that the Council's ambitious affordable housing delivery programme remained viable despite the externalities of interest rates available to Councils having doubled and construction inflation running at approximately 20%, and additional the impact of decisions restricting the height and massing of housing schemes reducing their viability. If the Council had not found a way to ensure the schemes remained viable then approximately £9m of abortive capitalised costs would have to been written off to the Revenue Budget requiring cuts to discretionary services. The ECM agreed a new approach which included:

- Seeking to maximise grant funding form Homes England for affordable and key worker homes

- Changing the Thameside and Benwell Phase 2 schemes from affordable housing into private rental schemes to remain under ownership of the Council
- Accelerating the Tothill affordable housing scheme
- Agreeing to a significant capital injection into the Council's housing management company Knowle Green Estates

In February 2023 the Council approved its updated Capital Strategy which is a plain English document explaining council borrowing and spending, the Strategy reflects the new approach approved by the ECM on 2<sup>nd</sup> February.. It sets out the current priorities which focus on housing and homelessness, regeneration and economic development, and green initiatives and climate change. Affordable housing is a particular issue, and delivery by the private sector is less than 6%. The Council has committed to ensuring that Council schemes deliver at least 50% affordable units. We encourage you to read it <http://www.spelthorne.gov.uk/capitalstrategy>. We will keep this document up to date so that it always explains what we are doing and how we are doing it.

**Moving forward the Council will be searching out all possible alternatives to debt financing, in order to restrain the amount of future borrowing required, This includes not only Homes England grant funding but also One Public Estate grant funding, use of capital receipts and commutations and consideration of joint venture options.**

**Systems of internal control.** Apart from the specific overview of the Council's investments and housing schemes, we have established systems and control processes in place to effectively manage risks, ensuring the day-to-day running of the business and the sound management of cash-flow. Managers are responsible and accountable for operating adequate systems of internal control to effectively manage risks within their Services, giving due consideration to fraud, bribery and corruption risks. We have a Chief Finance Officer (CFO), also known as the s151 Officer, who oversees these systems and they are regularly audited proportionate to the level of risk. Internal Audit findings are raised with management, and recommendations reported to the Audit Committee. There is regular budget monitoring by the Corporate Policy and Resources Committee and these papers are published on our website for you to read. We have a Medium Term Financial Plan and we review our finances against this. The CFO is a member of the Council's senior Management Team.

**Budget Process. The process has been reviewed to consider opportunities for improvement, including continuing to encourage collective ownership on financial management . As part of closing the Outline Budget gaps over the medium term we may wish to consider exploring a zero based budgeting approach in future years.**

### **Communicating effectively**

As an authority we all need to make sure we are listening to all sections of our communities right across the borough and that there is trust and confidence in the way we make decisions. We know that the services we provide are better when we listen to the people who use them and when we work together with local communities.

Our priority is to build strong relationships with residents and businesses and forge links within our communities so everyone feels included. One way we achieve this is through communicating effectively so that the Council's visions, priorities and outcomes are clearly understood and, most importantly, ensuring residents have the opportunity to challenge us, express ideas and shape the decisions which affect them.



Our internal stakeholders are equally important to shaping our priorities and there are a number of opportunities for employees to have their say. We encourage them to have their say on consultations as well as informing and involving colleagues at monthly all staff briefings, listening to issues and concerns via staff surveys and an open-door management style which all help to deliver team collaboration and innovation. This year we also worked in partnership with the Local Government Association in delivering a Councillor Survey, which fed into the Peer Review process and a review of the Committee Model of Governance in which we now operate under.

### **Engaging with stakeholders**

The Council has a number of ways it engages and communicates with residents and businesses in the Borough. We are always reviewing the most appropriate ways to communicate, from formal statutory consultations through to the Council's use of social media and digital tools, including a subscriptions service for My Alerts [www.spelthorne.gov.uk/my-alerts](http://www.spelthorne.gov.uk/my-alerts) and a monthly E-newsletter [www.spelthorne.gov.uk/enews](http://www.spelthorne.gov.uk/enews), which is now powered by Granicus.

Growing our social media audience has been a priority for them team and since March 2020 our followers reach has increased by 74% and is an integral engagement tool to interact with our residents. With the use of an accessibility tool on the website all pages can change language, size or colour dependant on the users need and personal requirements. We purchased new software for the website which monitors accessibility, and this is tracked weekly.

The Council adapted its communications over the past four years to best serve our residents. Our engagement strategy outlines this:

#### **Informing**

We keep residents updated on the latest Council news and information. This will be through our website, social media, e-news, letters, emails, posters, mailouts and the Borough Bulletin magazine.

#### **Consulting**

Regular consultations are undertaken by Spelthorne Borough Council relating to a variety of subjects. Between the period of April 2020 and current time we have consulted on 31 issues with residents, ranging from leisure requirements in the Borough, public space protection orders, housing policies and business support. All open consultations can be found on a dedicated web page [www.spelthorne.gov.uk/currentconsultations](http://www.spelthorne.gov.uk/currentconsultations) and these are communicated to residents and stakeholders across our variety of communication channels. We ensure that residents who are not digitally connected also receive news and have an opportunity to respond on Council consultations - whether through direct mailing, noticeboards, local press and our Borough Bulletin magazine.

#### **Involve**

We will work with communities and partners on various topics in order to

improve Council services and find better ways of working. Various workshops and marketplace events are held, either in person or online with stakeholders having the opportunity to share ideas and highlight best practise. For key developments, such as Voter ID, we have gone out to the residents through roadshows and drop-in sessions.

#### **Collaborate**

We hold Residents Associations forums where residents can discuss their concerns with the Leader of the Council and Council Officers. Continue to develop strong partnerships in all sectors of our community; businesses, other authorities and health so knowledge, skills and expertise can be shared to help shape priorities and effectively delivery on them.

### **Empower and decide**

We promote community empowerment and democracy. Council

meetings are streamed live on You Tube and residents are invited to watch in person in the council chamber and we also welcome petitions as an important way in which people can let us know their concerns. We have also been able to capture and share many celebrations in the last year, including Civic Awards celebrations and promotional Town 'shop local' videos.

Our engagement strategy adopts a holistic approach to ensure that we engage with as many residents as possible, especially from communities that are more difficult to reach. We are committed to continually driving forward community engagement and look for new ways, tools and platforms so that all residents can be heard, not just those who are the easiest to reach, or the most vocal.

### **How we are accountable**

The Council is a democratic body and the powers which we exercise are derived from the electors. There are numerous systems in place to allow members of the public to get information, ask questions, challenge the Council and get involved. Ultimately the entire organisation is governed by residents just like you. This gives the Council tremendous strength in deciding what needs to be done in the Borough and how we prioritise scarce resources for best effect. You can consider some of the many ways to get involved:

- Speak to your ward councillor or the Chair or Vice-Chair of the Committee responsible for the issue
- Complain about services you think are not performing, or equally provide positive feedback when you think we are doing well
- Request information under the Freedom of Information Act and the Environmental Information Regulations.
- Ask questions at the Council and the Spelthorne Joint Committee (which covers issues relevant to both Spelthorne and Surrey County Council)
- Present petitions
- Speak at Planning Committee about applications in your neighbourhood
- Join your local residents' association

Almost all of the information you need can be found on our website ([www.spelthorne.gov.uk](http://www.spelthorne.gov.uk)) and we only restrict the publication of a very limited quantity of material where there is good

reason, such as the need to respect the data protection rights of individuals or commercial confidentiality.

## **How we promote high standards in public office**

The Council is committed to following the Nolan principles of public life which are:

### **1. Selflessness**

Holders of public office should act solely in terms of the public interest.

### **2. Integrity**

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

### **3 Objectivity**

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

### **4 Accountability**

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

### **5 Openness**

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

### **6 Honesty**

Holders of public office should be truthful.

### **7 Leadership**

Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.

The Council has a dedicated Standards Committee. This Committee is guided by an Independent Chairman and Vice-Chairman. A Panel of Independent Persons is in place. They are consulted on any complaints against councillors to say whether they should be investigated.

We have numerous policies and procedures in the Constitution to back up a strong ethical approach to local government. In the year 1 April 2022 to 31 March 2023 there were 11 complaints against Members. This is a reduction from the twenty during the previous year. A number of these are to be considered by the Assessment Hearings Panel to decide what action should be taken. A number have been rejected by the Monitoring Officer as being politically motivated, the Independent Person where approached for comments on these. On 16 March 2022 the Council's Standards Committee approved revised arrangements for dealing with Member complaints. The revised procedure requires the Monitoring Officer to undertake a 2-step assessment to filter out complaints based on specified criteria.

The Council has in place a policy(<http://www.spelthorne.gov.uk/article/18641/Gifts-and-hospitality-policy>) on Gifts, Hospitality and Sponsorship which applies to both staff and councillors. The policy was reviewed in 2019. There are also policies dealing with Counter - Fraud, Bribery and Corruption and Whistleblowing.

During 2022-23 KPMG the Council's external auditors concluded their work on their 2017-18 Value for Money opinion and concluded that they should issue a Public Interest Report (PIR) with respect to the Council's past acquisition of investment assets- ([Public Pack](#))[Agenda Document for Council, 08/12/2022 18:00 \(spelthorne.gov.uk\)](#). The PIR was published on the 30<sup>th</sup> November and an Extraordinary Council meet on the 8<sup>th</sup> December to consider and agree a response to the five recommendations. The recommendations and the Council's response is summarised below:

**Recommendation 1:** The Council should obtain legal advice on its powers to enter into specific transactions where those transactions are unusual or high value. The Council has an experienced in-house Legal Team that provides appropriate legal advice on its powers to enter into specific transactions. Where those transactions are unusual or of high value, external Legal advice is obtained from experienced counsel and such an approach will continue for any such future transactions. The in-house Legal Team is Lexcel accredited which means that it has been assessed as having appropriate risk management procedures in place. The Monitoring Officer is the lead officer for this recommendation and will keep the applicability of this approach under review.

**Recommendation 2:** Officer reports should clearly identify the legal powers relied on in relation to decisions or transactions and ensure that decision makers are aware of the relevant legal test to lawfully exercise those powers. All committee reports going to councillors for decisions are submitted to the Legal Team prior to publication. The committee report template includes a section on Legal Implications which is completed by the Monitoring Officer or another senior member of the Legal team to clearly set out the legal powers underpinning decisions and set out any other legal implications relating to the report. As per the recommendation external legal advice will continue to be sought where appropriate.

**Recommendation 3:** The Council should ensure that it has regard to all relevant statutory guidance, including specific aspects of that guidance that apply to particular decisions or transactions, and specifically record its reasons for departing from such guidance if it decides

to do so. The Council has always had regard to all relevant statutory guidance seeking relevant expert advice and will continue to do so. It will in future more clearly record reasons for departure, if there are proposals that depart from prevailing guidance (which we are not anticipating). Note moving forward the Council's Capital Programme and Capital Strategy is focused on ensuring that all capital spend is consistent with the revised terms of the Public Works Loans Board and the CIPFA Prudential and Treasury Management Codes. The Chief Financial Officer and the Chief Accountant will review financial reports going to councillors to ensure that they reference professional and statutory guidance and to highlight where Councillors are being asked to consider departing from the guidance, however the Council intends to comply with the Prudential and Treasury Management Codes.

**Recommendation 4:** The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term. The Council, consistent with the statutory guidance, is not looking to acquire any further debt for yield assets, which limits its ability to diversify its existing investments assets portfolio. However, it will keep under existing review the purpose for which assets are held, and when redevelopment/investment requirements for particular assets are identified it will undertake options analysis which will include consideration of disposal as one option. The Council's overall property portfolio will be diversified by value as additional residential schemes, service (such as our new Leisure Centre) and community assets are completed in the coming years. Where opportunities arise, such as when assets become vacant, options analyses will be undertaken to look at any alternative uses for those sites. In the case of residential assets, they will be underpinned by residential rental income. The Council has recently agreed a Sinking Funds Policy and set parameters under which a short (1 to 5 years) medium (5 to 20 years) and long term (20 years plus) refresh of the existing sinking funding modelling will be undertaken with aim of completing by end of 2023-24, as agreed by Corporate Policy and Resources Committee – we will within that timeframe seek to complete on a timely basis. Officers will look at opportunities to bring in external expertise. The refreshed modelling will focus on modelling a range of different parameter assumptions.

The Council, since the PIR was published, has published a full detailed Revenue Budget for 2023-24 and to aid councillors understanding has provided members of the Corporate Policy and Resources Committee with a detailed Budget of the "below the line" investment income budget lines in the Summary Budget. This is designed to assist transparency and scrutiny moving forwards.

The Council will continue to periodically commission reviews from external advisers of its investment assets portfolio, for example using Experian data.

**Recommendation 5:** The Council should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in paragraph 6.9 of the PIR document. This should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset. The text in paragraph 6.9 of the PIR is focused on elements of governance arrangements to be in place prior to making investment acquisitions. Whilst the Council ceased making acquisitions in 2018, some aspects of ongoing management of the portfolio are nevertheless relevant. Moving forwards, we will continue to refresh the Council's Capital Strategy to keep updated our strategic approach to managing the investment portfolio. We will

also look to refresh the Asset Management Plan. The work to be undertaken in 2023-24 on the Sinking Funds Review will be particularly relevant. We will continue to refresh and keep under review the annual five yearly business plans for individual investment assets.

The Council continues to be very open to taking on board best practice from external sources, we have previously had positive discussions with the likes of the Local Government Association, National Audit Office, CIPFA and MHCLG. Finance will work with the new Group Head for Assets who took up post on 14th March 2023, to develop an Action Plan, to build on what the Council is already doing (including periodic reviews of financial health of tenants, annual review by councillor members of Development Sub-Committee of individual asset business plans (which includes risk analysis) for individual investment assets, Asset Management Plan (which includes KPIs), production of Annual Investment and Regeneration Assets Report etc) which addresses the points raise in 6.9 of the Auditors report, including developing a portfolio risk register ( assets risks already feature on the Council's overall Corporate Risk Register) developing a portfolio risk register is a fair point and as discussed earlier the corporate service planning process should also continue to serve as an active prompt for Managers to identify and consider key/critical risks that may impact the effective delivery of their services, which should allow for greater embedding and integration of risk management over time. In addition, a corporate risk model/matrix was launched in 2021 as part of the revised RM Policy and risk management training delivered (to Managers).

Given that the Council is not acquiring any more investment assets and indeed under the latest regulations it would not be allowed to do so, it is difficult to further diversify the portfolio through new acquisitions. It should be noted that whilst the investment assets portfolio is concentrated within the Borough and the surrounding, Heathrow economic functional area, as the Council report in response to the PIR highlighted we do have diversification across tenants in a broad range of sectors. However when opportunities arise, such as investment premises becoming empty, we will undertake analyses to look at options, including disposal or utilisation in alternative use This process is currently underway with one of the smallest assets in the portfolio. With the completion of more housing and regeneration schemes the Council's overall property portfolio will become more diversified.

The Council already produces and reports on KPIs relating to its assets in its Asset Management Plan and an Annual Report on Investment and Regeneration Assets. It will review these assets' KPIs to ensure they continue to be appropriate and if necessary we will expand and refine those KPIs. We will review the current KPIs against the KPIs suggested in paragraph 6.7 of the PIR. The Council in its detailed Revenue Budget has improved the transparency of the breakdown of the budgets for investment assets.

Action: Assets and Finance to produce an Action Plan to come to councillors (both on Development Sub-Committee and Audit Committee) by July 2023.

## **How we learn and improve**

The Financial Peer review (<https://www.spelthorne.gov.uk/peerreview> ) was undertaken in 2020/21 . There are recommendations within the report which we are actively taking forward with regular progress reports being made to Audit Committee

The Council has an ongoing Continuous Improvement Programme (CIP) where the CIP team work with services to identify improvements and efficiencies in processes, systems and working practices, for example makes improvements to make it easier for people to pay the Council on line. This has resulted in efficiency savings both in terms of time and money.

## **Internal audit**

The Council has an internal audit team which provides independent assurance to management and the Audit Committee on the adequacy of Council Services, and systems of internal control to reduce risk. This team has an annual internal audit plan which is discussed and agreed each year by the Audit Committee. The internal team operates to the Public Sector Internal Audit Standards. The effectiveness of internal audit is reviewed annually and an external quality assessment undertaken once every five years, with the next external review being undertaken in 2023.

The internal audit team works closely with the Council's external auditors.

Every year, the Internal Audit Manager issues an independent opinion in an annual report concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. This comments on the risks facing the Council and the adequacy of the Council's arrangements to manage those risks. It represents one of the key assurance statements the Council receives.

The Internal Audit Manager has reported on nine assurance reviews relating to the 2022/23 audit plan, of which five were assessed as 'reasonable assurance' provision' and four were identified as "limited assurance'. Audit recommendations carry a priority rating (low/medium/high) and these will be followed up to confirm implementation status. Three further assurance assignments currently underway (overall assurance opinions not yet concluded) will be reported in the annual audit report for 2022/23 presented to Audit Committee, and any key matters arising so far have been considered for the annual audit opinion. Other relevant sources of assurance such as audit advisory work including position statements issued, the Council's Corporate Risk Register and risk exposure to Wider Externalities have been reviewed for the purpose of producing the overall audit opinion.

**Annual Internal Audit Opinion 2022/23**

Relevant considerations in undertaking assurance work and producing the annual audit opinion are set out at point 1 below:

(1) Exposure to high impact interlocking risks highlights the ongoing uncertainty and volatility being faced across all sectors of the economy. The significance of wider externalities have continued to exacerbate many of the Council's strategic risks and challenges in delivery of corporate priorities and objectives.

The opinion of the Internal Audit Manager concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. On balance **reasonable assurance** can be provided across these areas. The Council has many established systems of internal control that are sufficiently designed to effectively manage risks. However, improvements were recommended to address the operation of the control environment where control weaknesses were identified. This included some issues and areas of non-compliance, mostly representing medium priority risks. Scope for improvements to both the design and operation of internal controls in delivering objectives have been raised or recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and managers) to discuss improvement actions to address risks and enhance the robustness of systems of internal control and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

<b>Reasonable Assurance</b>	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
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Punita Talwar

Internal Audit Manager (Chief Audit Executive, Spelthorne Borough Council)

Chartered Internal Auditor (CMIIA)

May 2023

The internal audit team has carried out a number of audits in accordance with the agreed annual plan. Full details of these recommendations, as well as any key themes and issues arising from Internal Audits work for 2022/23 are to be found on the Audit Committee pages of the Council's website.

Internal audit resource has been partially focussed around the evolving risks presented by the challenging economic and geo-political climate and recognising their wide reaching



impact for the Council, , audit support and advice, as well as wider risk and assurance workstreams.

## **Corporate Risk Management**

The Council maintains a Corporate Risk Register, which is coordinated by the Internal Audit Manager and reported regularly to Management Team, Audit Committee and Corporate Policy and Resources Committee. The Corporate Risk Register identifies and evaluates the key corporate risks facing the Council, the controls and mitigating measures in place, and tracks outstanding issues to further address risk management. The register continues to focus on a smaller number of corporate (strategic) risks relating to effective delivery of the Corporate Plan Priorities/Objectives. It also aligns to methodology set out in the Corporate Risk Management Policy. The subsidiary companies have also produced risk registers and for consistency their format aligns closely with the Council's Corporate Risk Register. As part of ongoing development work on risk management, the Corporate Risk Register is also reported to the Corporate Policy and Resources Committee to promote collective ownership and accountability of the Council's most significant risks and issues. Mechanisms for cascading high level risk management information through to respective service committees has also been implemented. . Progress has been made in exploring the development of a risk appetite framework for the Council as it is recognised that this supports more transparent and informed risk based decisions, good governance and modern best practice. A plan for soft implementation of a risk appetite framework has been established and pursued during 2022/23, with integration into the service planning process having been insightful in ascertaining service level risk appetites across the Council.

As part of the strategy of embedding risk management into all aspects of the Council's decision making, the Council's report template for Committees now includes a section on risks.

## **External audit**

KMPG as reported above KPMG concluded their work on the 2017-18 Value for Money Opinion which resulted them in published a Public Interest Report (PIR), The PIR was reported to an considered by a meeting of Council on 7<sup>th</sup> December 2022. An action plan addressing the PI will come to the July 2023 Audit Committee.

Following on from the PIR KPMG reported to the March 20223 Audit Committee that they were now issuing an unqualified opinion on the Statement of Accounts for 2017-18. This means that the incoming auditors can now commence a process of catching up on the outstanding audits for the subsequent years.

## **Audit Committee**

Terms of reference are set out in Constitution. There are regular meetings and work plan is published. Under the new Constitution there will continue to be an Audit Committee which now has an independent lay member, to add an additional external perspective and bring additional expertise to the Committee..

### **How we learn from complaints and feedback**

The Council is always keen to hear from residents and staff about how it can deliver better services to residents. We also have feedback questionnaires for some services. We have a number of procedures in place:

- Our Complaints procedure is working well. However, we are always looking at ways to improve it.
- We have a staff whistleblowing procedure in place, this is highlighted as part of the staff induction process.

### **FOI/GDPR**

Our long term project to ensure compliance with the General Data Protection Regulations and improve the Council's information governance arrangements continues. This project has already delivered, and will continue to deliver, significant improvements in the Council's information governance arrangements.

The Group Head of Commissioning and Transformation is the Council's Senior Information Risk Owner who has responsibility for managing information risk across the council.

The Council's full time Data Protection Officer is responsible for overseeing data protection strategy and implementation.

The Council has clear processes for managing Freedom of Information Act, Environmental Information Regulations, and Data Protection Act requests. The aim of the process is to promote transparency across the organisation and deliver an efficient approach to handling requests.

Staff continue to ensure compliance with the Freedom of Information Act / Environmental Information Regulations, Data Protection Act, and Privacy and Electronic Communication Regulations. An audit of GDPR has been undertaken.

Monitoring includes reports to Management Team, internal and external audits and Information Commissioner reviews as appropriate.

Covid-19 has brought unprecedented challenges due to the need to share information quickly and adapt the way the Council’s essential services work. Data protection staff are assisting colleagues to ensure that the Council only collects as much personal data as is strictly necessary for the relevant purposes and to continue to comply with Data Protection legislation.

### How we will deal with significant governance issues

1. Action taken in the year to address governance issues raised in the previous AGS relating to 2020-21

Completed with periodical reporting having been undertaken. Completed –

Refreshed Economic Prosperity strategy approved. Action completed with reporting structures widened to include CPRC.

Action progressed in view of the LGA Corporate Peer review having been undertaken in November 2022 and reported in February 2023. The authority have produced an action plan to take these recommendations forward, and a follow up review is planned by the LGA for summer 2023 to assess implementation progress and support continued improvement

### 2. Review of significant governance issues arising during 2022/23 and how we are addressing them :

<u>Issues Identified/Risk Implications</u> <u>Relates to 2022/23 Period</u>	<u>Action and status</u>
<p><b><u>1.Wider Externalities</u></b></p> <p>The ongoing significance of wider externalities such as the macro-economic environment (elevated inflation, accelerated interest rates and cost of borrowing), and geopolitical uncertainty from the Ukraine war have continued to exacerbate the Council’s financial challenges in delivering corporate priorities, coinciding with rising service pressures in supporting communities during a Cost-of-Living crises. Inevitably, the Council cannot exert control or influence over the direction of these evolving wider externalities and therefore the extent to which it can reduce, control or mitigate such risks remains limited.</p>	<p><b><u>Management Action</u></b></p> <p><i>(i) The broad risk categories most significantly impacted by these externalities include the Council’s economic prosperity, financial sustainability, and supporting local communities and refugees in the provision of housing need.</i></p> <p><i>(ii)The local mitigation measures and prioritised actions to alleviate the identified risks have been drawn out in the Wider Externalities risk assessment and summary report (reported to the Audit Committee throughout 2022/23). Going forward such analysis will continue to be incorporated into the Strategic (Corporate) Risk Register..</i></p>
<p><b><u>2.Financial Risk</u></b></p>	<p><b><u>Management Action</u></b></p>

<p>Financial risk remains a strategic theme carrying high impact across several risk categories on the Council's Corporate (strategic) risk register. Ongoing financial challenges and pressures continue to have a significant impact on the Council's budgetary position and financial sustainability in delivering corporate priorities and services.</p>	<p><i>Please refer to the Council's Corporate Risk Register and Risk Action Plan for a range of high-level actions underway in alleviating the ongoing financial challenges. This includes progressing the medium term financial strategy and efficiency savings plan in addressing anticipated budget deficits for 2023/4 to 2026/27.</i></p>
<p><b><u>3.Commercial Assets</u></b></p> <p>The post-pandemic landscape, turbulent economic environment and geopolitical situation have presented contributory factors leading to tenancy departures and void periods, with increased void rates during 2022/23 across the Council's commercial investment portfolio.</p> <p>It is acknowledged that sinking fund reserves support the Council's risk management strategy and may be drawn upon to mitigate and reduce the impact of any break clause occurrence in managing void periods and income shortfalls.</p> <p>In continuing to fund Council services, robust tenancy management remains key in securing and maximising these vital revenue streams.</p>	<p><b><u>Management Action</u></b></p> <p><i>The Council's ongoing management of rental voids and securing new tenants remains pivotal with proposals having been put forward to a prior CPRC in addressing the largest single void with a view to reducing the vacancy rate (previously anticipated rate of approx. 10% by end of June 2023).</i></p> <p><i>The Risk Action Plan in the Corporate Risk Register refers to producing a strategy for the longer-term relationship management of existing tenants occupying commercial properties with a view to reducing associated risks of tenant departures.</i></p> <p><i>Establishing and developing an overarching and cohesive tenancy management strategy for the commercial investment portfolio that incorporates relevant components.</i></p> <p><i>Wider risk mitigation measures continue for the Council's investment portfolio including plans to extend sinking fund modelling, and developing an action plan (in progress) in addressing the Public Interest Report (PIR) recommendations with a view to driving improved risk management and performance management, to be presented to July Audit Committee and a future Development Sub Committee.</i></p>
<p><b><u>4.Recruitment and Retention</u></b></p> <p>In the context of a challenging and competitive labour market, unsuccessful recruitment and ongoing unfilled vacancies remains an issue for the authority, leading to reduced level of technical skills and relevant expertise operating across some Services. Staff shortages further exacerbate workload pressures across teams and may lead to increased staff fatigue, burnout and sickness levels arising.</p>	<p><b><u>Management Action</u></b></p> <p><i>Refer to the Corporate Risk Register and related risk action plan.</i></p> <p><i>Corporate Establishment Review underway (2023).</i></p>

## Conclusion

As we deal with the challenges of the next few years in light of the long term impact of Covid-19 and then the Cost of Living Crisis and wider externalities on our economy, health & safety and well-being, you can be assured that we are doing so from a solid foundation with proper systems of internal control.

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Cllr  
Leader of the Council

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Daniel Charles Mouawad  
Chief Executive