Ian Wardle
**Managing Director**

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To: Councillors Stevens (Chairman), Debs Absolom, Lovelock, McElligott, Page, Steele and Terry

Our Ref:
Your Ref:

Direct: ☎ 0118 937 2153
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16 September 2015

Your contact is: Michael Popham - Committee Services

**NOTICE OF MEETING – AUDIT AND GOVERNANCE COMMITTEE – 24 SEPTEMBER 2015**

A meeting of the Audit & Governance Committee will be held on Thursday 24 September 2015 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

AGENDA

| | | PAGE NO |
|---|---|---|
| 1. | **DECLARATIONS OF INTEREST** | - |
| 2. | **MINUTES OF THE COMMITTEE'S MEETING OF 8 JULY 2015** | A1 |
| 3. | **APPROVAL OF 2014/15 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION**<br><br>This report seeks, in accordance with the Accounts & Audit Regulations, the approval of the Council's accounts by the end of September, which will conclude the accounts and audit process for 2014/15. | B1 |
| 4. | **INTERNAL AUDIT & CORPORATE INVESTIGATIONS TEAM QUARTERLY PROGRESS REPORT**<br><br>This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2015. | C1 |

***CIVIC OFFICES EMERGENCY EVACUATION:** If an alarm sounds, leave by the nearest fire exit quickly and calmly and assemble on the corner of Bridge Street and Fobney Street. You will be advised when it is safe to re-enter the building.*

5. **TREASURY MANAGEMENT 2015/16 ACTIVITY TO AUGUST** D1

This report contains information about the Council's treasury activities to the end of August in 2015/16.

6. **BUDGET MONITORING 2015/16** E1

This report sets out the result of the budget monitoring exercise undertaken for 2015/16, based on the position to the end of July 2015.

**AUDIT AND GOVERNANCE COMMITTEE MINUTES - 8 JULY 2015**

| | |
|---|---|
| **Present:** | Councillors Stevens (Chairman), Debs Absolom, McElligott, Page & Steele. |
| **Apologies:** | Councillors Lovelock & Terry. |

**Also in attendance:**

| | |
|---|---|
| Alan Cross | Head of Finance |
| Paul Harrington | Chief Auditor |
| Ian Wardle | Managing Director |

## 1. MINUTES

The Minutes of the meeting of 21 April 2015 were confirmed as a correct record and signed by the Chairman.

## 2. ANNUAL GOVERNANCE STATEMENT 2014-15

The Head of Finance submitted a report presenting, at Appendix 1, the 2014/15 Annual Governance Statement (AGS). Appended to the Statement were the Governance Framework at Appendix A, and the AGS Implementation plan for 2015/16 at Appendix B.

The report explained that Regulation 4 of the Accounts and Audit Regulations 2011 required councils to review the "effectiveness of their system of internal control" at least once a year and to publish an AGS which accompanied the authority's financial statements. The AGS was a record of the overall effectiveness of governance arrangements within the Authority; it reflected the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrated how the key governance requirements had been met.

**Resolved:**

**(1) That the Annual Governance Statement for 2014/2015 be received and approved for publication with the Council's accounts;**

**(2) That the Managing Director, in consultation with the Leader of the Council and the Chairman of the Audit & Governance Committee, be authorised to make any necessary minor amendments before final publication in September 2015.**

## 3. INTERNAL AUDIT ANNUAL ASSURANCE REPORT

The Head of Finance submitted a report presenting, at Appendix 1, the Internal Audit Annual Assurance Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards.

The report gave the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement. It also drew out key themes arising from the work of the Audit Team during the 2014/2015 financial year, and compared the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

The report explained that detailed audit reports had been issued to the relevant Service Managers on the results of individual audits throughout the year, and to the relevant Directors and Heads of Service where unsatisfactory internal control had been identified. In addition, quarterly reports had been issued to, and discussed with, the Corporate Management Team (CMT) and the Audit & Governance Committee in order to report on standards of internal control, to provide appropriate focus on weaknesses and to progress remedial action where necessary.

**Resolved: That the assurance opinion given by the Chief Auditor and issues raised in the Annual Assurance Report be noted.**

## 4. AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT

P Harrington, Chief Auditor, submitted a report giving an update on key findings emanating from Internal Audit reports issued since the previous quarterly progress report in April 2015. Attached to the report at Appendix A were the internal audit assurance definitions and priority ratings of recommendations.

The report set out a summary of the audit reports and an assurance finding for audits carried out of the following service areas:

- Gas/Electric Inspections
- Repair and Renewal Grant
- School Attainment
- Treasury Management
- Payroll
- Fuel System
- Fleet Management
- Collection and Debt Recovery

**Resolved: That the report be noted.**

## 5. STRATEGIC RISK REGISTER

P Harrington, Chief Auditor, submitted a report updating the Committee on the Q1 status of the Council’s 2015/16 Strategic Risk Register, in line with the requirements of the Council’s Risk Management Strategy. The Register was attached to the report at Appendix 1, and guidance on risk scoring was attached at Appendix 2.

The report explained that the Strategic Register was compiled from risks identified at directorate level which had been escalated, along with high-level generic risks which required strategic management. Entries within the Register reflected the risks identified by the Council Management Team thereby strengthening their strategic perspective, management response and controls. The inclusion of risks within any level of risk register did not necessarily mean there was a problem but reflected the fact that officers were aware of potential risks and had devised strategies for the implementation of mitigating controls.

Each entry within the register was scored based on an assessment of their impact and likelihood, to provide an assessment of the residual level of risk. These assessments were made before any actions were in place, to indicate the inherent risk, and then after controls were in place, to find the residual risk. Whatever level of residual risk remained, it was essential that the controls identified were appropriate, working effectively and kept under review. Plans were in place to mitigate the risks identified in the Strategic Risk Register.

**Resolved: That the Q1 status of the Council's 2015/16 Strategic Risk Register be noted.**

## 6. PROVISIONAL 2014/15 REVENUE OUTTURN & CAPITAL PROGRAMME

The Head of Finance submitted a report summarising the financial position at the end of the 2014/15 financial year, setting out draft final budget variances. The report also set out the capital programme provisional outturn and a summary of the Final Accounts process leading to the formal approval of the accounts at the end of September.

The following documents were attached to the report:

Appendices A-C – 2014/15 financial outturn by Directorate
Appendix D – Allocation of s106 receipts (as agreed by Policy Committee on 8 June 2015)
Appendix E – Final Accounts Process
Appendix F - General Debtor Arrears by Service

**Resolved:**

**(1) That the outturn position set out in the report subject to external audit be noted;**

**(2) That the capital programme outturn and funding, and the use of £2.3m S106 receipts approved by Policy Committee, as set out in the schedule at Appendix D, be noted.**

## 7. TREASURY OUTTURN REPORT FOR 2014/15 & RELATED UPDATE

The Head of Finance submitted a report presenting, at Appendix 1, the Annual Treasury Outturn Report 2014/15.

The report explained that the Treasury Outturn report was intended to explain how the Council had tried to minimise net borrowing costs over the medium term, ensured it had enough money available to meet its commitments, ensured reasonable security of money lent and invested, maintained an element of flexibility to respond to changes in interest rates, and managed treasury risk overall. It also outlined some current treasury and related issues likely to impact the Council during 2015/16, the establishment of the Municipal Bonds Agency, and further work taking place to review aspects of the Council's treasury approach.

A Cross gave a presentation at the meeting summarising some key treasury management issues.

**Resolved: That the annual Treasury Outturn Report for 2014/15 be noted.**

(The meeting started at 6.30pm and closed at 7.16pm).

**READING BOROUGH COUNCIL**
**REPORT BY HEAD OF FINANCE**

| | | | |
|---|---|---|---|
| **TO:** | **AUDIT & GOVERNANCE COMMITTEE** | | |
| **DATE:** | **24 September 2015** | **AGENDA ITEM:** | **3** |
| **TITLE:** | **APPROVAL OF 2014/15 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION** | | |
| **LEAD COUNCILLOR:** | **CLLR STEVENS** | **AREA COVERED:** | **CHAIR OF AUDIT & GOVERNANCE** |
| **SERVICE:** | **FINANCIAL** | **WARDS:** | **BOROUGHWIDE** |
| **AUTHOR:** | **ALAN CROSS** | **TEL:** | **2058 / 9372058** |
| **JOB TITLE:** | **HEAD OF FINANCE** | **E-MAIL:** | **Alan.Cross@reading.gov.uk** |

## 1. PURPOSE AND SUMMARY OF REPORT

1.1 In accordance with the Accounts & Audit Regulations, the Committee, on behalf of the Council is required to approve the Council's accounts by the end of September.

1.2 As part of the annual external audit of the Council's accounts, KPMG produce an Audit Memorandum to those charged with Corporate Governance prior to issuing their opinion.

1.3 KPMG have indicated that subject to; the approval of the accounts (with minor adjustments) by the Committee, the receipt by them of a Management Representation letter, the receipt by the Committee of the Report to those Charged with Governance, they will be in a position to issue an unqualified audit report on the (amended) Council's accounts, thus concluding the accounts and audit process for 2014/15. This report sets out these documents, though for reasons of size the formal accounts have not been printed as part of the agenda, although the main adjustments are identified within KPMG's report. KPMG will be present at the meeting to deal with questions relating to their audit.

## 2. RECOMMENDATION

**2.1 Audit & Governance Committee are requested to note:**

**a) the Management Representations letter from the Head of Finance**
**b) KPMG's (ISA 260) Report to those charged with governance**

**2.2 Audit & Governance Committee are requested, on behalf of Council to approve the final accounts for 2014/15, noting that in doing so KPMG will be in a position to issue an unqualified opinion**

**2.3 Audit & Governance Committee should note that apart from the conclusion of a small number of grant claims, and the possibility of needing to resolve elector queries in relation to the accounts this will conclude KPMG's work as auditor to the Council.**

## 3. POLICY CONTEXT

3.1 Each year as part of the annual external audit process the Council's external auditor KPMG produce a report addressed to those charged with governance prior to issuing their Audit Opinion.

**3.2** The Report is submitted to the Audit & Governance Committee as part of its duties on behalf of Council. Given the democratic nature of the Council it is possibly too simplistic to suggest the Committee is solely responsible for governance, and we suggest that Council as a whole as well as the Administration have some governance responsibilities too, as of course does the Corporate Management Team. To reflect this, the Annual Governance Report is signed by the Leader of the Council and the Managing Director.

3.3 The general financial position was reported to the Committee at its end of June meeting, and the Council's draft accounts were signed off at the end of June by the Head of Finance and placed on the website shortly after that meeting. As is normal in the course of the audit we have agreed a small number of changes to the draft accounts. As part of the process, the Council's Section 151 Officer is required to submit a Management Representations letter to the External Auditor, and this is attached for the information of the Committee.

## 4. OPINION AND AUDIT MEMORANDUM / MANAGEMENT REPRESENTATIONS LETTER

4.1 Attached to this covering report are

- Management Representations Letter
- KPMG's Audit Memorandum to those charged with governance

4.2 **Implementing External Audit Recommendations**

KPMG's letter includes an update to a continuing recommendation relating to our property system. We have in principle committed to move capital accounting to the Atrium Property System but have not yet reached and resourced that development within the system.

4.3 Following last year's audit as part of the de-brief process we met with KPMG to review the final accounts and audit process. This has led to improvements in the process. We will have a debrief meeting and have already begun to have periodic meetings with EY to ensure a smooth transition, with the aim of continuously improving the accounts production process for future years. CIPFA are currently consulting on some suggested changes to simplify the accounts and make them more accessible; subject to the outcome of that consultation we will consider implementing those changes as soon as practical, possible next year.

**4.4 KPMG Audit Differences**

KPMG's Report sets out the more significant issues that have arisen in their audit and we have made three to the draft accounts as a consequence of their work. The required adjustment are largely technical or presentational ones. There have been no changes to the council's available balances and resources as a consequence of KPMG's audit.

KPMG have suggested three other adjustments (see appendix 3, numbers 4-6 in their ISA letter). The adjustments proposed and reasons for not making them (as in aggregate they are less than the materiality threshold KPMG have set) are as follows;

Adjustment 4 proposes writing down to nil the value of the land on which the former Civic Offices Stands. The building was written down to nil some years ago, and as councillors will be aware the Council has committed to its demolition to facilitate regeneration of that part of the town centre. The commitment is reflected (now) as a note to the accounts. Were we to write it down, in 12 months' time, following demolition the value would then need writing up to the 31/3/16 value (which on current information may be higher than the present £3m land value).

Adjustment 5 proposes adding a further £1.4m to the equal pay provision so it better matches the council's estimated liability. Were we to do this we would also create the Unequal Pay Back Pay Reserve which would be a negative reserve to neutralise the General Fund impact. As the £1.4m is budgeted to be added during 2015/16 to the provision, we see no point in such a technical series of accounting entries which would all then be reversed in 2015/16, bearing in mind the equal pay liability is of uncertain value.

Adjustment 6 proposes a technical adjustment relating to the council's car park management contract with NCP. Under the contract the Council paid for initial capital and recovery of those costs is done by adjusting the contract payment. KPMG are of the view that this should be accounted for as a loan to NCP rather than contributions by NCP to the Council's capital financing costs. The adjustment proposed does not have any impact on the financial position of the Council.

4.5 KPMG

The committee will be aware that this is the last year KPMG will be the Council's auditor as the Audit Commission, prior to its abolition, decided to appoint EY as auditor for the 2015/16 & 2016/17 accounts. KPMG has been the Council's auditor since the audit of the 1986/87 accounts (having acquired the business of Armitage & Norton, the Council's former auditor around that time), though the audit partner handling the engagement has (in line with recommended practice) been rotated every 3-5 years.

## 5. FINANCIAL IMPLICATIONS

5.1 None, directly from this report.

5.2 As indicated above and in KPMG's report, a number of adjustments have been made to the accounts since June, but overall these have had no significant impact on the General Fund Balance.

5.3 The final accounts with the audit report will as usual be published on the Council's website.

## 6. LEGAL IMPLICATIONS

6.1 The process being followed is in line with the Accounts & Audit Regulations.

## 7. CONTRIBUTION TO STRATEGIC AIMS / COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

7.1 None directly from the report.

## 8. BACKGROUND PAPERS

8.1 None.

Ian Wardle
**Managing Director**

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24 September 2015

Your contact is: Alan Cross, Head of Finance

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Reading Borough Council ("the Authority"), for the year ended 31 March 2015, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2015 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2015 and of the Authority's and the Group's expenditure and income for the year then ended; and

   i. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

**Information provided**

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority [and the Group] to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the

business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits.*

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:
   - statutory, contractual or implicit in the employer's actions;
   - arise in the UK and the Republic of Ireland or overseas;
   - funded or unfunded; and
   - approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Governance and Audit Committee on 24 September 2015.

Yours faithfully,

Alan Cross
Head of Finance

cutting through complexity

Draft 17 September

# Report to those charged with governance (ISA 260) 2014/15

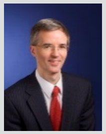
**Reading Borough Council**

24 September 2015

# Contents

The contacts at KPMG in connection with this report are:


**Ian Pennington**
*Director*
*KPMG LLP (UK)*



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

# Introduction

**This document summarises:**

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

## Scope of this report

This report summarises the key findings arising from:

- our audit work at Reading Borough Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2014/15*, sent to you in March 2015, set out the four stages of our financial statements audit process.


This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August and September 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

## Acknowledgements

We would like to thank officers and Members for their continuing help and co-operation throughout our audit work.

# Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

| | |
|---|---|
| **Proposed audit opinion** | We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. |
| **Audit adjustments** | Our audit has identified a total of 6 audit adjustments with a total value of £19.1 million to date. The impact of all of these adjustments is:<br>▪ No impact on the balance of the general fund and HRA account as at 31 March 2015;<br>▪ To decrease the surplus on provision of services for the year by £4.4 million; and<br>▪ To decrease the net worth of the Authority as at 31 March 2015 by £4.7 million.<br>We have included a full list of significant audit adjustments at Appendix 3. The following adjustments have not been amended for by the Authority:<br>▪ Overstatement of the value of the former Civic Centre site (£3.0 million);<br>▪ Understatement of provisions (£1.4 million); and<br>▪ Understatement of debtor with contractor body (£2.1 million)<br>We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1. |
| **Key financial statements audit risks** | We identified the following key financial statements audit risk in our 14/15 External audit plan issued in March 2015:<br>▪ Accounting for LA maintained schools.<br>We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3. There are no matters of significance arising as a result of our audit work in this key risk area.<br>We also identified two areas which we consider to be significant risk areas on all audits:<br>▪ Management override of controls<br>▪ Fraud risk of revenue recognition.<br>Our detailed considerations in these areas are also reported in section 3. There are no matters of significance arising as a result of our audit work in these areas. |

# Headlines

| | |
|---|---|
| **Accounts production and audit process** | We have completed the audit process within the planned timescales.<br>The Authority has good processes in place for the production of the accounts and good quality supporting working papers.<br>We have made some recommendations for improving the Authority's controls, including a need to step up bank reconciliation controls, which have fallen behind during the year. (see Appendix 1)<br>The Authority has one outstanding recommendation from a previous ISA 260 report, which is about implementing an improved fixed asset register. This is reiterated in Appendix 2.<br>We note that the Authority has undergone a major ledger upgrade in year and while this impacted on the finance team the Authority delivered accounts within statutory deadlines. |
| **Completion** | At the date of this report, our audit of the financial statements is substantially complete subject to completion of the following areas:<br>■ Bank reconciliation testing<br>■ Whole of Government Accounts<br>■ Receipt and review of revised set of financial statements<br>■ Final engagement lead review of audit work<br>Before we can issue our opinion we require a signed management representation letter.<br>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements. |
| **VFM conclusion and risk areas** | We did not identify any specific VFM risks in our *External Audit Plan 2014/15,* issued in March 2015.<br>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015. |
| **Elector challenge** | We have received notice from a member of the public about questions raised on the Council's accounts. Council officers have recently provided additional information. The amounts are not material to the Council's financial statements, so we expect to be able to issue our audit opinions in line with the expected timetable. We will, however, not be able to issue a certificate of closing the audit until we are satisfied that the elector's questions have been resolved. |

# Financial Statements
# Proposed opinion and audit differences

**Our audit has identified a total of 6 audit adjustments to date of which the Authority has corrected 3.**

**The impact of these 3 adjustments is to:**

- **No impact on the balance on the general fund and HRA account as at 31 March 2015**
- **Nil impact on the surplus on the provision of services; and**
- **Decrease the net worth of the Authority as at 31 March 2015 by £0.3 million**

## Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 24 September 2015.

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £8.7 million. Audit differences below £0.4 million are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements.

Our audit has identified a total of 6 significant audit differences to date, which we set out in Appendix 3. It is our understanding that 3 of these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of adjusted audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2015.

The net impact on the General Fund and HRA as a result of audit adjustments which the Authority have made is nil.

**Movements on the General Fund and HRA 2014/15**

| £m | Pre-audit | Post-audit | *Ref (App.3)* |
|---|---|---|---|
| Surplus on the provision of services | (44.2) | (44.2) | *1* |
| Adjustments between accounting basis & funding basis under Regulations | 37.2 | (37.2) | - |
| Transfers to earmarked Reserves | 1.9 | 1.9 | - |
| **Increase in General Fund and HRA** | **5.1** | **5.1** | |

**Balance Sheet as at 31 March 2015**

| £m | Pre-audit | Post-audit | *Ref (App.3)* |
|---|---|---|---|
| Property, plant and equipment | 803.7 | 808.7 | *2* |
| Other long term assets | 50.8 | 50.5 | *2. 3* |
| Current assets | 90.1 | 85.1 | *3* |
| Current liabilities | (78.3) | (78.3) | - |
| Long term liabilities | (697.0) | (697.0) | - |
| **Net worth** | **169.3** | **169.0** | |
| General Fund and HRA | (27.1) | (27.1) | - |
| Other usable reserves | (71.1) | (71.1) | - |
| Unusable reserves | (71.1) | (70.8) | *3* |
| **Total reserves** | **(169.3)** | **(169.0)** | |

# Financial Statements (continued)
# Proposed opinion and audit differences

**We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.**

**The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007**

In addition to the audit differences described on the previous page, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

# Financial Statements (continued)
# Significant audit risks

**In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified one specific significant risk area.**

**The table sets out our detailed findings on this matter.**

| Significant audit risk | Issue | Findings |
|---|---|---|
| Accounting for Local Authority Maintained Schools | **Risk**<br>LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.<br><br>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet. It is important that the Authority looks at schools on a case-by-case basis.<br><br>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.<br><br>**Our proposed audit work**<br>As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include:<br>■ Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; and.<br>■ Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary | We are satisfied that the Authority has identified the relevant schools and has consistently assessed them in line with accounting standards and applied this judgement appropriately in its accounts. |

# Financial Statements (continued)
## Significant audit risks

**In our *External Audit Plan 2014/15*, sent to you in March 2015, we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you.**

**These risk areas were Management override of controls and the Fraud risk of revenue recognition.**

**The table sets out the outcome of our audit procedures and assessment on these risk areas.**

| Significant audit risk | Issue |
|---|---|
| **Management override of controls**<br>Audit areas affected<br>■ All areas | Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.<br>We carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.<br>There are no matters arising from this work that we need to bring to your attention. |
| **Fraud risk of revenue recognition**<br>Audit areas affected<br>■ None | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br>In our *External Audit Plan 2014/15* we reported that we do not consider this to be a significant risk for Local Authorities  as there is unlikely to be an incentive to fraudulently recognise revenue.<br>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work. |

# Financial Statements (continued)
## Other key areas of audit focus

**In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.**

**The table sets out our detailed findings for each.**

| Area of audit focus | Issue | Findings |
|---|---|---|
|  | **Area of focus**<br>The Authority has a significant asset base primarily relating to Council dwellings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.<br>**Our audit work**<br>Our work includes:<br>■ Reviewing management's assessment of property valuations and impairment calculations.<br>■ Reviewing the information provided to the valuer by the Authority.<br>■ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2013/14 for consistency.<br>We will also review progress against the asset register update programme. | We consider that the valuation methodology applied to PPE has been appropriate.<br>We do however note that investment properties are not valued annually as required and we have raised a recommendation regarding this in Appendix 1.<br>Our testing of investment properties has identified some instances of property, plant and equipment assets included within investment properties in error. See Appendix 3 for adjustments resulting from this.<br>Our previous recommendation regarding the asset register update programme is still being addressed and we reiterate this recommendation in Appendix 2. |

# Financial Statements (continued)
## Other key areas of audit focus (continued)

**In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.**

**The table sets out our detailed findings for each.**

| Area of audit focus | Issue | Findings |
|---|---|---|
| Cash | **Area of focus**<br>Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.<br>**Our proposed audit work**<br>Our work includes:<br>■ Seeking external bank confirmations over account balances; and<br>■ Reviewing and testing the controls over bank reconciliations. | Our work in this area is ongoing.<br>The Authority has fallen behind in its regular bank reconciliation procedures and we recommend that this very important control is completed in a timely manner on a regular basis. (See Appendix 1) |
| Pension Costs and Liabilities | **Area of focus**<br>Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.<br>**Our proposed audit work**<br>Our work includes:<br>■ Reviewing the information provided to the actuary by the Authority;<br>■ Reviewing actuarial valuation and considering disclosure implications; and<br>■ Comparing the assumptions made by your actuaries to benchmarks and to the assumptions used for 2013/14 for consistency. | We have reviewed the information contained within actuarial reports. We are satisfied that the basis of valuation is reasonable and that it has been accurately reflected in the Authority's accounts. |

# Financial Statements (continued)
## Other key areas of audit focus (continued)

**In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.**

**The table sets out our detailed findings for each.**

| Area of audit focus | Issue | Findings |
|---|---|---|
| Civic Centre | **Area of focus**<br>The Authority have moved to new premises in 2014/15 and are due to incur significant demolition costs relating to the former Civic Centre premises in the near future subject to partner development plans. Where a commitment is made with a contractor for any such works this should be recognised in the accounts.<br>**Our proposed audit work**<br>We will review progress against this scheme and consider whether appropriate disclosure has been made in the accounts both in terms of completeness and basis of estimation.<br>We will also review accounting matters relating to the new premises including fit out costs and associated financing matters to consider whether the basis of calculation is reasonable. | The draft accounts submitted for audit did not include a note on contractual commitments entered into during 2014/15 and the Authority has agreed to include one to reflect matters including the £7 million contract to demolish the former Civic Centre site.<br>The former Civic Centre site is held at a value of £3 million, which reflects the estimated sales proceeds of the land after the buildings have been demolished, but does not make an allowance for the costs of demolition. We have therefore raised an audit difference in Appendix 3 to write the book value of the land down to £nil, which the Authority have elected not to amend.<br>Although the adjustment would reduce the Authority's net assets, there would be no impact on the general fund due to the way that capital transactions are treated. |
| Equal Pay Provision | **Area of focus**<br>As noted in previous years, the Authority are continuing to progress towards finalisation of this matter.<br>**Our proposed audit work**<br>We will review the basis of the provision at year end (including the continued appropriateness of the model used) with due consideration to changes of facts or circumstances in the year. | There have been no significant changes to facts or circumstances in the year and the Authority continues to work to close this matter down in the medium term.<br>As part of ongoing review it was established that some job role comparators required revision in year and this resulted in an increase in estimated liability. The Council intend to manage the impact of this by building up the provision over the next year with £1.4m budgeted for this in 2015/16.<br>In strict accounting terms this should technically be increased in the current year and we have recorded an unadjusted difference for this matter in Appendix 3. |

# Accounts production and audit process

**The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.**

**Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.**

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

| Element | Commentary |
|---|---|
| **Accounting practices and financial reporting** | The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard.<br><br>We consider that accounting practices are appropriate |
| **Completeness of draft accounts** | We received a complete set of draft accounts on 30 June 2015.<br><br>The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental. |
| **Quality of supporting working papers** | We issued our *Accounts Audit Protocol* including our required working papers for the audit in March 2015.<br><br>The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*. |
| **Response to audit queries** | Officers resolved all audit queries in a timely manner. |

| Element | Commentary |
|---|---|
| **Group audit** | To gain assurance over the Authority's group accounts, we placed reliance on work completed by component auditors on the financial statements of Reading Transport Limited and reviewed the Authority's consolidation work.<br><br>There are no specific matters to report pertaining to the group audit. |

## Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

There is one recommendation outstanding.

Appendix 2 provides further details.

# Financial Statements (continued)
# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

## Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Reading Borough Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Reading Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

## Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit and Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

## Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

# VFM conclusion

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

## Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

## Work completed

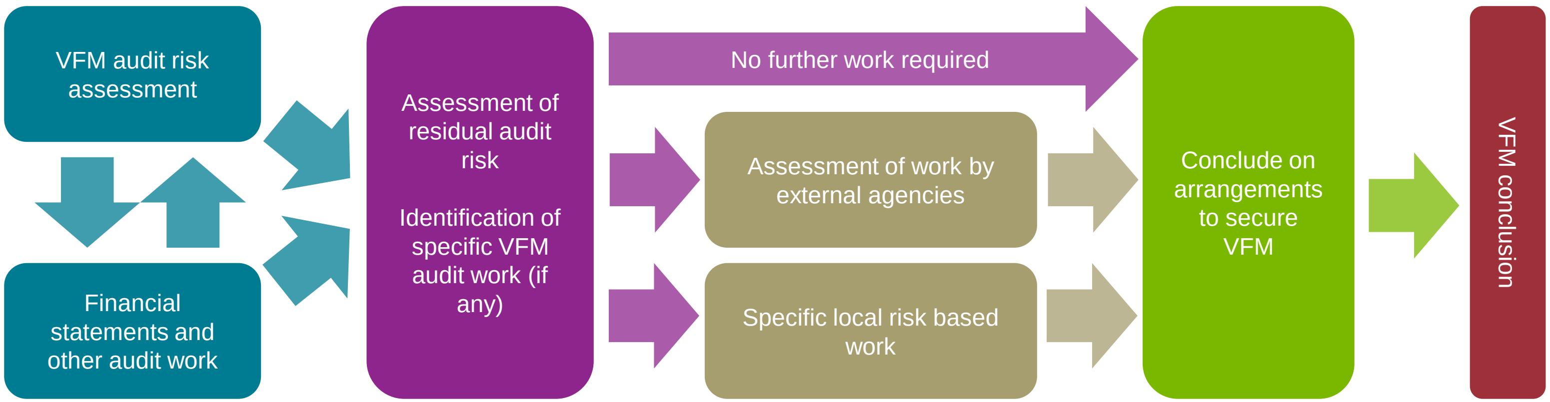
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not  completed any additional work.

## Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

| VFM criterion | Met |
|---|---|
| **Securing financial resilience** | ✓ |
| **Securing economy, efficiency and effectiveness** | ✓ |



# Appendix 1: Key issues and recommendations

**We have given each recommendation a risk rating and agreed what action management will need to take.**

**The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.**

**We will discuss these recommendations with our successor auditors to ensure that they are followed up next year.**

| Priority rating for recommendations | | |
|---|---|---|
| ❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. | ❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. | ❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. |

| No. | Risk | Issue and recommendation | Management response |
|---|---|---|---|
| 1 | ❷ | **Management of Investment Property**<br>The Authority holds over £32m of investment properties and from these generated £1.2m of rental income in 2014/15.<br>While this is considered low relative to their value the Authority holds some of these for future disposal and may currently be generating a rental stream. It does not however formally report on their appreciation to assess the effectiveness of these holdings.<br>**Recommendation**<br>We recommend that the Authority reviews its investment property portfolio to distinguish between properties held for income generation and those held for capital appreciation and that it establishes a means of regularly monitoring the position of its investment property portfolio internally. | Investment Property Management<br>The authority is already actively reviewing its property portfolio in the context of the wider financial challenges facing local government. In undertaking such reviews we take account of present income and any opportunities to increase income, as well as the possibility that the property should be sold. Key issues are discussed with the Administration, and brought forward to committee as necessary (as well as the possibility the site may be needed in future for an operational service use). |

# Appendix 1: Key issues and recommendations

| No. | Risk | Issue and recommendation | Management response |
|---|---|---|---|
| 2 | 2 | **Revaluation of Investment Property**<br>The Council's accounts are prepared in line with the CIPFA Code of Practice. There is an expectation that the valuation of investment properties remains current, which would typically involve annual revaluation except in the year of purchase or addition. The Authority currently does not revalue these assets every year in line with this requirement.<br>**Recommendation**<br>We recommend that investment properties are valued annually by a qualified valuer. | Frequency of Valuation of Investment Properties<br><br>We accept that ideally all investment properties should be valued annually. However, pragmatically there are a number (such as shops on housing estates) where valuation changes are de minimis and therefore would propose that all investment properties with a value over £1m should be valued annually. Properties of a lower value may be valued less frequently, with an annual review to consider if there has been a change that in aggregate could cause material mis-statement of the accounts. |
| 3 | 1 | **Bank Reconciliation**<br>Following a significant ledger upgrade in year and a change in bank, the Authority had fallen well behind in the timeliness of collating its summary bank reconciliations by the date of our audit. While the year end reconciliation has now been prepared and individual elements of the reconciliation were maintained in year, it is important that full reconciliations should be completed in a timely manner, in order to identify errors quickly and improve the prospect of putting things right.<br>**Recommendation**<br>We recommend that the Authority returns as soon as possible to completing its bank reconciliations in a timely manner. | Bank Rec<br><br>As indicated by KPMG, due to both changing banks and making major changes to financial systems, it is accepted that bank reconciliation processes were not up to date at the year end. The team have been working to bring them back up to date, and agree the recommendation, but need to deliver this in the context of available resources. |

# Appendix 2: Follow up of prior year recommendations

**The Authority has not yet implemented all of the recommendations in our *ISA 260 Report 2013/14.***

**We re-iterate the importance of the outstanding recommendation and recommend that it is implemented as a matter of urgency.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

| Number of recommendations that were: | |
|---|---|
| Included in original report | 1 |
| Implemented in year or superseded | 0 |
| Remain outstanding (re-iterated below) | 1 |

| No. | Risk | Issue and recommendation | Officer responsible and due date | Status as at September 2015 |
|---|---|---|---|---|
| 1 | 2 | **Maintenance and operation of the fixed asset register**<br>The fixed asset register used by the council is a complex excel spreadsheet that is difficult to understand and requires extensive knowledge of excel and the spreadsheet itself to maintain and operate. Using a spreadsheet for this raises the risk that the correct accounting entries are not produced, and that fixed asset balances can be overwritten or amended incorrectly. Part of the corporate knowledge required to maintain the spreadsheet is retained by a consultant and there are no guidance or process notes in existence, which raises the risk of this knowledge being lost to the council as insufficient information is available for an officer of the council to operate the spreadsheet if the contractor leaves. The IFRS work plan needs to consider whether the asset register will be capable of producing IAS-compliant data.<br>The Authority has been considering investing in specialist asset management software and we would encourage it to do so, to reduce staff time spent managing the spreadsheet, reduce the risk of loss of knowledge and ensure greater transparency in financial reporting with a reduced risk of errors arising. | An asset management system has been procured which the Authority is in the process of implementing.<br>This will have the effect of consolidating a number of existing systems including the excel spreadsheets used for IFRS accounting.<br>Responsible: Chief Technical Accountant<br>Due date: Summer 2016 | **Ongoing**<br>Work on this project is underway and the Authority intend to implement this.<br>The due date has been revised accordingly. |

# Appendix 3: Audit differences

**This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.**

**We are reporting all audit differences over £0.4 million.**

**It is our understanding that all of these will be adjusted.**

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

## Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2015. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

| | Impact £'000 | | | | | |
|---|---|---|---|---|---|---|
| No. | Income and Expenditure Statement | Movement in Reserves Statement | Assets | Liabilities | Reserves | Basis of audit difference |
| 1 | Dr Non Specific Grant Income £2,610 Cr Service Income £2,610 | - | - | - | - | To reflect the receipt of grant money relating to a specific service which was initially coded to non specific grant income. |
| **2** | **-** | **-** | Dr Surplus Assets £5,000 Cr Investment Property £5,000 | **-** | **-** | To correct assets misclassified as investment properties. |
| **3** | **-** | **-** | Dr Available for Sale Financial Assets £4,728 Cr Cash and Cash Equivalents £5,000 | | Dr Available for Sale Financial Instruments Reserve £272 | To recognise that an item previously held as a cash equivalent meets the definition of an available for sale financial instrument. |
| | **-** | **-** | **Cr £272** | **-** | **Dr £272** | **Total impact of adjustments** |

# Appendix 3: Audit differences (continued)

**The cumulative impact of uncorrected audit differences is £4.4 million.**

**This is below our materiality level of £8.7 million.**

## Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2015.

| | Impact £'000 | | | | | Basis of audit difference |
|---|---|---|---|---|---|---|
| No. | Income and Expenditure Statement | Movement in Reserves Statement | Assets | Liabilities | Reserves | |
| 4 | Dr Losses on fair value of investment property<br>£3,000 | Cr Adjustments between accounting and funding basis<br>£3,000 | Cr Investment Properties £3,000 | - | Dr Capital Adjustment Account<br>£3,000 | The former Civic Centre site is not considered to have a saleable value in its current condition until such time as it is cleared for future development works. |
| 5 | Dr Net Cost of Services Expenditure<br>£1,400 | Cr Adjustments between accounting and funding basis<br>£1,400 | - | Cr Provisions £1,400 | Dr Equal pay reserve<br>£1,400 | One provision is not held at its anticipated final liability level and should be topped up to this based on the latest Authority estimates. The Authority do not currently operate an equal pay reserve but could do so to mitigate the general fund impact of this adjustment. |
| 6 | Cr Net Cost of Services Expenditure<br>£345<br>Dr Net Cost of Services Income<br>£345 | - | Dr Long Term Debtors<br>£1,813<br>Dr Short Term Debtors<br>£241<br>Cr Property, Plant & Equipment £2,054 | - | - | An immaterial long standing arrangement entered into by the Authority includes an element of borrowing entered into by the Council to enable a car park contractor to carry out capital works and then repay this capital input through a reduction in fees payable to them.<br>The amount repayable should be recognised as a long term debtor rather than through immediate capitalisation. |
| | **Dr £4,400** | **Cr £4,400** | **Cr £3,000** | **Cr £1,400** | **Dr £4,400** | **Total impact of uncorrected differences** |

# Appendix 4: Declaration of independence and objectivity

**The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.**

## Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

## General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

# Appendix 4: Declaration of independence and objectivity (continued)

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

**Auditor declaration**

In relation to the audit of the financial statements of Reading Borough Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Reading Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

# Appendix 5: Materiality and reporting of audit differences

**For 2014/15 our materiality is £8.7 million for the Authority's accounts.**

**We have reported all audit differences over £0.4 million for the Authority's accounts to the Audit and Governance Committee.**

## Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit based on the draft accounts received.

Materiality for the Authority's accounts was set at £8.7 million which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.4 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

# Appendix 6: KPMG Audit Quality Framework

**We continually focus on delivering a high quality audit.**

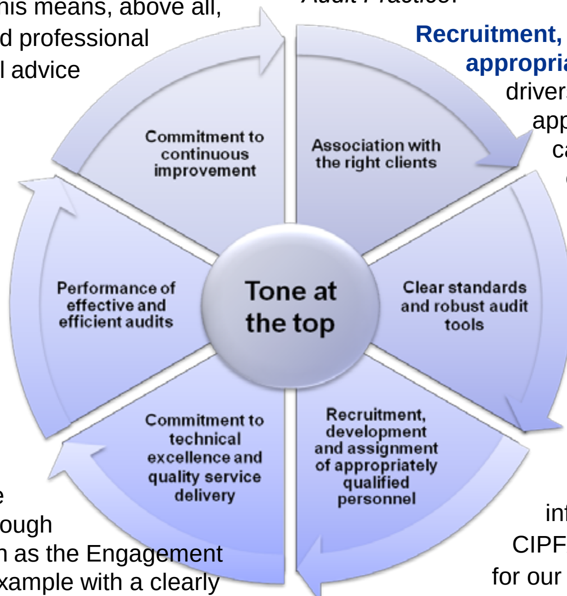
**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.**

**The diagram summarises our approach and each level is expanded upon.**

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.




We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Ian Pennington as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

# Appendix 6: KPMG Audit Quality Framework

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

**Commitment to technical excellence and quality service delivery:** Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (*issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

cutting through complexity™

**READING BOROUGH COUNCIL**

**REPORT BY HEAD OF FINANCE**

| | | | |
|---|---|---|---|
| **TO:** | **AUDIT & GOVERNANCE COMMITTEE** | | |
| **DATE:** | **24th September 2015** | **AGENDA ITEM:** | **4** |
| **TITLE:** | **AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT** | | |
| **LEAD COUNCILLOR:** | **COUNCILLOR STEVENS** | **PORTFOLIO:** | **FINANCE** |
| **SERVICE:** | **FINANCE** | **WARDS:** | **N/A** |
| **LEAD OFFICER:** | **PAUL HARRINGTON** | **TEL:** | **9372695** |
| **JOB TITLE:** | **CHIEF AUDITOR** | **E-MAIL:** | **Paul.Harrington@reading.gov.uk** |

## 1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee and Corporate Management Team with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2015.

1.2 The report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations
- Provides details of investigations undertaken since April 2015 with respect to investigations into benefit, housing tenancy fraud and other corporate investigations.

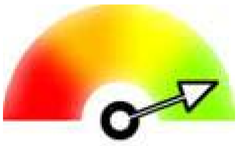
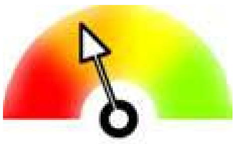
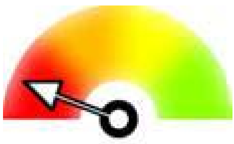
1.3. Attached to this report in Appendix A are the internal audit assurance definitions and priority ratings of recommendations.

## 2. RECOMMENDED ACTION

**2.1 The Audit & Governance Committee are requested to consider the report.**

## 3. ASSURANCE FRAMEWORK

3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

| | | |
|---|---|---|
| **Substantial** |  GREEN | **Substantial assurance** can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure. |
| **Reasonable** |  YELLOW | We can give **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** expose until resolved. |
| **Limited** |  AMBER | **Limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved. |
| **No assurance** |  RED | There is **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved. |

**3.4 Grading of recommendations**

3.4.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

| Priority | Current Risk |
|---|---|
| High | Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or mis-statement. |
| Medium | Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective |
| Low | Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration |

3.4.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

3.4.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited and/or 'no' assurance.

## 3 SUMMARY OF AUDIT FINDINGS

| | | | | | |
|---|---|---|---|---|---|
| 3.1 | Early Years & Play Centres | 0 | 0 | 3 |  |

3.1.1 The main focus of this audit was to review the operation of the Council's play centres in the light of a recent visit from OFSTED and ensure that the adequacy of arrangements for the management of these sites reflects best practice. This included awareness of best practice regarding child safeguarding and ensuring that staff have the relevant training and are cleared through a DBS check on criminal records.

3.1.2 All the sites were well run and the staff friendly and knowledgeable about what they are doing. There were no issues found on site that would suggest problems with meeting the OFSTED requirements regarding safeguarding.

3.1.3 A few minor recommendations were made to tidy up practices on site.

| | | | | | |
|---|---|---|---|---|---|
| 3.2 | Disabled Facilities Grant | 0 | 0 | 0 |  |

3.2.1 Mandatory Disabled Facilities Grants (DFGs) are available from local authorities and are issued subject to a means test. They are available for essential adaptations to give disabled people better freedom of movement into and around their homes.

3.2.2 The Minister of State for Housing and Local Government made funds available for such adaptions, under the Disabled Facilities Capital Grant. The grant may be used only for the purposes that a capital receipt may be used for, in accordance with regulations made under section 11 of the Local Government Act 2003.

3.2.3 Our review concluded that the conditions of the grant determination had been complied with and the grant had been spent in accordance with the grant determination conditions.

| | | | | | |
|---|---|---|---|---|---|
| 3.3 | Waste PFI | 0 | 1 | 7 |  |

3.3.1 The Re3 partnership of Reading Borough Council, Bracknell Forest Council and Wokingham Borough Council was first established in 1999 to develop waste management facilities across the area. In 2006 a 25 year PFI contract was let to FCC Environment to manage and dispose of all the household, and some trade waste, from the three boroughs in line with guidelines and regulations.

3.3.2 Re3 has two main sites, namely Smallmead and Longshot Lane and the management and administration of the contract is undertaken by a small team of officers based at Smallmead. The team is managed by a Project Director and a Joint Waste Disposal Board, drawn of Councillors from each of the boroughs. The administration and governance requirements for the scheme are laid down in a Joint Working Agreement (JWA).

3.3.3 Governance arrangements are sound, with a clear understanding by all partners to continually review the key elements of the contract, structure, roles and responsibilities of the main parties. There are satisfactory arrangements in place to monitor and appraise the strategic and operational risks for re3 underpinned by a robust risk management framework.

3.3.4 Client monitoring arrangements are in place for the monitoring of contractor performance with a detailed monitoring schedule and reporting mechanism to clarify the status of service and performance issues raised with the contractor.

3.3.5 Robust invoice verification protocols are in place to ensure that monthly figures reported by the contractor are accurate, and in accordance with the agreed forecasts and payments are made to the contractor in accordance with the contract.

| | | | | | |
|---|---|---|---|---|---|
| 3.4 | Business Rates | 0 | 0 | 2 |  |

3.4.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and individual accounts were found to be appropriately calculated.

| | | | | | |
|---|---|---|---|---|---|
| 3.5 | Better Care Fund | 0 | 1 | 0 |  |

3.5.1 The Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care through a set of national conditions and local objectives, including provisions relating to Care Act with implementation at a local level. The Fund requires local bodies to:-

- Bring health and social care planning together
- Support people's health and independence in the community, and
- Meet the challenges of increasing demand for care and constraints on public funding.

3.5.2 The purpose of our review was to ensure the governance arrangements for the Health and Wellbeing Board are appropriate for monitoring the Better Care Fund and that there are robust controls in place for collecting and reporting data used for the ‘Pay for Performance Metric’.

3.5.3 Although our review highlighted some areas for improvement, it is our opinion there is a very robust Berkshire wide combined monitoring framework in place both to monitor and to hold to account officers responsible for the implementation and delivering the better care fund project.

3.5.4 The signing and sealing of the Berkshire Section 75 Agreement to provide a legal framework for the partnership to deliver services on a collaboration basis across the various local authorities from the 1 April 2015 is now ready to be signed and sealed.

| | | | | |
|---|---|---|---|---|
| 3.6 Additional Salary Payments | 0 | 5 | 2 |  |

3.6.1 Employees may from time to time take on additional duties and responsibilities. As a direct consequence there may be circumstances where it may be appropriate to make an additional payment to employees who temporarily act up into a higher graded post, take on additional duties outside of their normal remit, or work substantial additional hours.

3.6.2 Comprehensive HR policies and procedures are in place covering additional salary payments such as honoraria, market supplements and acting up allowances and monitoring requirements are detailed in each policy.

3.6.3 The annual management authorisation to extend and continue paying staff the agreed additional payment is generally well supported with a clear evidence based argument, although the justification is not always revisited annually in accordance with the Policy. In some instances restructuring has also led to both acting up arrangements and honorarium payments to continue for a significant length of time. A review of all additional payments and temporary salary point increases will be completed by November 2015 and updated guidance will be issued.

3.6.4 During the audit we identified some inconsistencies in the treatment of an honorarium or acting up payment and as a result HR is to remind managers of their responsibilities. There will also be a review of the Council’s ‘Acting Up’ policy to include time limits on acting up arrangements and requirements to adhere to a consistent method of calculation, with exceptions needing a clear objective justification.

3.6.5 Where recruitment and retention problems exist, a market supplement may be considered. The Council’s policy is specific that supplement payments will be reconsidered at least annually and must take the form of a cash sum and not a percentage rate.

3.6.6 Records indicated that all supplement payments were last reviewed during 2014 following a recommendation made in the Equal Pay Audit, 2013, however prior to this monitoring was not always undertaken annually in line with Policy requirements. Seven posts identified as receiving a supplement calculated on a percentage rate and not the required cash sum are to be reviewed by HR following our audit. In addition a review of market supplements in social care across adults and children's services will be completed by October 2015 to ensure consistent methodology and application of process.

| | | | | | |
|---|---|---|---|---|---|
| 3.7 | Local Pinch Point Fund – Reading Bridge | 0 | 0 | 3 |  |

3.7.1 The Council successfully bid for funding for the strengthening works from the Department for Transport's 'Pinch Point' funding grant in 2014.

3.7.2 This audit focused on providing assurance that the conditions of the grant determination had been complied with and to review the procurement and contract management of the Reading Bridge Scheme (a successful bid under tranche 2 of the Local Pinch Point Fund).

3.7.3 Our review concluded that the conditions of the grant determination had been complied with and the grant had been spent in accordance with the grant determination conditions.

3.7.4 The procurement followed the restricted procedure process with the award issued on the 'lowest price' basis, as advertised and was let in accordance with OJEU[1] requirements.

3.7.5 There are appropriate contract management processes in place and evidence was seen to support this in operation. The Principal Engineer demonstrated a good understanding of his responsibilities in managing the project.

3.7.6 The scheme was originally due to be finished in late June/early July, however, work has taken longer than originally anticipated because the extent of the concrete repairs required was significantly more than estimated. Although the scheme had remained within budget at the time of the audit and financial forecasting/reporting had taken place during the course of the scheme, the latest financial forecast indicated that the project contingency fund had for all intents and purposes been spent. An update on the final budgetary position could not be provided at the time of writing this report.

[1] Official Journal of the European Union

## 4. AUDIT FOLLOW UP REVIEWS

4.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 – 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). Audit areas which we have planned to follow up, along with progress made to date are shown in the table below.

| Audit Title | Date of original audit | Follow up Completed | Status of recs |
|---|---|---|---|
| Licensing | Nov 14 | Sep 15 | Partial Implementation |
| Deferred Payment Scheme | Dec 14 | Aug 15 | Partial Implementation |
| Pheonix School | Nov 14 | | |
| Special Education Needs | Feb 15 | | |
| Fuel System | May 15 | | |
| Home to School Transport | Nov 14 | | |
| School Attainment | Ap4r 15 | | |
| Fleet Management | Jun 15 | | |

### 4.2 Deferred payment scheme

4.2.1 On completion of our audit review of deferred payments in December 2014 five recommendations were made, two were priority 2 recommendations and three were priority 3 recommendations. We recommended that the format of record keeping should be standardised to provide a consistent approach and with the implementation of the Care Act, a full review of the policies and procedures should be undertaken. The review should involve debt recovery team and their role in the process.

4.2.2 Our follow up review of deferred payments acknowledged that the outcome of the review is still work in progress and additional work is required to be able to fully implement the audit recommendations made, whilst developing processes to align with the requirements of the Care Act and the development of the social care system.

## 4.3 Licencing

4.3.1 On completion of our audit review of the Licencing in November 2014 twelve recommendations were made, nine were priority 2 recommendations and three were priority 3 recommendations. We made recommendations to undertake a detailed modelling for Taxi and Premises Licensing fees, which separate out administrative and enforcement costs and addressed the storage, retention and destruction of electronic records in the Civica APP database (FLARE[2]).

4.3.2 Our follow up review concluded that there was supporting evidence show that there has been progress in implementing all recommendations, although in some areas progress is reliant on outside service factors and is still work in progress.

## 5. AUDIT PLAN 2015/2016

5.1 The internal audit plan is developed to allow adequate coverage of the key risks faced by the Council. The findings of reviews performed in the year inform the opinion[3] of the Chief Auditor over the Council's internal control environment and the annual Governance Statement in the financial statements.

5.2 Although the agreed audit plan is in place to allow for the effective discharge of statutory responsibilities, it must remain flexible to match the Council's changing risk profile and if necessary be revised in response to new information and priorities.

5.3 The internal audit team have been requested by the Council's Corporate Management Team to undertake some targeted reviews to ensure proper processes are being followed and the Council can demonstrate it is spending appropriately. Our objective will be to ensure procedures are fit for purpose, determine if procedures can be improved to reduce spend and/or control and work with services to update were appropriate. The areas to be covered are as follows:

- Contracts
- stationery
- No Purchase Order – No Payment
- Payment Cards
- Interim/Ad hoc Staff
- Overtime standby Rates / honorariums
- flexitime
- Train/Air Travel
- Legal Charges
- Consultants
- Courses/Conferences/Training
- Care Packages (new & review) & Placements

[2] FLARE is an integrated IT solution for regulatory services, including Environmental Health, Trading Standards, Planning, Building Control, Streetcare, ASB, Highways and Parks.

[3] The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement.

5.4 In addition there is currently a vacancy in the team and although approval has been given to fill the post, the plan has been reassessed to factor in the vacancy and complete the additional work and as a result some planned audit reviews will be delayed or postponed until the following financial year.

5.5 The requested work will still require the control environment and governances process to be evaluated, thus I am satisfied that sufficient internal audit work will have been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, internal control and governance processes at financial year ending the 31 March 2016.

5.6 The table below details the revised plan, those audit reviews in progress. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted are detailed in tables 2 and 3.

| **Audit Title** | | **Start Date** | **Draft Report** | **Final Report** |
|---|---|---|---|---|
| Waste PFI contract | Q1 | May 15 | Jul 15 | Jul 15 |
| Repair & Review Grant | Q1 | April 15 | April 15 | April 15 |
| Better Care Fund | Q1 | Apr 15 | Aug -15 | Sep 15 |
| Children Services Performance Management | Q1 | Jul-15 | Sep 15 | |
| Adult Social Care Income & Charging | Q2 | Aug 15 | Sep 15 | |
| Nursing & Residential Care Packages | Q2 | Aug 15 | Sep 15 | |
| Learning Disability Reassessment/review process | Q2 | Jun 15 | Sep 15 | |
| Homelessness | Q2 | Sep 15 | | |
| Disabled facilities Grant | Q2 | May 15 | July 15 | July 15 |
| Grant Certification – Pinch Point & Local Transport Capital Settlement | Q2 | Apr 15 | Aug 15 | Sep 15 |
| Business Rates | Q2 | Jul 15 | Aug 15 | Sep 15 |
| School Places Capital programme | Q3 | | | |
| Foster Carer & Adoption (Allowances) | Q3 | | | |
| EP Collier Primary School | Q3 | Oct 15 | | |
| Geoffrey Field Infant School | Q3 | Nov 15 | | |
| St Mary's & All Saints Church of England | Q3 | Oct 15 | | |
| Holybrook | Q3 | Sep 15 | | |
| Troubled Families Grant Sign off | Q4 | | | |
| LSTF - Grant Sign Of | Q4 | | | |
| Creditors (Accounts Payable) | Q4 | | | |
| Frameworki/MOSAIC (Finance Payments) | Q4 | | | |
| Child Protection - visiting and recording | Q4 | | | |

## Table 2 Audit Reviews added

| Audit Title | | Start Date | Draft Report | Final Report |
|---|---|---|---|---|
| Client Possessions including the Mayor's vault | Q1 | Jun 15 | Jun 15 | Jul 15 |
| Early Years & Play Centres | Q1 | Jun 15 | Jul 15 | Jul 15 |
| Spending Appropriately* | Q2 | Aug 15 | | |
| Health & Safety | To be scheduled | | | |
| Information Security | To be scheduled | | | |

* The spending appropriately project encompasses a number of work streams to review and test procedures.

## Table 3 Audit reviews to be rescheduled

| Audit Title | |
|---|---|
| Refuse & Recycling Collections | To be rescheduled in 2016/17 |
| Asset Management/compliance & condition work (non-housing) | To be rescheduled in 2016/17 |
| Right to Buy | To be rescheduled in 2016/17 |
| Atrium | To be rescheduled in 2016/17 |
| Reading Girls School | To be rescheduled in 2016/17 |
| Payroll (iTrent) | To be rescheduled in 2016/17 |
| General Ledger (inc Budget management) | To be rescheduled in 2016/17 |
| Debtors system & debt management | To be rescheduled in 2016/17 |
| St Anne's Catholic Primary School | To be rescheduled in 2016/17 |

## 6. INVESTIGATIONS

Benefit Investigations

6.1 This has been a period of transformation with the roll out of the Single Fraud Investigation Service; however there are a number of ongoing Housing Benefit fraud cases which did remain with RBC. These are cases where legal charges have been laid or legal advice obtained.

6.2 For the period April 2015 to September 2015 the total Housing Benefit overpayment figures for cases prosecuted (eight cases) is £65,602. With regards to Council Tax Support we receive on average twenty-five referrals per week. To date has £6,622 has been put into recovery, which includes Administration Penalties[4] to a value of £3,311.

6.3 We are also now looking at referrals from Council Tax in relation to possible criminal offences under the Council Tax Support regulations. We have one case which has been approved for prosecution and criminal charges are to be laid on this matter.

6.4 We are also working very closely with RBC Housing Benefit teams on the Fraud & Error Reduction programme (FERIS). The scheme is a DWP initiative and Investigations are undertaking a number (forty-five) per month planned visits on current Housing Benefit claims. Whilst we no longer undertake Housing Benefit investigations the FERIS programme will help ensure that the information held on systems is accurate and up to date. Investigation staff will also look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded.

Blue Badges

6.5 In the period April 2015 through to September 2015, we have been working very closely with RBC Parking services and with the Parking Enforcement offices. We have seen an increase in the cases referred to us and have been actively involved in a number of badge seizures. In the period we have received a total of thirty-five referrals of inappropriate use. Seventeen parking notices have been issued for minor Blue badge offences and six Blue Badges have been seized and removed from circulation and we have successfully brought two prosecutions for Blue Badge fraud in Reading. The notional cost we have calculated for Blue Badge fraud with the RBC area is £2,200 per annum. Using this figure the notional savings achieved since April 2015 is £13,200.

[4] We offer an administrative penalty in circumstances where it is felt that it would be more suitable to dispose of the matter without criminal proceedings being initiated.

Housing

6.6 Since April 2015 seven cases of alleged Housing Tenancy Fraud have been investigated and to date we've assisted in the return to stock of two Council properties and two properties for Social Landlords within Reading.

6.7 It is difficult to quantify the financial implications of these types of investigations, however the national agreed figure of £18,000 is considered to be the average cost per Local Authority for retaining a family in temporary accommodation. Using this figure (4x £18,000) in the region of £72,000 could have been saved as a result of tenancy investigations.

6.8 As part of the ongoing joint work we have been undertaking with Housing services since July 2015, investigations staff have verified 247 Home Choice applications. From these case we have identified 58 cases which have had issues over information supplied.

6.9 Investigation officers have been working with Housing to undertake a rolling programme of tenancy Audits (55 visits to date), which has led to further investigations into potential non-residency for two tenancies.

6.10 Since April 2016 we've received eleven referrals of suspected improper succession applications, one of these was returned recommending not to proceed with the application.

Social Care

6.11 Following protracted investigations into an external provider for Supported Living clients, £24,000 has been repaid as a result of overcharging.

Identity Fraud

6.12 We are currently trialling an Identification scanning system. The system will, it is hoped, aid front line officers who have issues over document authenticity. Investigation staff are closely working with Customer Services on the project which went live August 2015. The scanners will help identify false documents brought in as proof of identification.

Internal Investigations

6.13 An investigation was undertaken into missing client possessions following the civic offices relocation. The items were subsequently discovered and recommendations have been made to improve the storage, day to day access, and management of records for such items.

6.14 We have five ongoing internal matters, two of these we have just completed stage 2 investigations.

## 7. CONTRIBUTION TO STRATEGIC AIMS

7.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes contributing to the strategic aim of remaining financially sustainable.

## 8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 N/A

## 9. LEGAL IMPLICATIONS

9.1 Legislation dictates the objectives and purpose of the Internal Audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

9.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.

9.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

9.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

## 10. FINANCIAL IMPLICATIONS

10.1 N/A

## 11. BACKGROUND PAPERS

11.1 N/A

**READING BOROUGH COUNCIL**
**REPORT BY HEAD OF FINANCE**

| | | | |
|---|---|---|---|
| **TO:** | **AUDIT & GOVERNANCE COMMITTEE** | | |
| **DATE:** | **24 SEPTEMBER 2015** | **AGENDA ITEM:** | **5** |
| **TITLE:** | **TREASURY MANAGEMENT 2015/16 ACTIVITY TO AUGUST** | | |
| **LEAD COUNCILLOR:** | **CLLR STEVENS** | **AREA COVERED:** | **CHAIR OF AUDIT & GOVERNANCE** |
| **SERVICE:** | **FINANCIAL** | **WARDS:** | **BOROUGHWIDE** |
| **AUTHOR:** | **ALAN CROSS** | **TEL:** | **2058/ 9372058** |
| **JOB TITLE:** | **HEAD OF FINANCE** | **E-MAIL:** | **Alan.Cross@reading.gov.uk** |

## 1. EXECUTIVE SUMMARY

1.1 This report sets out for the Committee information about the Council's treasury activities to the end of August in 2015/16. The report is based on a template provided by Arlingclose, the Council's treasury advisor, for Q1 activity updated to cover developments in July & August. There will be a short presentation at the Committee meeting to accompany this report.

## 2. RECOMMENDED ACTION

**2.1 Audit & Governance Committee is asked to note progress in implementing the 2015/16 treasury strategy.**

**2.2 Audit & Governance Committee is asked to note the proposed development of the Council's approach to minimum revenue provision.**

## 3. Background

3.1 The Council's Treasury Management Strategy for 2015/16 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement for:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.

- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.

- The receipt by the authority of an annual strategy report for the year ahead and an annual review report of the previous year.

- The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

3.2 Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

In addition to the annual strategy and annual review reports, the Code of Practice recommends that councillors should receive at least one interim report during the year.

Practically in Reading we meet these requirements by providing a brief update as part of each budget monitoring report, and this "mid year" report, presented at the end of September, reporting activity to the end of August. This report therefore ensures the Council meets CIPFA's recommendations.

3.3 The Council has borrowed and 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. This report covers treasury activity and the associated monitoring and control of risk and is intended to explain how, so far during 2015/16

- the Council tried to minimise net borrowing costs over the medium term
- we ensured we had enough money available to meet our commitments
- we ensured reasonable security of money we have lent and invested
- we maintained an element of flexibility to respond to changes in interest rates
- we managed treasury risk overall

The remainder of this report has been prepared based on a template provided by Arlingclose Limited, the Council's treasury advisor.

**3.4 External Context**

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centered on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European

Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

3.5 On 12 July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. On 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, to be held on 20 September. Presumably aiming to solidify his government's position of power, opinion polls in Greece suggest this may have backfired, with the centre-right New Democracy party gaining support and running neck-and-neck with Syriza. Political uncertainty continues.

3.6 The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24$^{th}$ August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'.

**3.7** **UK Economy:** The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.9%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.6%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to 0.1%, before returning to 0.1%, 0.0% and 0.1% in May, June and July respectively. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to April fall to 5.5%, although this ticked back up to 5.6% in subsequent months. In the August report, average earnings excluding bonuses for the three months to June rose 2.8% year/year.

3.8 The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

3.9 The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a revised 3.7% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. Markets remained split between predicting a rate rise in September or December.

**3.10 Market reaction:** Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August. Bond markets were also distorted by the size of the

European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

**3.11 Local Context**

At 31/3/2015 the Authority's underlying need to borrow for capital purposes as measured by the (borrowing, excluding PFI) Capital Financing Requirement (CFR) was £407.1m, while usable reserves and working capital which are the underlying resources available for investment were c.£30m (at both 31/3/14 & 31/3/15).

3.12 At 31/3/2015, the Authority had £313.7m of borrowing and £34.4m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to normally holding a minimum cash investment balance of £10m. The Authority has an increasing CFR over the next 3 years due to the capital programme, but minimal investments and will therefore be required to borrow up to £75m over the forecast period.

**3.13 Borrowing Strategy**

At 31/8/2015 the Authority held £313.7m of loans, (unchanged from 31/3/2015), as part of its strategy for funding previous years' capital programmes. We do not expect to need to borrow long term in 2015/16 save possibly towards the year end.

3.14 However, we anticipate having a borrowing requirement up to £50m by the end of 2016/17, and we will need to develop our strategy to borrow this money. The chief objective when borrowing continues to be striking 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 Authority's long-term plans change being a secondary objective.

3.15 Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain, lower than long-term rates, it is more cost effective, at least in the short-term (and for this period) to use internal resources.

3.16 The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this ‘cost of carry’ and breakeven analysis.

3.17 Arlingclose expect short term interest rates (base rate) to rise during 2016, but consider that any rise in longer term rates is likely to be modest.

3.18 **Borrowing Activity in 2015/16**

There has been no borrowing activity to date in this financial year; balances remain as they were at 31/3/16.

| | Balance on 31/03/2015 & 31/8/15 £m | Ave Rate % and Ave Life (yrs) (@ 31/3) |
|---|---|---|
| Short Term Borrowing[1] | 0.5 | <0.5%/<1year |
| Long Term Borrowing – PWLB | 283.2 | 3.56%/30.6yrs |
| Long Term Borrowing – Market | 30.0 | 4.18%/55.2yrs |
| **TOTAL BORROWING** | 313.7 | 3.61%/32.9yrs |
| Other Long Term Liabilities | 33.8 | |
| **TOTAL EXTERNAL DEBT** | 347.5 | |
| | | |

**3.18** **PWLB Certainty Rate and Project Rate Update:** The Council qualifies for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April the Authority submitted its application to the DCLG to access this reduced rate for a further 12 month period from 01/11/2015.

**3.19** **LOBOs:** We hold £30m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £5m of these LOBOS had an option during the quarter, which was notr exercised by the lender. As a further £15m of LOBOS have options during 2015/16, the Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

[1] Loans with maturities less than 1 year.

**3.20 Debt Rescheduling:**

The premium charge for early repayment of PWLB debt remained relatively expensive and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

**3.21 Investment Activity**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2015/16 the Authority's investment balances would range between £0 and £50 million. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

3.22 The transposition of European Union directives into UK legislation now places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits. Given the increasing risk and continued low returns from short-term unsecured bank investments, we have been diversifying into more secure and/or higher yielding asset classes during 2015/16. This includes £10m that is available for longer-term investment that has been placed in the CCLA Property Fund. In past years more of the Council's surplus cash was invested in short-term unsecured bank deposits. This diversification into securities with underlying collateral and investments with organisations which are not subject to bail-in represents the beginning of a longer term substantial change in strategy this year.

**Investment Activity in 2015/16**

| **Investments** | Balance on 01/04/2015 £m | Investments Made £m | Maturities/ Investments Sold £m | Balance on 31/08/2015 £m | Avg Rate/Yield (%) and Avg Life years) |
|---|---|---|---|---|---|
| Short term Investments – Deposits with Banks and Building Societies | 15.0 | 20.0 | 25.0 | 10.0 | 0.57%/0.17yr |
| Short term Investments – Bank Call Accounts | 3.3 | Changes Daily | | 4.3 | 0.4% |
| Money Market Funds | 11.1 | Changes Daily | | 12.6 | 0.4% |
| Long Term Investments - CCLA Property Fund | 5.0 | 5.0 | 0.0 | 10.0 | 3.0%* |
| **TOTAL INVESTMENTS** | 34.4 | | | 36.9 | 1.15% |
| Increase/ (Decrease) in Investments £m | | | | 2.5 | |

*The yield on the CCLA Property Fund is higher than 3%, but there is a bid – offer spread, and until the sale unit price matches our weighted purchase price we are holding the excess to mitigate the risk of capital loss should we need to sell ahead of the envisaged 5+ year duration. We have an opportunity to sell each month.

3.23 Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

3.24 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

**3.25 Credit Risk**

Counterparty credit quality as measured by credit ratings is summarised below:

| Date | Value Weighted Average – Credit Risk Score | Value Weighted Average – Credit Rating | Time Weighted Average – Credit Risk Score | Time Weighted Average – Credit Rating |
|---|---|---|---|---|
| 31/03/2015 | A+ | 4.85 | A+ | 5.32 |
| 30/06/2015 | A | 5.64 | A | 5.84 |

*Scoring:*
*-Value weighted average reflects the credit quality of investments according to the size of the deposit*
*-Time weighted average reflects the credit quality of investments according to the maturity of the deposit*
*-AAA = highest credit quality = 1*
*- D = lowest credit quality = 26*
*-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security*

Overall our investment activity has included a small number of (rolling) bank deposits, with most immediate money being mainly held in money market funds In addition we now hold £10m in the CCLA property fund as a longer term investment.

**3.26 Counterparty Update**

All three credit ratings agencies have reviewed their ratings in the last quarter to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

3.27 Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

3.28 Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

**3.29 Budgeted Income and Outturn**

The average cash balances invested were £44.7m during to the end of August. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in the Appendix). New deposits were made at an average rate of 0.54%. Investments in Money Market Funds generated an average rate of 0.4%.

3.30 The Council's budgeted investment income for the year is estimated at £205k. We anticipate an investment outturn of £241k for the whole year, together with just under £300k from the CCLA Property Fund investment.

**3.31 Compliance with Prudential Indicators**

The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set in February as part of the Council's Treasury Management Strategy Statement, except for the upper limit on fixed rate exposure, where (as has happened previously) the upper limit on variable rate exposure. Has slightly breached the limit.

**3.32 Treasury Management Indicators**

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

**Interest Rate Exposures**: This indicator is set to control the Councuil's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

| | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | 120% | £120% | £120X% |
| Actual (maximum) | 124% | | |
| Upper limit on variable interest rate exposure | 50% | 50% | 50% |
| Actual | 7% | | |

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| | Upper | Lower | Actual 31 March/August |
|---|---|---|---|
| Under 12 months | 25% | 0% | 13% |
| 12 months and within 24 months | 25% | 0% | 2% |
| 24 months and within 5 years | 25% | 0% | 5% |
| 5 years and within 10 years | 25% | 0% | 5% |
| 10 years and within 20 years | 100% | 40% | 12% |
| 20 years and within 30 years | 100% | | 12% |
| 30 years and within 40 years | 100% | | 28% |
| 40 years and within 50 years | 100% | | 23% |
| 50 years and above | 100% | | 0% |

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 (though *LOBO option dates are generally excludes potential repayment dates, but exclude variable rate borrowing.*

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

| | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|
| Limit on principal invested beyond year end | £20m | £20m | £10m |
| Actual (inc.CCLA Property Fund) 31/8/16) | £10m | | |

**Security**: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] 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.

| | Target | Actual |
|---|---|---|
| Portfolio average credit | 6.0 | *To follow* |

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. Generally the minimum £10m balance remained available through the first half of the financial year.

## 3.33 Outlook for remain of 2015/16 and beyond

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015.

3.34 The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the status of Greek negotiations, are likely to prompt short term volatility in gilt yields.

| | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Official Bank Rate** | | | | | | | | | | | | | |
| **Upside risk** | | | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 |
| **Arlingclose Central Case** | **0.50** | **0.50** | **0.50** | **0.75** | **0.75** | **1.00** | **1.00** | **1.25** | **1.25** | **1.50** | **1.50** | **1.75** | **1.75** |
| **Downside risk** | | | | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 |

## 3.35 Minimum Revenue Provison

The Council has outstanding (General Fund) Debt arising from capital expenditure that has been incurred historically funded by borrowing. The technical measure of this is known as the "capital finance requirement" (CFR) and the Council is required to make annual provision for debt repayment known as the "Minimum Revenue Provision" (MRP)

3.36 Over the last couple of years practice has been developing in this area as part of the approach to tackling the budget gap the following are suggested

(i) A revised approach on the pre 2007/08 debt. As at 31/3/15 £68.4m of our debt predated 2007/08 debt, so moving from a 4% reducing balance approach to a payment over 50 years would reduce annual costs by £1.37m in 2014/15. The argument for this approach apart from improved prudence is that this historic debt was subsidised by the government within the RSG settlement; since RSG has been reduced the subsidy has reduced, and the previous approach is no longer an affordable way to repay debt.

(ii) A revised approach to the remaining “supported” debt from 2007/08 to 2010/11. Over those years the Council received supported borrowing allocations of £28.6m. As at 31/3/15, on a pro rata basis £20.8m remains to be repaid. In a similar way to the pre 2007/08 debt these were also subsidised, so in a similar way we might reduce the debt repayment by 2% of the remaining outstanding debt on a reducing balance basis for (say) a 10 year period.

(iii) Other related proposals remain under development.

## Appendix

### Money Market Data and PWLB Rates

*The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.*

*Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.*

**Table 1: Bank Rate, Money Market Rates**

| Date | | Bank Rate | | O/N LIBID | 7-day LIBID | 1-month LIBID | 3-month LIBID | 6-month LIBID | 12-month LIBID | 2-yr SWAP Bid | 3-yr SWAP Bid | 5-yr SWAP Bid |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 01/04/2015 | | 0.50 | | 0.35 | 0.46 | 0.43 | 0.51 | 0.76 | 0.97 | 0.87 | 1.05 | 1.32 |
| 30/04/2015 | | 0.50 | | 0.35 | 0.48 | 0.43 | 0.52 | 0.74 | 0.98 | 1.00 | 1.21 | 1.51 |
| 31/05/2015 | | 0.50 | | 0.43 | 0.50 | 0.43 | 0.52 | 0.75 | 0.98 | 0.97 | 1.18 | 1.49 |
| 30/06/2015 | | 0.50 | | 0.35 | 0.45 | 0.43 | 0.52 | 0.79 | 0.99 | 1.09 | 1.35 | 1.68 |
| | | | | | | | | | | | | |
| **Average** | | 0.50 | | 0.41 | 0.48 | 0.43 | 0.52 | 0.75 | 0.98 | 0.99 | 1.21 | 0.53 |
| **Maximum** | | 0.50 | | 0.45 | 0.58 | 0.56 | 0.65 | 0.84 | 1.00 | 1.17 | 1.44 | 1.81 |
| **Minimum** | | 0.50 | | 0.30 | 0.40 | 0.43 | 0.51 | 0.55 | 0.97 | 0.87 | 1.04 | 1.29 |
| **Spread** | | -- | | 0.15 | 0.18 | 0.13 | 0.14 | 0.29 | 0.03 | 0.30 | 0.40 | 0.53 |

**Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans**

| Change Date | Notice No | 1 year | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|---|---|---|---|---|---|---|---|---|
| 01/04/2015 | 127/15 | 1.33 | 2.10 | 2.69 | 3.24 | 3.37 | 3.32 | 3.31 |
| 30/04/2015 | 166/15 | 1.41 | 2.27 | 2.90 | 3.44 | 3.55 | 3.50 | 3.48 |
| 31/05/2015 | 204/15 | 1.44 | 2.26 | 2.90 | 3.44 | 3.54 | 3.48 | 3.45 |
| 30/06/2015 | 248/15 | 1.48 | 2.44 | 3.13 | 3.65 | 3.72 | 3.64 | 3.60 |
| | | | | | | | | |
| | **Low** | 1.31 | 2.02 | 2.60 | 3.16 | 3.28 | 3.23 | 3.21 |
| | **Average** | 1.43 | 2.29 | 2.95 | 3.49 | 3.58 | 3.52 | 3.49 |
| | **High** | 1.53 | 2.52 | 3.24 | 3.77 | 3.85 | 3.78 | 3.75 |

**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans**

| Change Date | Notice No | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|---|---|---|---|---|---|---|---|
| 01/04/2015 | 127/15 | 1.66 | 2.14 | 2.71 | 3.03 | 3.24 | 3.35 |
| 30/04/2015 | 166/15 | 1.79 | 2.31 | 2.92 | 3.24 | 3.45 | 3.54 |
| 31/05/2015 | 204/15 | 1.78 | 2.30 | 2.93 | 3.26 | 3.45 | 3.53 |
| 30/06/2015 | 248/15 | 1.90 | 2.49 | 3.15 | 3.47 | 3.65 | 3.72 |
| | | | | | | | |
| | **Low** | 1.60 | 2.06 | 2.62 | 2.94 | 3.16 | 3.26 |
| | **Average** | 1.80 | 2.34 | 2.97 | 3.30 | 3.49 | 3.57 |
| | **High** | 1.98 | 2.57 | 3.27 | 3.60 | 3.77 | 3.85 |

**Table 4: PWLB Variable Rates**

| | 1-M Rate | 3-M Rate | 6-M Rate | 1-M Rate | 3-M Rate | 6-M Rate |
|---|---|---|---|---|---|---|
| | **Pre-CSR** | **Pre-CSR** | **Pre-CSR** | **Post-CSR** | **Post-CSR** | **Post-CSR** |
| 01/04/2015 | 0.62 | 0.63 | 0.66 | 1.52 | 1.53 | 1.56 |
| 30/04/2015 | 0.62 | 0.64 | 0.67 | 1.52 | 1.54 | 1.57 |
| 31/05/2015 | 0.62 | 0.65 | 0.68 | 1.52 | 1.55 | 1.58 |
| 30/06/2015 | 0.62 | 0.66 | 0.70 | 1.52 | 1.56 | 1.60 |
| | | | | | | |
| **Low** | 0.62 | 0.61 | 0.66 | 1.52 | 1.51 | 1.56 |
| **Average** | 0.63 | 0.65 | 0.68 | 1.53 | 1.55 | 1.58 |
| **High** | 0.64 | 0.67 | 0.71 | 1.54 | 1.57 | 1.61 |

**D14**

**READING BOROUGH COUNCIL**

**REPORT BY HEAD OF FINANCE**

| | | | |
|---|---|---|---|
| **TO:** | **AUDIT & GOVERNANCE COMMITTEE** | | |
| **DATE:** | **24 SEPTEMBER 2015** | **AGENDA ITEM:** | **6** |
| **TITLE:** | **BUDGET MONITORING 2015/16** | | |
| **LEAD COUNCILLOR:** | **COUNCILLORS LOVELOCK/ PAGE** | **PORTFOLIO:** | **FINANCE** |
| **SERVICE:** | **FINANCIAL** | **WARDS:** | **BOROUGHWIDE** |
| **LEAD OFFICER:** | **ALAN CROSS** | **TEL:** | **01189372058 (x72058)** |
| **JOB TITLE:** | **HEAD OF FINANCE** | **E-MAIL:** | **Alan.Cross@reading.gov.uk** |

## 1. EXECUTIVE SUMMARY

1.1 This report set out the budget monitoring position for the Council to the end of July 2015.

1.2 The report builds upon the outturn position for 2014/15 (which is subject to external audit but not expected to change), but recognises that 2015/16 financial pressures on both adult and children’s social care budgets cannot be sustained beyond this year, and require action to address them in this and future years.

## 2. RECOMMENDED ACTION

2.1 **Audit & Governance is asked to note the budget monitoring position for 2015/16 as at the end of July.**

## 3. BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are summarised below:

| | Emerging Variances £000 | Remedial Action £000 | Net Variation £000 |
|---|---|---|---|
| Environment & Neighbourhood Services | 500 | (200) | 300 |
| Childrens, Education & Early Help Services | 1,954 | (1,954) | 0 |
| Adults Care and Health Services | 2,035 | (1,890) | 145 |
| Corporate Support Services | 140 | (140) | 0 |
| **Directorate Sub total** | **4,629** | **(4,184)** | **445** |
| Treasury | (398) | | (398) |
| **Total** | **4,231** | **(4,184)** | **47** |

3.2 **Environment & Neighbourhood Services**

Despite increasing this year's budget for bed and breakfast costs, it has not been possible to contain the growth in the number of placements and the cost of rooms has also arisen more than expected. A range of mitigating measures is being implemented and/or are proposed, including: increasing the amount of temporary accommodation available, launching a new Guaranteed Rent Scheme (GRS) offer to landlords and strengthening prevention activity. A £500k overspend is currently forecast, This will be partially offset by a one-off £200k saving in culture and leisure budgets.

3.3 **Children, Education & Early Help Services**

There are overall pressures within Children’s Services of £1.954m, largely comprising placements, agency & interim staffing, allowances (flowing from agreed rate changes) and bed and breakfast costs. Within Education services there is a pressure of £328k arising from an unachieved saving within business support and home to school transport demand pressures. Measures are being taken to reduce these pressures in year including a resources panel and measures to improve recruitment & retention. At present there are some savings of c£100k within Early Help and Family Intervention. Overall the Directorate has an overspend, though by making use of the strategic demand reserve it is possible to balance the financial position in 2015/16, but with the impact of effectively depleting almost all the reserve, which is not sustainable.

Within the Dedicated Schools Grant there is a budget gap of £1.3m on the high needs block in 2015/16. The Schools Forum will consider further measures to address the pressure in October.

3.4 **Adult Care & Health Services**

The Directorate is currently reporting an overspend of £2.035m which is an increase of £180k compared to last month. Whilst there have some small reductions in a couple of areas there have been increases in pressure in both Mental Health and the Childrens Disability Teams. The increase now exceeds the available Strategic Demand Reserve which would need to be fully used up with a further overspend of £145k. Some measures have already been introduced including a new Funding Panel, an action plan for the Financial Assessment and Benefits Team, though their forecast full effect has yet to be delivered. As usual there is uncertainty associated with the cost of Older People as we go towards and into winter and at present no potential winter pressures funding has been factored into the forecast (whereas some has been received in recent years).

3.5 **Corporate Support Services**

Budget monitoring to the end of July is showing some pressures across various services. However, overall the Directorate is currently expecting to spend in line with budget.

## 4. TREASURY MANAGEMENT

4.1 At present an under spend of £398k is forecast based upon current projections of borrowing costs, developing debt repayment plans, interest and investment income. In the three year financial plan agreed in February treasury costs were forecast to rise by over £6m in the three years to 2017/18. As this is likely to be unaffordable officers have been working with advisors to consider how this can be reduced, ideally keeping the cost at no more than £12.6m (the underlying budget in 2015/6 after allowing for planned use of the Prudential Reserve).

4.2 That work is on-going and will be reported in detail in due course but measures have already been identified that should reduce the increase by at least £3.5m. The impact of these measures, taken together with the effect of current year cash flow and the cost of 2014/15 borrowing capital being lower than forecast is producing an underspend in 2015/16 and (subject to confirmation) a postponement of the Prudential Reserve Transfer to 2016/17.

## 5. FORECAST GENERAL FUND BALANCE

5.1 The General Fund Balance at the end of 2014/15 was £5.62m (subject to audit). As indicated in the table above, assuming remedial action highlighted is carried out, there is now expected to be an overspend on service revenue budgets of £445k.

5.2 Children's, Education and Early Help Services and Adult Care and Health Services both have significant forecast overspends and need to effectively fully utilise their respective Strategic Demand Reserves which is not sustainable. Based upon the forecasts above the Childrens reserve would be £0.2m at 31 March 2016 and the Adults reserve would be fully depleted. We are looking for mitigating measures to reduce significantly the level of call on the reserve.

5.3 The pressure on service directorate budgets is partly offset by a favourable treasury position, so there is an overall overspend of £47k which when taken together with a planned use of balances by £142k should mean we end the financial year above the £5m minimum level for balances at £5.43m.

## 6. CAPITAL PROGRAMME 2015/16

6.1 The current forecast level of capital expenditure for the year is £89.6m, of which £76.6m relates to General Fund services and £13m to the HRA.

6.2 The table shows the expenditure by priority area and its current estimated funding.

| **CAPITAL PROGRAMME** | **£m** |
|---|---|
| Safeguarding & Protecting those that are most vulnerable | 3.9 |
| Providing the best life through education, early help & healthy living | 37.8 |
| Providing homes for those most in need | 11.2 |
| Keeping the town clean, green and active | 8.0 |
| Proving infrastructure to support the economy | 20.8 |
| Remaining financially sustainable to deliver these service priorities | 7.9 |
| **Total** | **89.6** |

| **FORECAST FUNDING** | **£m** |
|---|---|
| Grants | 23.4 |
| Receipts (inc. S106 and HRA Major Repairs Reserve) | 18.1 |
| Borrowing | 48.1 |
| **Total Funding** | **89.6** |

6.3 General Fund capita; expenditure to 31 July totalled £17m as work on Transport Pinch Point (£1.6m) and LSTF (£4.7m) schemes approach completion and Primary School Expansion projects (£7.8m) proceed according to schedule in the current year.

## 7. HRA

### 7.1 Supervision and Management

There is a projected underspend of £100k on employee budgets arising from vacancies and a projected under spend on training budgets. Non repair supply and service budgets appear to be broadly on track.

### 7.2 Capital funded from HRA

Works on Block 2 at Hexham Road as part of the refurbishment programme will commence in October. The scheduled completion date for Block 2 is

April 2016. The funds for the works to Block 3 (£1.2m) will be carried forward to 2016/17.

7.3 Rent Income
A preliminary review of rent income suggests that it will be broadly in line with the budgeted amount (over £30m), taking account of the rent debit and collection to date in the year.

7.4 Capital Financing
Less HRA capital was financed by borrowing than forecast in 2014/15 and that taken with the HRA impact of the Council's cash flow position are such that we forecast an underspend of at least £400k in this budget (£10.6m)

7.5 Overall we therefore anticipate a £500k underspend, together with £1.2m of the Hexham Road work carrying forward into 2016/17 in comparison with the agreed budget last January.

## 8. RISK ASSESSMENT

8.1 There are risks associated with delivering the Council's budget and this was subject to an overall budget risk assessment. At the current time those risks are being reviewed as part of budget monitoring and can be classed as follows:

- High use of agency staffing & consultants;
- Pressures on pay costs in some areas to recruit staff or maintain services;
- In year reductions in grant flowing from the new government (notably Public Health Grant where a near £600k grant cut has been proposed);
- Demand for adult social care which is forecast to effectively deplete the strategic demand reserve;
- Demand for children's social care which could deplete the reserve;
- Homelessness, and the likely need for additional bed & breakfast accommodation (this also affects other Directorates notably DCEEHS);
- Demand for special education needs services
- Not complying fully with grant conditions for capital projects by spending the required money during the current financial year
- Housing Benefit Subsidy does not fully meet the cost of benefit paid

## 9. BUDGET SAVINGS RAG STATUS

9.1 The RAG status of savings and income generation proposals included in the 2015/16 budget are subject to a monthly review. The RAG status in terms of progress is summarised below:

| | **£000** | **%** | Comparator to July % |
|---|---|---|---|
| Red | 265 | 3 | 4 |
| Amber | 2,643 | 31 | 30 |
| Green | 5,598 | 66 | 66 |
| **Total** | **8,505** | **100** | 100 |

9.2 The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to those shown above. As indicated above less than £100k of savings that were reported "red" in July are now being progressed, but the savings fully implemented has not improved.

**10. COUNCIL TAX & BUSINESS RATE INCOME**

10.1 We have set targets for tax collection, and the end of July 2015 position is:

| Council Tax | 2015/16 £000 | Previous Year's Arrears £000 | Total £000 |
|---|---|---|---|
| Target | 31,259 | 940 | 32,199 |
| Actual | 30,962 | 552 | 31,514 |
| **Variance** | **297 below** | **388 below** | **685 below** |

10.2 For 2015/16 as a whole the minimum target for Council Tax is 96.5%, (2014/15 collection rate 96.7%). At the end of July 2015, collection for the year was 38% compared to a target of 38.4%, and collection is slightly behind 2014/15 (38.4% by end of July 2014).

10.3 **Business Rates Income to the end of July 2015**

| Business Rates | 2015/16 £000 | 2015/16 % |
|---|---|---|
| Target | 40,604 | 36.1 |
| Actual | 40,015 | 35.6 |
| **Variance** | **589 below** | **0.5% below** |

The target for 2015/16 as a whole is 98.50%. The pattern of business rates payments has been changing following regulatory changes, and the target profile has been adjusted to reflect the new arrangements. At the end of July 2014, 36.44% of rates had been collected, but there are some limitations to that as a comparative figure.

**11. OUTSTANDING GENERAL DEBTS**

11.1 The Council's outstanding debt total as at 31 July 2015 stands at £2,355 in comparison to the 31st March figure of £3,176k. This shows a decrease of £821k, but we note that £1,754k of the balance as at 31 July 2015 is greater than 151 days old.

**12. CONTRIBUTION TO STRATEGIC AIMS**

12.1 The delivery of the Council's actual within budget overall is essential to ensure the Council meets its strategic aims.

**13. COMMUNITY ENGAGEMENT AND INFORMATION**

13.1 None arising directly from this report.

## 14. LEGAL IMPLICATIONS

14.1 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves.

14.2 With regard to Budget Monitoring, the Act requires that the Authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring. Currently Budget Monitoring reports are submitted to Policy Committee regularly throughout the year and therefore we comply with this requirement.

## 15. FINANCIAL IMPLICATIONS

15.1 The main financial implications are included in the report.

## 16. EQUALITY IMPACT ASSESSMENT

16.1 None arising directly from the report. An Equality Impact Assessments was undertaken and published for the 2015/16 budget as a whole.

## 17. BACKGROUND PAPERS

17.1 Budget Working & monitoring papers, save confidential/protected items.