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

Our Ref:
Your Ref:

Direct: ☎ 0118 937 2303
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20 January 2016

Your contact is: Simon Hill - Committee Services

NOTICE OF MEETING – AUDIT AND GOVERNANCE COMMITTEE – 28 JANUARY 2016

A meeting of the Audit & Governance Committee will be held on Thursday 28 January 2016 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

AGENDA

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. **STRATEGIC RISK REGISTER** D1

This report provides an update to the Committee on the Council's 2015/16 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.

6. **DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2016/17** E1

This report sets out the draft Annual Treasury Strategy & Investment Statement prior to its submission to full Council as part of the overall Budget proposals.

7. **BUDGET MONITORING 2015/16** F1

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

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 24 SEPTEMBER 2015

Present:	Councillor Lovelock (in the Chair), McElligott, Page, Steele & Terry.
Apologies:	Councillors Debs Absolom and Stevens (Chairman).

Also in attendance:

Alan Cross	Head of Finance
Russell Dyer	Corporate Finance Business Partner
Paul Harrington	Chief Auditor
Grant Slessor	KPMG
Ian Wardle	Managing Director

1. MINUTES

The Minutes of the meeting of 8 July 2015 were confirmed as a correct record and signed by the Chair.

2. APPROVAL OF 2014/15 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION

Alan Cross, Head of Finance, submitted a report stating that in accordance with the Accounts & Audit Regulations, the Committee, on behalf of the Council was required to approve the Council's accounts by the end of September 2015. As part of the annual external audit process of the Council's accounts, KPMG had produced an Audit Memorandum to those charged with Governance prior to issuing their opinion. KPMG had indicated that subject to the approval of the accounts by the Committee, the receipt by them of a Management Representation letter, the conclusion of outstanding areas of their work and the receipt by the Committee of the Report to those Charged with Governance, they would 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.

Grant Slessor, KPMG, presented their report.

The Management Representation letter and the Report to those Charged with Governance (ISA 260) were attached at Appendices 1 and 2. For reasons of size the formal accounts had not been included in the agenda papers but had been made available on the Council's website.

KPMG's audit had not found any individually material misstatements but had identified seven audit adjustments, three of which had been corrected by the authority, the remaining four were not being made (the reasons for this had been set out in the report in three cases, and the 4th had only arisen that day). There was no material impact on the Council's General Fund or Housing Revenue Account as at 31 March 2015 as a result of the seven audit adjustments identified by KPMG. However, there was a small decrease in the net worth of the authority of £0.3m for 2014/15, as a result of the three adjustments made, which was not seen as being significant. The Committee noted that KPMG had received elector notices raising questions on the Council's accounts to which a response had been given by the Head of Finance. KPMG expected to be able to issue its audit opinion to the expected timetable but would not be able to issue a certificate of closing the audit until the elector's questions had been resolved satisfactorily.

The Committee noted that this would be the last year that KPMG would be the Council's auditor as the Audit Commission, prior to its abolition, had decided to appoint EY (formerly Ernst Young) for the 2015/16 and 2016/17 accounts. On behalf of the Authority the Chair thanked KPMG for their many years' service as the authority's auditor.

Resolved:

(1) That the Management Representations letter, as appended to the report, from the Head of Finance be noted;

(2) That KPMG's (ISA 260) Report, as appended to the report, to those charged with governance be noted;

(3) That the final accounts for 2014/15 be approved, on behalf of the Council, in the knowledge that in doing so the Council's external auditors, KPMG, subject to the Committee making minor adjustments, and the conclusion of outstanding areas of their work, anticipate being in a position to issue an unqualified opinion in advance of the national deadline.

(NOTE: KPMG issued their opinion on the Council's accounts and the Whole of Government Accounts Return on 30 September 2015).

3. AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2015.

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

- Early Years & Play Centres
- Disabled Facilities Grant
- Waste PFI
- Business Rates
- Better Care Fund
- Additional Salary Payments
- Local Pinch Point Fund – Reading Bridge

The report also provided details of forthcoming follow-up audit reviews and the status of programmed audits, and set out progress on the response to audit reports and the implementation of agreed audit recommendations.

As part of the Audit Plan 2015/16, which had been developed to allow adequate coverage of the key risks faced by the Council, the report highlighted the areas that the Corporate Management Team (CMT) had identified to be subject to some targeted reviews to ensure proper processes were being followed and the Council could demonstrate it was spending appropriately.

The report also provided details of work which the Council's Corporate Investigations Team and Internal Audit had undertaken in respect of benefit fraud, blue badge offences, housing tenancy fraud and other corporate investigations.

Resolved: That the report be noted.

4. TREASURY MANAGEMENT 2015/16 ACTIVITY TO AUGUST

Alan Cross, Head of Finance, submitted a report containing information about the Council's treasury activities to the end of August in 2015/16. The report was based on a template provided by Arlingclose, the Council's treasury adviser, for Q1 activity updated to cover developments in July and August.

Alan Cross also gave a presentation at the meeting to accompany the report, which included information on the Council's borrowing costs in the short and long run and returns on investment with comparative data to measure performance. The presentation demonstrated the action being taken to minimise net borrowing costs; ensure money was available and securely invested whilst being flexible to respond to changes in interest rates; and the general approach to manage treasury risk overall. The Committee was updated on the development of the Municipal Bond Agency, the minimum revenue provision position and the successful conclusion of the transfer of the Council's banking to Lloyds Bank.

Resolved:

(1) That progress in implementing the 2015/16 Treasury Strategy be noted;

(2) That Alan Cross be thanked for his presentation.

5. BUDGET MONITORING 2015/16

Alan Cross, Head of Finance, submitted a report which would be updated for consideration by the Policy Committee at its meeting on 8 October 2015 setting out the results of a detailed budget monitoring exercise undertaken for 2015/16, based on the position to the end of July 2015.

The report stated that the final General Fund Balance at the end of 2014/15 had been £5.62m. Assuming remedial action highlighted in the Directorate commentaries was carried out, there was now expected to be an overspend on revenue budgets of £445k. Children's, Education and Early Help Services and Adult Care and Health Services both had significant forecast overspends and would need to use their respective Strategic Demand Reserves, which was not sustainable to meet the cost of overspending. As a result, there was a requirement to seek mitigating measures to reduce significantly the call on those reserves. These cost pressures were partly offset by a favourable treasury position, which was estimated to leave the General Fund balance at slightly above its minimum level at £5.43m at 31 March 2016.

Resolved: That the report be noted.

(The meeting started at 6.30pm and closed at 7.20pm).

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**28 JANUARY 2016**	**AGENDA ITEM:**	**3**
TITLE:	**INTRODUCTION OF EY LLP, APPOINTED EXTERNAL AUDITOR FROM 2015/16**		
RESPONSIBLE COUNCILLOR:	**CLLR STEVENS**	**AREA COVERED:**	**CHAIR OF AUDIT & GOVERNANCE**
SERVICE:	**FINANCIAL**	**WARDS:**	**BOROUGHWIDE**
AUTHOR:	**ALAN CROSS/ RUSSELL DYER**	**TEL:**	**9372058/72398**
JOB TITLE:	**HEAD OF FINANCE/ CORPORATE FINANCE BUSINESS PARTNER**	**E-MAIL:**	**alan.cross@reading.gov.uk russell.dyer@reading.gov.uk**

1. PURPOSE AND SUMMARY OF REPORT

1.1 This report introduces then new external auditor to the Audit and Governance Committee. EY LLP will be attending the meeting to provide a general briefing to Members and their audit plan for 2015/16 on their approach to the audit given their perception of the risk environment, their timetable and the anticipated outputs from it.

2. RECOMMENDATION

2.1 To note the content of the report.

2.2 To consider and note the briefing and external audit plan 2015/16 of EY LLP, which will be presented by their Executive Director Paul King and engagement Senior Manager Alan Witty.

3. POLICY CONTEXT

3.1 Prior to the demise of the Audit Commission, that body changed the external audit appointment to the Council from KPMG LLP to EY LLP for from the financial year 2015/16 for a period of 2 years. The DCLG has since extended that contract by a further year.

3.2 The Audit Commission closed on 31 March 2015. Public Sector Appointments Ltd (PSAA), an independent company set up by the local Government Association, will oversee the above contract until it ends in 2017 (or 2020 if it is extended by the Department of Communities and Local Government).

3.3 The responsibility for publishing the statutory Code of Audit Practice, under which EY LLP will conduct the audit, rests with the National Audit Office

4. EXTERNAL AUDIT PRESENTATION AND ATTACHMENTS

4.1 Local government sector briefing – Attachment 1

4.2 External Audit 2015/16 Plan – Attachment 2.

4.3 With regard to the risks set out in the audit plan, the Authority has the following comments to make:

Financial Statement Risks – page 3 and 4

Significant Risks

Fraud in revenue and/ or expenditure recognition. Risk of management override. These are fairly generic risks and understandable in particular in the context of where there has been a change in auditor.

Non-Significant Risks

The risk of understatement of unequal pay provision, valuation of Property, Plant and Equipment and Valuation of Investment properties. These largely flow from the KPMG ISA 260 report to the Audit and Governance Committee in September 2015. The *reliance on one contractor to prepare year-end financial information* whilst being a specific issue, is also a general one around the resilience of the accounts production process, given reducing resources within the Authority.

Economy, efficiency and effectiveness – page 6

Significant Risk

Delivering financial resilience. This risk is affecting many local authorities given the very challenging financial settlement, coupled with the demand pressures being faced within service areas.

5. FINANCIAL IMPLICATIONS

5.1 EY LLP wrote to the Authority on 27 April 2015 setting out the Annual Audit and Certification Fees. This fee is predicated upon certain assumptions being met and the risk profile not changing significantly since the Audit Commission set the fee. The indicative fee for Code work in 2015/16 is £108,938 and £20,187 for the certification of the housing benefit subsidy claim. Any significant variance to these indicative fees will need to be agreed with the Committee. Any additional work outside the code of practice will be separately negotiated and agreed in advance.

5.2 The scale of audit fees are also published on the PSAA Ltd website (see link below).

http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies/

5.3 The scale of the audit fees for 2016/17 is currently being consulted upon.

6. LEGAL IMPLICATIONS

6.1 These arrangements are governed by the Local Audit and Accountability Act 2014.

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

7.1 None directly from the report.

8. BACKGROUND PAPERS

8.1 Various documents from EY LLP, NAO the Audit Commission and PSAA Ltd have been referred to.

Local government audit committee briefing

Contents at a glance

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake.

The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

Building a better working world

Government and economic news

EY Item Club Autumn Forecast

The latest EY Item Club forecast (Autumn 2015) predicts tougher times for the UK economy as what it describes as the 'consumer sugar rush' begins to fade.

GDP is forecast to grow by 2.5% this year (compared to 2.9% in 2014) and slow further to 2.4% in 2016 and 2.3% the year after. Consumer Price Inflation is expected to remain below target until 2018. Prospects for exports remain poor, and domestic consumption is likely to be affected by rising inflation and tighter fiscal policy from early 2016. Progress is seen to depend upon productivity gains rather than coming from the commodity price falls that are supporting demand this year. Businesses will need to work hard on overseas markets as opposed to relying on consumer-led domestic markets.

The forecast highlights that the last decade has seen a strong increase in the supply of labour which has depressed real wages and, arguably, productivity, but that we are now seeing a more normal recovery. This is characterised by an increase in the demand for labour, which boosts real wages and productivity. Wage inflation is highlighted as being strong. This is expected to be boosted further in April 2016 by the National Living Wage, the effects of which could be very significant for some sectors and regions.

Provided that increased productivity matches wage inflation, the expectation is that the Monetary Policy Committee will keep base rates on hold until next autumn.

For details of the EY Item Club's latest forecast, see http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

Housing Associations Right to Buy

The Chartered Institute of Public Financial Accountants (CIPFA) has produced a briefing following the Government's announcement in October that it intends to extend its Right to Buy scheme to Housing Associations. The briefing seeks to explore the potential impact of these plans on Local Authorities.

Local authority housing is intended to be self-financing, based on 30 year business plans established in 2012 with the HRA self-financing regime, with Council housing for each council financed from its own rental income. This principle was reflected in the 30 year business plans, but CIPFA suggests that these business plans do not reflect recent changes contained within the budget. These changes include amendments to the rent policies as well as the proposed sale of high value local authority housing stock in order to compensate housing associations for the shortfall in income caused by the new Right to Buy scheme.

According to CIPFA, research has shown properties sold under the existing Right to Buy scheme have in many instances returned to the rental market at a higher level of rent than council levels. They have cited the example of Barking and Dagenham where it is said that 41% of properties purchased under the Right to Buy scheme are now let privately.

CIPFA warns 'Any legislation that leads to a negative impact on the housing business plan models of local authorities could seriously undermine the very basis of self-financing which promised autonomy for local authorities in the delivery of housing in their areas.'

Government and economic news

However, Communities Secretary Greg Clark said:

"We're determined to ensure that home ownership is seen as a reasonable aspiration for working people.

Right to Buy is a key part of this, offering a helping hand to millions of people who would have no hope of buying their own home without it.

Today's historic agreement with housing associations and the National Housing Federation will extend that offer even more widely, whilst at the same time delivering thousands of new affordable homes across the country."

The Government agreement with housing associations and the National Housing Federation will see housing association tenants able to buy their homes from 2016.

CIPFA's briefing document can be downloaded from http://www.cipfa.org/cipfa-thinks/briefings, and further information from the government is available at https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants

Consultation: improving efficiency on Council Tax Collection

Council tax collection rates have been relatively high in recent years: 97% across England in both 2014/15 and 2013/14. However, the Government is looking at ways to enable local authorities to further improve collection rates.

To this end, the Government has issued a consultation on its proposals to improve the collection and enforcement process for council tax. The government's stated intention is to help local authorities to keep council tax rates low, and so the proposals are aimed at ensuring that everyone contributes fairly.

The consultation follows a trial by Manchester City Council, Salford City Council, HMRC and the Cabinet office under the 'Better Business Compliance Cabinet programme', and reflects consideration of the findings from this trial.

An example of this is the Government's proposal to extend the data-sharing gateway which currently exists between HMRC and local authorities. This would enable HMRC to share employment information with councils where council tax debtors have not voluntarily shared the information within 14 days of receiving a liability order. Manchester estimates, based on its pilot with HMRC, that this would recover £2.5mn of debt in its area alone.

The consultation also asks for other suggestions to improve council tax collection.

Responses are requested by 18 November 2015.

For more information on the consultation and details on how to respond, please see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466386/150930_Improving_Efficiency_of_Council_Tax_collection_Consultation_Doc.pdf

Government and economic news

Local Plans for New Homes

In October, the Government announced that councils will be required to produce local plans for new homes by 2017. Where councils fail to do so, the Government will consult with local people to ensure that plans are produced for them.

In 2012, the National Planning Policy Framework was introduced to provide guidance for local planning authorities and decision-takers, both in drawing up plans and making decisions about planning applications. This framework reinforced the role of local plans. It required the plans to include an annual trajectory over a period of around 15 years of how many homes they plan to build in their area, and it required local authorities to review this plan approximately every 5 years. Councils were also encouraged to give local people more say on where new developments would be located and what they would look like.

The Government have said that the response to this has been mixed:

- 82% of councils have published local plans which state how many homes they intend to build over a given period
- 65% have fully adopted these plans
- Nearly 20% of councils do not have an up to date plan

If councils fail to produce and bring into force an up to date plan for new homes by 2017, the Government intends to work with local people to ensure one is created.

Read the government press release at https://www.gov.uk/government/news/prime-minister-councils-must-deliver-local-plans-for-new-homes-by-2017

Accounting, auditing and governance

Proposals for further emergency services collaboration announced

The Government has launched a consultation which is looking into how the three core emergency services of Police, Fire and Rescue and the Ambulance service could potentially work together in a more efficient and effective manner. Key features of the consultation include:

- Enabling Police and Crime Commissioners (PCCs) to take on the duties and responsibilities of Fire and Rescue Authorities where a local case was made for this to happen
- Where a case is made by a local PCC to take on such a role, there would also be the possibility for them to take on the role of a single employer and in doing so enable the sharing of back office support functions
- Improving joint working between PCCs and local NHS Ambulance Foundation Trusts by encouraging them to allow PCCs to sit on their Council of Governors

The Government also intends to introduce a new statutory duty for the three emergency services to collaborate with one another; and sees this as not being a burden, but is about seeking efficiencies.

However, a key legal distinction would remain under the new proposals, in that a member of a police force will not be permitted under law to become a firefighter, and firefighters will not be given the power of arrest. In order to maintain transparency for local taxpayers, funding from central government will remain separate for police and fire organisations, as will council tax precepts.

https://www.gov.uk/government/news/proposals-for-further-emergency-services-collaboration-announced

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/459986/Consultation_-_Enabling_closer_working_between_the_Emergency_Services__w__2_.pdf

Finance in the Cloud?

Cloud computing allows users to rent access to a variety of virtual computing options, conveniently, ranging from network-accessible data storage and software development environments to fully featured applications. As such, the data and applications are not required to be stored on local servers or 'on-premise'; rather, they are hosted and managed by third-party cloud service providers (CSPs).

Enterprises essentially outsource varying levels of IT functionality to CSPs, and users only need an internet connection to access the data and applications via virtual servers. By moving into the cloud, organisations have the potential to reduce greatly, or even eliminate, the total cost of ownership (TCO) of the IT function, thereby forever altering their business model.

The benefits of cloud adoption are highly touted. However, over a decade ago, on-premise enterprise resource planning (ERP) solutions made similar promises. Although the trigger for rushed ERP implementations in the 1990s was the much-fretted Year 2000 (or Y2K) calamity, Y2K concerns turned out to be largely unfounded, and many finance executives would now argue that they have yet to reap genuine, tangible benefits from investing in costly ERP systems.

Accounting, auditing and governance

Although a company's financial management system is critical to success, EY is finding that many organisations have systems averaging from 10 to 15 years old, with upgrade cycles ranging from 5 to 10 years. Despite aging legacy systems, many finance decision-makers are hazy on how cloud solutions are really any different from the ERP solutions hyped in the previous decade.

Organisations that truly understand cloud technology, as well as the associated challenges and risks, are better placed to manage the impact of cloud computing on the finance function. Moreover, they must engage an agile innovation strategy focused on deploying the right operating model in order to realize fully the benefits of cloud computing.

In EY's experience, organisations that fail to make a robust cloud risk assessment often need to make subsequent, costly changes to the cloud model, thereby negating any savings gained from cloud migration. EY recommends that organisations develop a clear, attainable cloud strategy, including an appropriate operating model accompanied with a cloud risk management approach to mitigate risks and avoid a premature move to the cloud.

EY has a proven framework for cloud models, along with risk assessments and broad-based diagnostics to evaluate and optimise a cloud strategy that enables minimal disruption whilst accelerating an organisation's evolution. For more information on this, please talk to a member of your engagement team or read the EY publication at http://performance.ey.com/wp-content/uploads/downloads/2015/10/EY-Performance-Finance-in-the-cloud_Final.pdf

Value for Money Conclusion guidance

The NAO have recently released a consultation document (http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf) a consultation document for auditors on their review of arrangements to secure economy, efficiency and effectiveness in their use of resources. This is also referred to the as three E's or the Value for Money (VfM) conclusion. The guidance covers the VfM work for 2015/16.

Based on the responses received to a similar consultation in 2014 the new draft guidance seeks to:

- Take forward existing guidance and reflect changing circumstance for public sector organisations such as finding savings and maintain financial stability over the medium and long term
- Update the definition of 'proper arrangements'
- Strengthen guidance on the identification and work around significant risks whilst maintaining a risk based approach
- Update and clarify the range of reporting opinions available to auditors and expectations at key stages of the audit
- Maintain sector specific guidance that will sit outside of the statutory guidance but can provide up-to-date information on sector specific risks

The consultation closed on 30 September and the NAO will communicate a summary of the responses once they have reviewed then. Further information can be found at https://www.nao.org.uk/keep-in-touch/our-surveys/consultation-auditors-work-on-value-for-money-arrangements/.

Regulation news

Consultation on 2016/17 proposed fee scales

Public Sector Audit Appointments (PSAA) is currently consulting on both the work programme and scale of fees for 2016/17 audits. The consultation describes the work that auditors will undertake at principal audited bodies for 2016/17 and their associated scales of fees.

There are no planned changes to the overall work programme for 2016/17 and their proposal is to set scale audit fees at the same level as the scale fees for 2015/16 which already reflect a reduction of 25% in addition to the reduction of up to 40% made from 2012/13.

A change in accounting requirements in 2016/17 relating to highways infrastructure assets will require additional audit work at some authorities. As the amount will differ between authorities, the fee variation process will apply in 2016/17 for this additional work.

The consultation closes on Friday 15th January 2016, and the final work programme will be published following this in March 2016.

For details of the consultation, please refer to the PSAA website at http://www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/

NAO Case Study: managing reductions in local authority government funding

The National Audit Office (NAO) has made available more than 30 case studies which give examples of how organisations have used their recommendations or analysis to support the achievement of financial savings.

One of these case studies follows the production of its 2014 report 'Financial Sustainability of Local Services'

The NAO case study states that following their report, the Department for Communities and Local Government (DCLG) has acknowledged that its processes for estimating local authority spending requirements and assessment the potential impacts of spending reductions need to be improved.

They also note use of their report in the sector, citing the following examples:

- Leeds City Council and Birmingham City Council have drawn on the work in their debates with central government over devolution
- Wolverhampton City Council and Oldham Council have used the work to inform discussion and decision-making in cabinet meetings and audit and scrutiny meetings
- The Local Government Association and treasurers' societies have used the analysis from the report to inform their thinking

Find out more about the impact made by NAO reports in their interactive pdf at https://www.nao.org.uk/wp-content/uploads/2015/10/Impacts-case-studies-2014.pdf

Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered the impact of the extension of Right to Buy and reflected our consideration in our Medium Term financial plans and/or Local Plan?

How successful are we in systematically improving our collection rates for Council Tax? Is there best practice that we could share via the Government's consultation?

What is our mid to long term IT strategy? Are we considering cloud-based IT and if so how robust are our risk assessments supporting the shift?

Have we formulated a response to the PSAA consultation on the work programme and scale of fees for 2016/17?

Find out more

EY Item Club Autumn Forecast

For details of the EY Item Club's latest forecast, see http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

Housing Associations Right to Buy

For further information, please see the government press release at https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants and access the CIPFA report at http://www.cipfa.org/cipfa-thinks/briefings

Consultation: Improving Efficiency on Council Tax Collection

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Local Plans for New Homes

Read the government press release at https://www.gov.uk/government/news/prime-minister-councils-must-deliver-local-plans-for-new-homes-by-2017

Proposals for further emergency services collaboration announced

For more information on the Government's proposals, please see https://www.gov.uk/government/news/proposals-for-further-emergency-services-collaboration-announced, and for a copy of the consultation document please see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/459986/Consultation_-_Enabling_closer_working_between_the_Emergency_Services__w__2_.pdf

Finance in the Cloud?

To find out more about Cloud Computing and how EY can support you, please ask a member of your engagement team or read the EY publication at http://performance.ey.com/wp-content/uploads/downloads/2015/10/EY-Performance-Finance-in-the-cloud_Final.pdf

Value for Money Conclusion guidance

Further information can be found at https://www.nao.org.uk/keep-in-touch/our-surveys/consultation-auditors-work-on-value-for-money-arrangements/, and a copy of the NAO's consultation document is available at http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf

Consultation on 2016/17 proposed fee scales

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NAO Case Study: Managing reductions in local authority government funding

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ED None

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ey.com/uk

Reading Borough Council

Year ending 31 March 2016

Audit Plan

28 January 2016

Ernst & Young LLP

Building a better working world

Building a better working world

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Members of the Audit and Governance Committee
Reading Borough Council
Civic Offices
Bridge Street
Reading
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28 January 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

2015/16 will be our first year as your external auditor. We are currently working through the transitional arrangements with our predecessors, KPMG, including a review of their files. This report therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will present you with an update of our audit plan at a subsequent meeting when all transitional arrangements have been completed, and our interim planning work performed.

We welcome the opportunity to discuss this plan with you 28 January 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Executive Director
For and behalf of Ernst & Young LLP
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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ► Our audit opinion on whether the financial statements of Reading Borough Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ► Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness; Our audit opinion on the regularity of expenditure and income; and

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ► Strategic, operational and financial risks relevant to the financial statements;
- ► Developments in financial reporting and auditing standards;
- ► The quality of systems and processes;
- ► Changes in the business and regulatory environment; and
- ► Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.

Arrangements for securing economy, efficiency and effectiveness

The National Audit Office has consulted on the audit approach for the Value for Money (VFM) conclusion. The outcome was announced in November 2015, following which we confirm the impact for our audit of the Council with the Audit and Governance Committee and management and set out this impact in our audit plan.

We expect to be able to adopt an integrated audit approach, so our work in the financial statement audit feeds into our conclusion of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section 4 of this Audit Plan.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	**Our audit approach**
Risk of fraud in revenue and/or expenditure recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue and expenditure cut-off at the period end date.
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions.

Not significant risks	
Risk of understatement of Unequal Pay provision	
The equal pay provision may be understated based on the estimates provided by internal legal advisors.	Our approach will focus on: ► Obtaining the schedule of unequal pay provision, and agree amounts to the general ledger accounts. ► Reviewing schedule for correctness and completeness, including whether the unequal pay provision are consistent with our understanding of the entity's business, and test recorded amounts. ► Inquiring with management around the process controls and policy that were used and implemented regarding the unequal pay provision.
Reliance on one contractor to prepare year-end financial information	
The risk exists that due to the reliance on	Our approach will focus on:

one contractor with no formal contract to prepare financial information could impede the clients' ability to compile the financial statements in a timely manner. As complex spreadsheets form a crucial part of compiling the financial information there is an additional element of risk due to susceptibility to errors, either human or as a result of data corruption. Currently there is no succession or continuity plans in place for this this role.	► Review any plans developed by the Council to provide continuity and succession for this work ► Obtain the spreadsheet and agree amounts to the general ledger accounts. ► Review schedule for correctness and completeness, including whether the balances are consistent with our understanding of the entity's business, underlying data and test recorded amounts.

Valuation of Property Plant and Equipment	
The former Council office building is in the process of being demolished. The accounting treatment of the building was queried by the previous auditors last year and was recorded as an uncorrected misstatement in their ISA 260 report. We will review the current valuation treatment to ensure that it is materially correct.	Our approach will focus on: ► Review proposed accounting treatment in 2015/16 ► Review any valuer's report on the building ► Review disclosure to ensure that it is appropriate.

Valuation of Investment Properties	
The Council does not value investment properties on an annual basis as required by the CIPFA Local Government Statement of Accounting Practice.	Our approach will focus on: ► Review proposed valuation treatment in 2015/16 ► Review any valuer's report on the properties ► Review disclosures to ensure that they are appropriate.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

► Identifying fraud risks during the planning stages;

► Enquiry of management about risks of fraud and the controls to address those risks;

- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address any identified risks of fraud, and
- Performing mandatory procedures regardless of specifically identified risks.

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3. Economy, efficiency and effectiveness

The Local Audit and Accountability Act 2014 provided the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The 2014 Act requires auditors to comply with any such guidance issued.

The National Audit Office is currently consulting on a draft guidance note regarding auditors' work in respect of their Value for Money conclusion. The consultation closed on 30 September and we expect the final guidance will be issued in November 2015 and will apply to audits from 2015/16 onwards.

The present proposals seek to:

- Build on the existing guidance, issued by the Audit Commission, evolving the approach to reflect changing circumstances for public sector organisations and the new 2015 Code of Audit Practice;
- Update the definition of 'proper arrangements' against which auditors make their judgements and better align the criteria with to the arrangements on which audited bodies are required to report;
- Remain focussed on a risk based approach whilst strengthening guidance in relation to the identification of significant risks to the VFM conclusion and the work required to address them;
- Set out more fully the range of reporting options available to auditors and set out the reporting expectations at key stages during the audit;
- Clarify the options available to auditors when issuing their statutory conclusion, where required, and how auditors might approach making judgments on whether to qualify their conclusions; and
- Maintain an element of sector specific information, helping auditors understand better the key developments and risks in the relevant sectors.

We will inform the Audit and Governance Committee and management of the outcome of this consultation, the impact on our audit approach and any change in our audit fees after the final NAO guidance has been issued.

Significant risks		**Our audit approach**
Delivering financial resilience		
The Council is facing a challenging financial position and is reporting an overspend in both Adult and Children's Social Care and is having to plan for significant cuts in spending in future years. The recent announcement by the Government of a reduction in the Revenue Support Grant requires the Council to make further savings. The timing of the announcement in December 2016 means that the Council will revisit its 2016/17 budget and Medium Term Financial Plan. The Council may find it challenging to set a balanced budget.	Financial resilience	Our approach will focus on: ► Review of the 2015/16 outturn position against budget ► Assessing the robustness of processes for identifying and implementing savings ► Review revised 2016/17 budgets and updated Medium Term Financial Plan.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

i Financial statement audit and regularity audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement, and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

ii Arrangements for securing economy, efficiency and effectiveness

As previously noted, the specific requirements for our Value for Money audit are expected to be confirmed in November 2015.

4.2 Audit process overview

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions, valuations, financial reporting and tax.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- Satisfying ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined the proposed overall materiality for the financial statement of the Council is £8,272,000 based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £414,000 to you. These figures and levels are currently being reviewed within EY, if changes are made as a result of this review they will be communicated in a timely manner.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.4 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Reading Borough Council is £108,938 with an estimated fee of £20,187 for the certification of the housing benefit subsidy claim.

4.5 Your audit team

The engagement team is led by Maria Grindley, who is currently on sabbatical. While she is on sabbatical she will be supported by another Executive Director from our Reading office, Paul King. Both Maria and Paul have significant experience of auditing local government clients. They are supported by Alan Witty as senior manager who is responsible for the day-to-day direction of audit work and is the key point of contact for the Corporate Finance Business Partner.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit and Governance Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning	**April 2015**	**April 2015**	Audit Fee letter Progress Report
Risk assessment and setting of scopes	**December 2015**	**January 2016**	Audit Plan
Testing routine processes and controls	**February-March 2016**	**April 2016**	Progress Report
Year-end audit	**July-August 2016**		
Completion of audit	**August 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and, [by exception] overall value for money conclusion).

			Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**By 31 October 2016**	**December 2016**	Annual Audit Letter
Reporting on Housing Benefit	**November 2016**	**January 2017**	Annual Grant Claim Report

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Engagement and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed andanalysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King and Maria Grindley, the audit engagement directors and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 [current year] £	Outturn fee 2014/15 [prior year] £	Explanation
Opinion Audit and VFM Conclusion	£108,938	£108,938	£145,250	
Total Audit Fee – Code work	**£108,938**	**£108,938**	**£145.250**	
Certification of claims and returns [1]	£20,187	£20,187	20,130	
Non-audit work	0	0	0	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- We can rely on the work of internal audit as planned;
- The NAO making no significant changes to the final value for money guidance on which our conclusion will be based;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

[1] Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission and PSAA..

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit and Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
Fraud ► Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This	► Report to those charged with governance

Required communication	Reference
communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	► Audit Plan ► Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	► Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	► Report to those charged with governance
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Report to those charged with governance ► Annual Audit Letter if considered necessary
Opening Balances ► Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
Certification work ► Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification.

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Ernst & Young LLP

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READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**28 JANUARY 2016**	**AGENDA ITEM:**	**4**
TITLE:	**AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT**		
RESPONSIBLE 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 September 2015.

1.2 The report aims to:

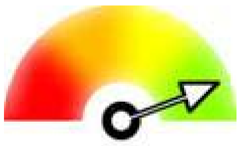
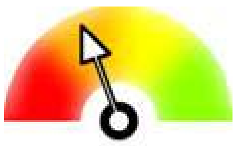
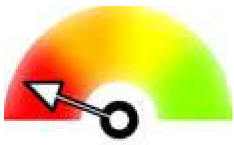
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation 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.

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.

3.2 **Grading of recommendations**

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

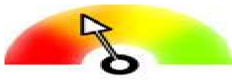
Priority	Current Risk
High	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or mis-statement.
Medium	Minor weakness in control design or limited non-compliance with established 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 or 'no' assurance.

4. HIGH LEVEL SUMMARY OF AUDIT FINDINGS

4.1	Adult Social Care Income	2	5	0



4.1.1 A combination of national and local rules set out how individual care cost contributions are calculated. The Council's "Care and Support Charging & Financial Assessment Framework" sets out the Council's policies for charging for care and support and follows the Care and Support Regulations and Statutory Guidance issued by the Government under the *Care Act 2014*.

4.1.2 The purpose of this review was to provide assurance on the charging processes in place for Adult Care, including ensuring that financial assessments are undertaken on a timely basis.

4.1.3 At the time of the audit (Sep 2015) residential care assessments were relatively up to date and as a result of the changes emanating from the Care Act, a review of the deferred payment and interim funding processes had begun.

4.1.4 The highest priority risk identified in our audit review related to the potential loss of income to the Authority, due to the delay in assessing individual care cost contributions. This is because contributions for non-residential care have to be charged at the point of assessment and cannot be back dated.

4.1.5 Some of the factors contributing to the backlog have been due to the team taking a very active role in the introduction and upgrade of Framework-I to Mosaic which resulted in a number of IT process issues which slowed the assessment process down. However, there is also need to improve the quality and timeliness of referrals by Adult Social Care to allow the Financial Assessment and Benefits (FAB) team to carry out timely financial assessments.

4.1.6 As a response to our recommendations a backlog clearance plan has been put in place and resources redirected to the most pressing items, by prioritising those cases that may have the largest financial risk to the authority.

4.1.7 As the end of December residential assessments were up to date and the historic back log (over six months old) for non-residential assessments had been cleared, however the 'current' workload had increased to 146 cases (compared to 129 in September 2015).

4.1.8 Work is underway to review the end to end process working with the adult social care transformation team to seek to address the build-up of backlogs. This will cover the front door initial assessment through to invoicing and following a staff workshop a number of improvements to address process issues are to be developed.

4.2 School Audits

4.2.1 We have completed four school reviews this quarter as follows:

	Draft	Final	RECS			Assurance
E P Collier Primary School	Oct 15	Nov 15	0	2	1	**Substantial**
Geoffrey Field Infant School	Nov 15	Dec 15	0	0	2	**Substantial**
St Mary's & All Saints	Oct 15	Nov 15	0	2	5	**Reasonable**
Holybrook	Oct 15	Oct 15	0	0	4	**Substantial**

5. AUDIT FOLLOW UP REVIEWS

5.1 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. A summary of the latest follow up review we've completed in the last quarter are detailed in the following paragraphs.

Audit Title	Date of original audit	Follow up Completed	Status of recs at the time of follow up review
Licensing	Nov 14	Sep 15	Partial
Deferred Payment Scheme	Dec 14	Aug 15	Partial
Phoenix School	Nov 14	Sep 15	Implemented
Special Education Needs	Feb 15	Oct 15	Implemented
Home to School Transport	Feb 15	Nov 15	Partial

5.2 Special Education Needs (SEN) follow-up review

5.2.1 In April 2015 we reported to the Committee concerns over the growth in the number statements, which was not in line with National trends. At the time of the review we made five recommendations, with the highest priority risk identified relating to the need to develop strategies to reduce and control spend in the High Needs SEN Block.

5.2.2 The recommendations have been satisfactorily implemented. A strategic action plan to progress and implement government SEND reforms, the 'local offer', personal budgets and joint commissioning is in place to record and monitor developments.

5.3 Phoenix College follow-up review

5.3.1 Some shortcomings in the College's governance framework were identified following our audit review in January 2015. The college responded positively to the audit review with a clear action plan to address the audit recommendations. Progress of the action plan was monitored by the Head of Service as part of the wider governance improvement process via a bi-monthly formal review meeting with the Chair of Governors and Headteacher. All recommendations have been implemented.

5.4 Home to School Transport follow-up review

5.4.1 In April 2015 we reported to the Committee concerns over the administration of the home to school transport service. At the time these were predominately paper based, and administered by a single officer under the supervision of a Service Manager. At the time of the review we made ten recommendations, with the highest priority risk identified relating to the storage of paper-based records, off site, to enable a quick response to urgent service related calls either before or after school. We concluded that administrative processes needed to be improved and complaints handling needed a corporate overview, with a more in-depth analysis of trends.

5.4.2 Our follow-up has concluded that although there remains some work in progress, improvements to operational and administrative processes have been made.

5.4.3 The service has progressed work to redesign the overall service provision so that the continued safe operation of the service for young people is more resilient, especially in the 7.30 – 8.30am time period.

5.4.4 A review of the eligibility criteria and operational transportation methodologies to assist budget and demand pressures has led to new operational and administrative initiatives.

5.4.5 The GIS Mapping system is now being used to consistently measure and check eligibility criteria.

5.4.6 An appointment of an additional staff member will now enable the team to be staffed, in the office, providing specific early and late coverage so that all calls will be answered by reference to master information.

5.4.7 The service has been unable to develop the use of a single database so that all information is stored in one place and is more readily available electronically. However a document register is now held to record whether documents are scanned to a secure drive or held manually.

5.4.8 Although a procedure has been established with corporate complaints about the handling of complaints against the service, this procedure has only been established for complaints regarding the Team. Operational complaints by parents, schools or transport providers still have to be made direct to the Team.

6 OTHER AUDIT ACTIVITY

6.1 The Purchase-to-Pay project has been established. The Chief Auditor is on the project board; however, in addition the Principal ICT Auditor is providing advice and support to the project, which in time will include reviewing the controls being considered in the design of new systems and processes. Other projects which the Chief Auditor is involved with include the development of Oracle Fusion and establishment control (linked with spending appropriately below).

6.2 Spending Appropriately

6.2.1 Following a request from the Council's Corporate Management Team, Internal Audit are working with service managers to update/prepare procedure rules for each of the areas identified below and set out the consequences of not complying with the approved process. The purpose of these procedure rules is to ensure proper process is followed and the Council can demonstrate it is spending appropriately.

6.2.2 Initial list of areas to be reviewed is as follows:

- Establishment Control
- Payment Cards
- Training/ Courses/ Conferences
- Stationery
- Placements
- Flexitime
- Works to buildings
- ICT
- Legal Charges
- Graphic Design & Printing
- Agency Staff
- Placements
- Fuel
- Consultants/ Interim Staff
- Train Travel
- Air Travel
- Overtime/ Standby Rates
- Colour Printing
- Postage
- Care Packages
- No Purchase Order – No Payment

7. INVESTIGATIONS

7.1 Housing Benefit

7.1.1 Whilst the Council no longer investigates Housing Benefit fraud there have been a few residual cases with investigations and Legal services.

7.1.2 For the period April 2015 to November 2015 the total Housing Benefit overpayment figures for cases prosecuted (8 cases) is £65,602.

7.2 Fraud & Error Reduction Incentive Scheme

7.2.1 Investigation officers are working very closely with Housing Benefit teams on the Fraud & Error Reduction Incentive Scheme (FERIS). The scheme is a DWP initiative and provides financial incentives (approximately £6.5k per month) to local authorities who reduce fraud and error in their Housing Benefit cases. A schedule of planned visits (45 per month) on current Housing Benefit claimants are undertaken to ensure claimant details held are accurate and up-to-date.

7.2.2 Investigations will look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded. Investigations commenced these visits in August 2015 to date 46% of FERIS cases are producing overpayments of Benefit.

7.3 Council Tax Support

7.3.1 The Council Tax Support overpayment figure as at November 2015 is £26,279, which is made up of three prosecutions. 19 claimants investigated have been subject to Administration Penalties[1], with the total fines imposed amounting to £11,791.

7.4 Housing Tenancy

7.4.1 Since 1 April 2015 the team has assisted in the return to stock of 3 Council properties and 2 properties for Social Landlords within Reading.

7.4.2 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 (5x £18,000) in the region of £90,000 could have been saved as a result of tenancy investigations.

7.4.3 Investigation officers have been working with Housing to undertake a rolling programme of tenancy Audits (65 visits to date), which has led to further investigations into potential non-residency for two tenancies.

7.4.4 Since April 2016 we've received 13 referrals of suspected improper succession applications, one of these was returned recommending that the application is not proceeded with.

7.5 Blue Badge investigations

7.5.1 The misuse of Blue Badges undermines the benefits of the scheme, impacts upon the lives of disabled people, and costs local authorities money through the loss of parking revenue. Examples of misuse/fraud we have detected;

- Use of a deceased persons badge
- Covering up or changing expiry date
- Photocopying a badge
- Using a valid badge belonging to friend/family to gain free parking with and sometimes without, the badge holder's knowledge.
- Persistent misuse e.g. using someone else's badge to park for work every day.
- Using counterfeit or stolen badges.

7.5.2 In the period April 2015 through to September 2015, we worked 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

[1] 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.

and removed from circulation and we have successfully brought two prosecutions for Blue Badge fraud in Reading.

7.6 Document Identification Scanners

7.6.1 Following a successful trial period of 3 months document identification and assessment scanners have been deployed within Customer Facing functions of the Council. This will provide a robust solution that will increase the ability to identify fraudulent applications and to reduce the risk of penalty or fine.

7.6.2 For the 3-month trail of the ID scanner we deployed one scanner which was situated within Customer Services. Findings from the trail are as follows:

- Customer services scanned a total of 2,002 ID documents during this period.
- There were three occasions where the services did not proceed with the application due to the validity of ID supplied.
- One case where a licence was revoked.
- Ten claimants left the Civic without wanting their application progressed further.
- Time saved by front staff by using trust ID was 16.6 hours

7.7 Other Investigation Activity

7.5.1 One area we have developed over the years is the hand delivery or personal service of legal paperwork. Legal services have been utilising investigations staff in order to expedite the recovery actions of such cases. In the period we have delivered a total of 13 orders to the value of £44,890.

7.7.1 Internal investigations: We have 2 ongoing internal matters, two of these we have just completed stage 2 investigations.

8. CONTRIBUTION TO STRATEGIC AIMS

8.1 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.

9. COMMUNITY ENGAGEMENT AND INFORMATION

9.1 N/A

10. LEGAL IMPLICATIONS

10.1 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.

10.2 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.

10.3 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”.

10.4 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.

11. FINANCIAL IMPLICATIONS

11.1 N/A

12. BACKGROUND PAPERS

12.1 N/A

READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**28 JANUARY 2016**	**AGENDA ITEM:**	**5**
TITLE:	**STRATEGIC RISK REGISTER**		
LEAD COUNCILLOR:	**JO LOVELOCK**	**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 The primary purpose of this report is to update the Audit & Governance Committee on the Q3 status of the Council's 2015/16 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.

1.3 The Council Management Team (CMT) maintains the Register on behalf of the Council, with the assistance of the Council's Chief Auditor.

1.4 The Register is reviewed on a quarterly basis by CMT.

1.5 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in July 15.

1.6 The following documents are appended:

Appendix 1 – 2015/16 Q3 Strategic Risk Register.

2. RECOMMENDED ACTION

2.1 The Audit & Governance Committee is requested to consider the Q3 status of the Council's 2015/16 Strategic Risk Register.

3. **BACKGROUND**

3.1 The revised Strategic Risk Register as at Dec 2015 (Q3) is reproduced at appendix 1. Arrows are used to indicate direction of change in any scores since the previous quarter.

3.2 The following key points should be noted to aid understanding:

↑↓ have been used to indicate movements in the net (residual) risk scores since the previous quarter, where a ➔ is shown no change has occurred.

A "mitigation" column has been added for each risk so as to provide a summary of the mitigating (controls) actions in place to minimise risk.

3.3 Members are reminded that although guidance is provided to officers in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remains very much a subjective process. The primary aim of this report is to identify those key vulnerabilities that the officers consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased. Furthermore, it is possible that the likelihood can be influenced by events outside of the Council's control e.g. the economic climate and its impact on financial planning, or severe weather etc.

3.4 Directorate level risk registers generally only contain risks whose impact would not be felt wider than the directorate to which they belong should they materialise and are managed within the directorate.

3.5 The Strategic Register is compiled from risks identified at directorate level, which have been escalated along with high-level generic risks, which require strategic management. Entries within the Register reflect the risks identified by the Council Management Team thereby strengthening their strategic perspective, management response and controls.

3.6 The inclusion of risks within any level of risk register does not necessarily mean there is a problem. On the contrary, it reflects the fact that officers are aware of potential risks and have devised strategies for the implementation of mitigating controls.

3.7 Each entry within the register is scored to provide an assessment of the residual level of risk. All risks have been scored based on an assessment of their impact and likelihood. These assessments are made at two points, before any actions are in place (inherent risk) and after identified controls are in place (residual risk).

3.8 Whatever level of residual risk remains, it is essential that the controls identified are appropriate, working effectively and kept under review.

3.9 Plans are in place to mitigate the risks identified in the Strategic Risk Register.

4.0 CONTRIBUTION TO STRATEGIC AIMS

4.1 Risk management underpins all aspects of the council strategic aims.

4.2 The risks within the risk registers are directly linked to the projects and work streams that are in place to deliver the strategic aims.

4.3 Budget risks directly influence all strategic aims.

5.0 COMMUNITY ENGAGEMENT AND INFORMATION

5.1 Risk management is an internal management process that is open to scrutiny from councillors and the public at the Councils Audit and Governance Committee meetings.

6.0 LEGAL IMPLICATIONS

6.1 Local Government Acts 1999 and 2000 established a requirement of performance improvement in modernised local government. Risk management is an important element in ensuring that service delivery objectives are achieved.

7.0 FINANCIAL IMPLICATIONS

7.1 There are none associated with the recommendations in this report. The work recommended will be met from existing budgets.

8.0 BACKGROUND PAPERS

8.1 Council's Risk Management Strategy.

8.2 Delivering Good Governance in Local Government – Framework, CIPFA/ Solace 2012.

8.3 The Accounts and Audit Regulations.

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
1	Budget risk: Unable to deliver services within the resources available to the Council to meet obligations and service standards, including keeping the current year's budget within the approved budget framework	5	5	25	Development of a budget strategy and budget options to reduce spending by around £40m over the 4 years to 2020/21, with a draft "efficiency plan" (as required by Government) to Policy Committee by July 2016 Set Lawful Budget for 2016/17 at Council & keep under review Directorates are required by the budget framework to bring forward mitigating measures where practical to address adverse budget variances - at each budget monitoring. The 2016/17 budget report will set out a range of measures that need implementing over a c. 2 year period to reduce the council's "back office" and administrative support. A detailed implementation plan will be brought forward shortly thereafter.	Jul-16 2016 2016	IW AC CMT	5	4	20	➔	IW/AC
2	Data Protection: Risk of breach of data by inadequate data handling and not adequately preventing and minimising security incidents, including ICT incidents, resulting in loss of data, unlawful sharing of data, reputational damage and significant financial penalties levied by the Information Commissioner's Office.	5	4	20	Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly during 2015/16 Roll out training corporately and introduce e-learning refresher training module Need to test application of training by officers Incident management procedures mitigate loss or breach of data Need identified to update data protection suite of policies Need identified to provide for an information governance officer reporting to SK (legal) to assist with implementation of new policies and ongoing work advising officers Corporate ICT Security Policy implemented with clear audit trail BeCrypt Implementation and encrypted USB Stick Introduction provide seamless encryption on Council ICT equipment Increased Secure Email roll-out Policy Revision to be agreed	Mar-16 Mar-16 Mar-16 Mar-16 Mar-16 Mar-16 Mar-16 Complete Mar-16 Mar-16	CB/SK AW/JB /SK AW/CB /SK AW/JB /SK CB/SK AW/JB /SK JB/SK AW/JB AW/JB /SK	3	4	12	➔	CB

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
3	Property Risk - Failure to maintain the fabric and services of buildings resulting in injury to individuals and/or non-compliance with relevant legislation or unavailability of asset.	4	4	16	The comprehensive review of assets has included a rolling program of condition surveys that has informed a prioritised program of works approved and implemented in July. Proactive planning monitored on a monthly basis by Land and Property Group. Review of Building Management responsibilities to ensure that responsibilities are clear and adequate. Action Plan developed and overseen by Corporate Risk Group. Training is in place in relation to FLASH responsibilities. Annual audit of FLASH items in high risk properties A number of Business Continuity plans have been updated. Timetable agreed for the review of plans. Project commenced looking a RBC staff accommodation in order to best utilise assets and project plan agreed. Health and Safety project team reviewing 19 Bennet Road and Darwin Close parking	Ongoing Ongoing Ongoing Ongoing Ongoing Ongoing Complete	GF/RP / JS JS/PE RP RP WF JS JS	4	3	12	→	AB/GF
4	Safeguarding (children). Risk of death or injury to children, through inappropriate care or attention.	5	4	20	Routine audit process underway, reviewed monthly by HoS Deliver Children's Social Care Improvement plan with focus on improved record keeping, compliance with procedures and acting on poor performance indicators. Monitored monthly. New Notification process for top ten high profile cases Ensure that Assessments are recorded, timely and accurate External audit of case work, leading to practice improvements.	Ongoing Mar-16 Mar-16 Ongoing Jun-16	CP CP CP CP CP	5	3	15	↑	WF

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
5	Safeguarding (Adults) - Risk of death or injury to young people or adults through inappropriate care or attention.	5	4	20	Safeguarding team to deliver a knowledge management package/ e learning and brief/present as required. Complete for Safeguarding Level 1 training inc refresher training (refreshed for MSP and Care Act compliance). Available across care and health sector. Levels 2 & 3 face to face training is offered.	Ongoing	SMcG/ EMcI	5	3	15	↓	WF
					Safeguarding Adults Board to agree programme to embed Care Act duties - workshop Jun 15, action plan completed by Nov 15. Workshop complete - actions taken to SAB output = revision of Pan Berkshire Safeguarding Procedures. Ongoing work to adapt new Pan Berkshire procedures (due for implementation February 2016) across all Berkshire authorities. New procedures are based on Pan London procedures - permission granted by pan London group for adaption and publication on website - Tri.X web hosts (Berks on-line procedures) tasked with adapting procedure for Berkshire - Local implementation groups being managed via SAB - updated safeguarding forms being finalised by performance team - new Roles and Responsibilities document explaining process SAT and QPM roles including Organisational Enquiry process updated and circulated to managers in anticipation of implementation. Incoming SAT manager is prepared for coordinating further implementation with local partners (minimal and very practical guidance for staff to be agreed across participating authorities.	complete	SMcG					
					Audit of procedures and compliance and staff trained. Applied to existing action plan, which incorporates Peer review recommendations	Complete	WF					
					Monthly scrutiny of all high risk cases	Ongoing	MOR					
					Case file audit to test rigour of recording practice and accessibility of records. Implemented and ongoing. Utilising revised, proportionate and MSP compliant audit tool.	Ongoing	MOR					
					Workload management process and analysis kept up to date to ensure staff capacity to respond.	Complete	MOR					
					Making Safeguarding Personal is now fully implemented. A learning lunch is planned for 13.01.16 to discuss cases and its implementation with front line workers.	Complete	MOR					

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
	Risk 5 continued				Further work identified for Mental Health Services regarding reporting through the statutory safeguarding process as well as the trusts internal service. (DATEX). New MH locality Manager and MH Transformation lead to scope out the issues and provide awareness training. A further risk has transpired related to fire related deaths. This has been both a local and national issue. We are working with the fire service to provide awareness training for those who provide care both internally and through agencies.	Mar-16 Jan-17	MOR MOR					
6	Failure to close the gap in school attainment for pupil premium groups	4	5	20	Deliver targets within the Raising Attainment Strategy Develop a partnership with schools which enables the delivery of school to school support during academic year 2015/16	Sep-16 Ongoing	AMcN AMcN	3	4	12	→	WF
7	Impact on staff resilience (stress and motivation) of organisational change & budget reductions.	4	5	20	'Take the Temperature' through staff surveys and focus groups Ensure that managers are carrying out 1:1's, appraisal and team meetings at a local level Ensure that managers know how to measure stress and carry out surveys of staff	Jan-16 Ongoing Mar-16	WK CMT WK	3	4	12	→	CB

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
8	Impact of the Better Care Fund on health and social care economy, including the Council's savings plans and overall integration agenda	4	4	16	The Better Care Fund is about to enter a second year. Technical guidance has not been issued at the time of updating this report, however NHS England have issued timescales for completion. (08.02.16). Due to the lack of technical guidance the plans for the year ahead are at risk of being completed fully, in a timely way. Evaluation and workshop completed using National guidance tool, and has identified a recommendation to continue with the Discharge to Assess service which has met initial expectations and targets. The allocation of funds through the CCG is at the moment being negotiated. The CCG have made assumptions on the allocation to Local Authorities for the 'Protecting Social Care' element which will severely compromise the ability for ASC to achieve savings. This is being worked up through the Berkshire West Delivery Group and the Berkshire West Finance Sub Group. Plans will need to be concluded by the second BCF submission in Mid-March 2016 (date of submission not yet provided by NHSE)	Feb-16 Mar-16	WF MOR	4	3	12	→	WF
9	Increasing number of people becoming homeless and placing additional financial pressure on the Council to provide temporary accommodation (including B&B).	4	5	20	Develop business case for council owned housing company to acquire homes to rent including a proportion at sub-market rent Subject to Planning agreement develop temporary modular homes at Lowfield Rd Refurbish and re-let units at Dee Park as Temporary accommodation Develop training for staff cross sector and make 'every contact count'.	Feb-16 July-16 Mar-16 Ongoing	SG NB ZW BH	3	4	12	→	SG

Ref No.	Risk Description	Inherent Risk			Mitigation	Due Date	Action Owner	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE				IMP	LH	SCORE		
10	Health & Safety Training has not been completed by staff and managers leading to a risk of injury and litigation.	4	4	16	Audit of health and safety training to identify gaps. Review of numbers who have completed Level 1 to ensure accuracy and programme of training to be agreed. Discussions with Learning and Development Team to agree a system to monitor training and refreshers. Training action point on Corp H&S Action Plan Audit template updated to gather training data from services - will require on going monitoring throughout the year	Ongoing Ongoing Ongoing	LD/RP RP RP	4	3	12	➔	CMT

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28 JANUARY 2016	AGENDA ITEM:	6
TITLE:	DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2016/17		
RESPONSIBLE COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	CHAIR OF AUDIT & GOVERNANCE
SERVICE:	ALL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	ALAN CROSS	TEL:	0118 9372058
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 CIPFA recommends that prior to Councils approving their Annual Treasury Strategy & Investment Statement, that it should be considered by the Council's Audit Committee as part of the overall governance arrangements.

1.2 The statement will in due course form part of the Council's overall budget proposals, presented as part of the Budget Report to Council in February.

1.3 This draft strategy may see some amendments to ensure it is consistent with the remainder of the budget proposals, but major change impacting 2015/16 is not anticipated. A short presentation will be made at the Committee to highlight key treasury management issues.

2. RECOMMENDED ACTION

2.1 That the committee considers the draft Treasury Strategy & Investment Statement for 2016/17.

3. POLICY CONTEXT

The Council is required to have a Treasury Strategy & Investment Statement in place in order to comply with legislative requirements and recommended professional practice, As the strategy is linked to the Council's overall budget strategy, it is formally considered and approved as part of the budget (as some of the prudential indicator limits are formally reserved to Council to set). This report enables Audit & Governance to consider the draft statement for 2016/17 (at Annex A) ahead of Cabinet & Council in February.

4. THE PROPOSAL

The draft Treasury Management Strategy Statement is attached in the Appendix. There will be a brief presentation at the Committee meeting to explain the key treasury issues the council is likely to face over the next year. There are a few gaps or things that may change in the draft as the budget proposal is yet to be finalised.

5. CONTRIBUTION TO STRATEGIC AIMS

Proper management of the Council's Treasury position helps support the overall achievement of the Council's financial objectives and service strategies.

6. COMMUNITY ENGAGEMENT AND INFORMATION

The Council does not directly consult with the community on this particular issue, though occasionally receives queries about its treasury activity to which an appropriate response is made.

7. EQUALITY IMPACT ASSESSMENT

An EIA is not relevant at this time.

8. LEGAL IMPLICATIONS

None, at this stage.

9. FINANCIAL IMPLICATIONS

As set out in the draft statement

10. BACKGROUND PAPERS

The statement has been prepared using a template provided by Arlingclose, adapted for Reading's needs.
CIPFA Treasury Management & Prudential Codes and guidance notes

Treasury Management Strategy Statement 2016/17

1. The Treasury Management Strategy Statement (TMSS) is an annual statement the Council is required to approve each year of our intended treasury activity, setting constraints under which that activity will (usually) operate. Given the technical nature of the subject, by way of introduction the statement is intended to explain

- How the Council tries to minimise net borrowing costs over the medium term
- How we ensure we have enough money available to meet our commitments
- How we ensure reasonable security of money we have lent and invested
- How we maintain an element of flexibility to respond to changes in interest rates
- How we manage treasury risk overall.

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. DCLG guideline requires the Council to approve an investment strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.2 The purpose of this TMSS is, therefore, to approve the:

- Treasury Management Strategy for 2016/17
- Annual Investment Strategy for 2016/17
- Prudential Indicators for 2016/17, 2017/18 and 2018/19
- MRP Statement (in connection with debt repayment)

1.3 The Council has both 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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

1.4 The TMSS has been prepared based on a template provided by Arlingclose, the Council's treasury management advisor.

2 External Context

2.1 **Economic background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

2.2 The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some 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. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

2.3 China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

2.4 **Credit outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

2.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

3 Interest rate forecast:

3.1 The Council's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by an average 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

3.2 A shallow upward path for medium term gilts (government bond) yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

3.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Annex A***.

3.4 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.4%, and that new borrowing will average around 2% (a mix of short term borrowing at under 1% and some longer term borrowing at 2-3.5%).

4. Local Context

4.1 At 31 December, the Council had £310.17m of borrowing and £36.8m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Forecast £m	31.3.18 Forecast £m	31.3.19 Forecast £m
General Fund CFR	248.2	278.6	309.2	307.6	303.5
HRA CFR	192.6	195.1	195	193.5	189.7
Total CFR	**440.8**	**473.7**	**504.2**	**501.1**	**493.2**
Less: Other debt liabilities *	34.1	33.1	32.2	31.3	30.4
Borrowing CFR	**406.7**	**440.6**	**472**	**469.8**	**462.8**
Less: External borrowing **	310.6	301.1	294.6	288.5	283.6
Maximum New External Borrowing Requirement.	**96.1**	**139.5**	**177.4**	**181.3**	**179.2**
Less: Other Cash Balances (Working capital & Earmarked Reserves)	133.1	130.0	125.0	115.0	115.0
(Cumulative Investments) / New borrowing requirement	**-37.0**	**9.5**	**52.4**	**66.3**	**64.2**

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

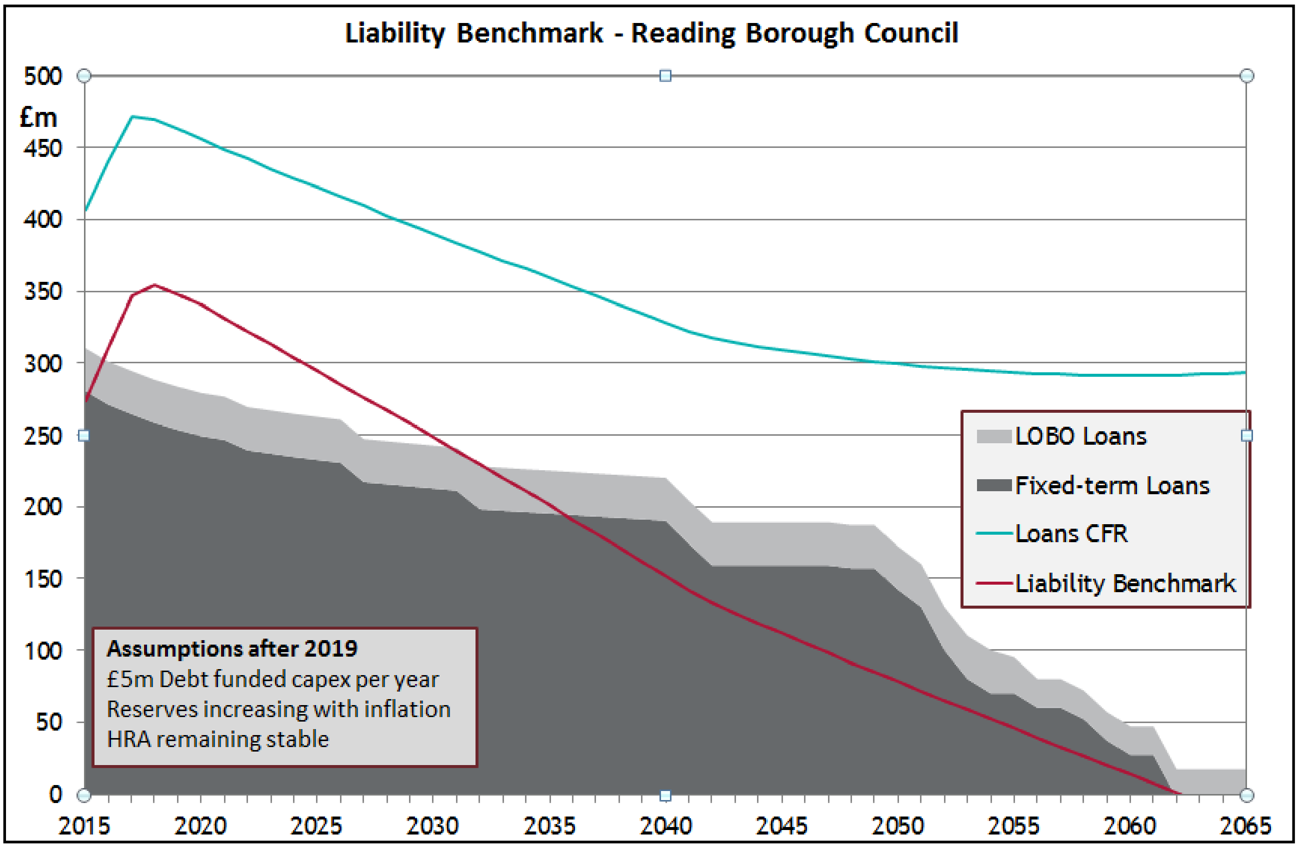
4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum liquid cash investment balance of around £10m.

4.3 The Council has an increasing CFR due to the capital programme, but reducing investments, and will therefore be required to borrow around £65m over the forecast period, and up to £50m of this will be required in 2016/17. Some additional borrowing may be needed in the last few days of 2015/16.

4.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. We will comply with this recommendation during 2016/17.

4.5 To assist with its long-term treasury management strategy, the Council and its advisers have created a liability benchmark, which forecasts the Council's need to borrow over a 50 year period. Following on from the current 3-4 year capital programme forecasts in table 1 above, the benchmark assumes

- capital expenditure funded by borrowing as set out in table in Section 2 of Annex C
- Minimum revenue provision on new capital expenditure based on an avevrage 25 year asset life
- Income, expenditure and reserves all increase by 2.5% inflation a year



4.6 The chart shows that we'll have an increasing borrowing requirement over the next 2-3 years, but from 4 years hence our borrowing needs will fall and by around 2030 be covered by exitsing long term loans. This implies that most of the borrowing we need to do should be of a relatively short term nature, subject to developments in the interest rate environment.

5 <u>Borrowing Strategy</u>

5.1 The Council currently holds £310.2 million of loans, a decrease of £6.5 million over the last year, reflecting our present strategy of funding the capital programme by using "internal borrowing" and reducing investments. However, the balance sheet forecast in table 1 (and our detailed treasury budget analysis) suggests we will need to borrow up to £50m towards the end of 2016/17. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £400 million.

5.2 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.3 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

5.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be 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 will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.6 Alternatively, we may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.7 In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

5.8 **Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK Municipal Bonds Agency plc
- Any other special purpose companies created to enable local Council bond issues
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- Any other party that establishes a presence in the LA market not covered by the above categories.

5.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- private finance initiative
- sale and leaseback

5.10 We have previously raised the majority of our long-term borrowing from the PWLB but continues to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates.

5.11 **LGA Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. With about 30 other authorities the Council was a founding investor in the company. During 2015/16 the Head of Finance has been working with two other local authority colleagues and the Agency's staff and advisors to develop the borrowing arrangements. That was completed just before Christmas, and a separate report will be coming forward to Policy Committee to explain those arrangements, and set out the final legal advice supporting the Agency structure. The Agency (which now has over 50 participating authorities) will issue bonds on the capital markets and lend the proceeds to local authorities. Borrowing authorities will be required to provide bond investors with a joint and several guarantee over the very small risk that other local Council borrowers default, and there will be a longer lead in time between deciding to borrow and concluding the deal, including knowing the interest rate payable.

5.12 **LOBOs:** The Council holds £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £10m of these LOBOS have options during 2016/17, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £50m. We also understand that because banking regulation has impacted how banks account for these loans, some LOBO lenders have been approaching local authorities offering early settlement terms. Should such an approach be received we will evaluate it with the assistance of Arlingclose as treasury advisor.

5.13 **Short-term and Variable Rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

6 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The way the PWLB formula works makes this relatively unlikely to be pursued.

7 Investment Strategy

7.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £26 and £61 million, and generally lower levels are expected to be maintained in the forthcoming year.

7.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

7.3 **Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. All of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, call accounts and money market funds. At the end of 2014/15 our working capital was around £44m, and whilst this fluctuates during the year, a figure of this magnitude is not unusual. Last year we decided to invest some of this money CCLA's Property Fund, an investment vehicle designed solely for collective investments by local authorities in the UK property market. So far we have invested £12m (which is just under 2.5% of the fund (which now totals nationally over £500m). To date performance has been broadly as expected, though it will be a couple of years before the unit price has increased to the price we paid (because the fund has a bid-offer margin). Such investments are only be undertaken after taking treasury advice from Arlingclose and on the specific authority of the Head of Finance.

7.4 **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£20m each	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Council's current account bank Lloyds Bank plc should circumstances arise when it does not meet the above criteria		£1m	next day***
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£20m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£5m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£2m each	5 years
UK Building Societies without credit ratings		£10m each	1 year
Money market funds and other pooled funds (including the CCLA Property Fund)		Up to £20m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Council's treasury management adviser		£5m each	3 months
		£1m each	1 year
		£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets
* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments
***this category is provided to enable overnight lending to the main banker – we do not expect Lloyds Bank to fall into this category.

Table 3: Current Counterparty List as at 31st December 2015{This table may need an update}

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)	Maximum Maturity Limit (negotiable instrument)
UK	Clydesdale Bank (for banking & liquidity purposes only)		10%		
UK	Santander UK Plc (Banco Santander Group)	10		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	20	22.5%	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	20		2 years	5 years
UK	Barclays Bank Plc	20		2 years	5 years
UK	HSBC Bank Plc	20		2 years	5 years
UK	Nationwide Building Society	10		2 years	5 years
UK	NatWest (RBS Group)	0		2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	0		2 years	5 years
UK	Standard Chartered Bank	10		2 years	5 years

2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Council may be investing on a shorter term basis depending on operational advice of the Council's treasury management adviser.

5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Council may be investing for shorter periods depending on operational advice of the Council's treasury management adviser.

7.4 These tables must be read in conjunction with the notes below

7.5 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

7.6 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Council's current account bank.

7.7 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

7.8 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

7.9 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

7.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

7.11 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

7.12 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

7.13 **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

7.14 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

7.15 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria for lending.

7.16 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

7.17 **Ethical Policy**

During 2015, we agreed to include an ethical statement as part of our TMSS as follows;

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include institutions with material links to

- Human rights abuse (e.g. child labour, political oppression)
- Environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels)
- Socially harmful activities (e.g. tobacco, gambling)

7.18 Specified Investments: The CLG Guidance defines specified investments as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangement,
- Not defined as capital expenditure by legislation, and
- Invested with one of:
  - UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

7.19 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any treasury investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 4: Non-Specified Investment Limits

	Cash limit
Total long-term investments	Higher of £30m or 30% of total investments
Total investments without credit ratings or rated below A-	Lower of £30m or 40% of total investments
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£30m

7.19 **Investment Limits**: The Council's revenue reserves available to cover investment losses are forecast to be £[X] million on 31st March 2016. In order that excessive available reserves are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will normally be £12 million. (The Head of Finance may extend this for very short periods provided market conditions are stable to £20m to facilitate efficient treasury activity). A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	5m in total
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	5m in total
Money Market Funds	£10m each

8 Liquidity Management

8.1 The Council uses purpose-built (web-based) cash flow forecasting software to help determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

9 Treasury Management Indicators

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

9.1 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit score	*6.0*

9.2 **Liquidity:** The Council 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.

	Target
Total cash available within 3 months (above estimated cash flow requirements)	£10m

9.3 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments, as percentage of fixed rate debt).

	2016/17	**2017/18**	**2018/19**
Upper limit on fixed interest rate exposure	120%	120%	120%
Upper limit on variable interest rate exposure	50%	50%	50%

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.

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

<table>
<tr><th>Maturity Structure of Borrowing</th><th>Upper</th><th>Lower</th></tr>
<tr><td>Under 12 months</td><td>25%</td><td>0%</td></tr>
<tr><td>12 months and within 24 months</td><td>25%</td><td>0%</td></tr>
<tr><td>24 months and within 5 years</td><td>25%</td><td>0%</td></tr>
<tr><td>5 years and within 10 years</td><td>25%</td><td>0%</td></tr>
<tr><td>10 years and within 20 years</td><td>100%</td><td rowspan="5">40%</td></tr>
<tr><td>20 years and within 30 years</td><td>100%</td></tr>
<tr><td>30 years and within 40 years</td><td>100%</td></tr>
<tr><td>40 years and within 50 years</td><td>100%</td></tr>
<tr><td>50 years and above</td><td>100%</td></tr>
</table>

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.

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

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£20m	£15m	£15m

10 Policy on Use of Financial Derivatives

10.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities’ use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

10.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

10.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

11 **Policy on Apportioning Interest to the HRA:** Reform of the Housing Revenue Account Subsidy system was completed at the end of 2011/12, when we were required to pay DCLG £147.8m. Prior to 2012/13 we were required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by DCLG. The Council has adopted a policy that it will continue to manage its debt as a single pool using the same regime that applied prior to self-financing which will set out how interest charges attributable to the HRA will be determined, because self-financing did not result in a material change to the average interest rate paid.

11.1 The HRA also has a notional cash balance which may be positive or negative. This balance is measured each month and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing

11.2 **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

11.3 **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. We have at least two meetings per annum with Arlingclose, and make contact whenever advice is needed.

11.4 **Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

11.5 The total amount borrowed will not exceed the authorised borrowing limit of £400 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

12 Financial Implications

12.1 The estimate for investment income in 2016/17 is £40k, based on an average investment portfolio of at least £10 million at an interest rate of 0.4%. The budget for debt interest paid in 2016/17 is £11 million, based on an average debt portfolio of £302.9 million at an average interest rate of 3.6%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

13 Other Options Considered

13.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance having consulted the Leadership believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income Likely to be cost of premature repayments	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2016

Underlying assumptions:

- The global economy is facing a period of slower growth, as China reorients slowly towards domestic demand. Lower demand for raw materials will depress growth in mainly developing countries where extraction is the primary industry and countries particularly reliant on exports will also face more challenging conditions.

- Countries with stronger domestic demand, such as the UK and US, will be able to weather a temporary global slowdown, helped by lower commodity prices. However, persistently slower growth will have economic repercussions for these countries.

- Additional US monetary policy tightening will be gradual and not pre-planned. The US economy will absorb the rise in interest rates without choking off growth.

- UK economic growth will slow further but remain within the long term trend range. Economic growth softened in Q3 2015 but remained reasonably robust at 2.3% year- on-year.

- Inflation is currently very low and will likely remain so over the next 12 months, on the back of low commodity prices and expectations that UK monetary policy will be tightened (strengthening sterling). The CPI rate will to rise towards the end of 2016.

- Domestic demand is key for UK growth. Household spending has been and will remain the key driver of GDP growth through 2016. Consumption will continue to be supported by real wage and disposable income growth.

- On the back of strong consumption, business investment has strengthened, which should drive some productivity growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.

- Annual average earnings growth was 2.4% (including bonuses) in the three months to October. With low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term and may alleviate the wage pressure on companies. The development of wage growth is one of the factors being closely monitored by the MPC.

- Longer term rates will be tempered by international uncertainties and weaker global inflation pressures.

Forecast:

- We have maintained our projection for the first rise in Bank Rate in Q3 2016. Risks remain weighted to the downside. We project a slow rise in Bank Rate. The appropriate level for Bank Rate will be lower than the previous norm and will be between 2 and 3%.

- We project medium term gilt yields on a shallow upward path in the medium term, with interest rate and inflation expectations remaining subdued.

- The uncertainties surrounding UK and US monetary policy, and global growth weakness, are likely to continue to prompt short term volatility in gilt yields.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.50**	**1.50**	**1.50**	**1.12**
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.50**	**1.60**	**1.65**	**1.70**	**1.75**	**1.24**
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
1-yr LIBID rate														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**	**2.15**	**1.82**
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
5-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	**1.30**	**1.38**	**1.45**	**1.53**	**1.60**	**1.68**	**1.75**	**1.83**	**1.90**	**1.98**	**2.05**	**2.13**	**2.20**	**1.75**
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
10-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.05**	**2.10**	**2.15**	**2.20**	**2.25**	**2.30**	**2.35**	**2.40**	**2.45**	**2.50**	**2.20**
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
20-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	**2.50**	**2.53**	**2.55**	**2.58**	**2.60**	**2.63**	**2.65**	**2.68**	**2.70**	**2.73**	**2.75**	**2.78**	**2.80**	**2.65**
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
50-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	**2.50**	**2.55**	**2.60**	**2.63**	**2.65**	**2.68**	**2.70**	**2.73**	**2.75**	**2.78**	**2.80**	**2.83**	**2.85**	**2.69**
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/15 **Actual Portfolio** **£m**	31/12/15 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**275.3**	**3.61**
PWLB – Variable Rate	**4.8**	**0.77**
LOBO Loans	**30.0**	**3.80**
Total External Borrowing	**310.1**	**3.62**
Other Long Term Liabilities:		
PFI	33.5	
Finance Leases	0.9	
Total Gross External Debt	344.5	
Investments:		
Short-term investments	19.5	0.4
Fund Managers (Federated Cash Plus Fund)	5.0	0.6+
Pooled Funds (CCLA Property Fund)	12.0	3+
Total Investments	**36.5**	
Net Debt	**306**	

REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**28 JANUARY 2016**	**AGENDA ITEM:**	**7**
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 November 2015.

2. RECOMMENDED ACTION

2.1 **The Committee is asked to note the budget monitoring position for 2015/16 as at the end of November, and that we are currently forecast to be at the minimum General Fund Balance level.**

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	1,194	(1,961)	(767)
Childrens, Education & Early Help Services/	3,768	(2,810)	958
Adults Care and Health Services	2,185	(1,875)	310
Corporate Support Services	1,160	(490)	670
Directorate Sub total	**8,307**	**(7,136)**	**1,171**
Treasury	(693)		(693)
Total	**7,614**	**(7,136)**	**478**

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 emergency homeless placements and the cost of rooms has also risen more than expected. A range of mitigations have been or are being implemented to increase the supply of decent and affordable temporary and permanent accommodation and strengthening prevention activity. The current forecast is that with the range of mitigating measures in place the overspend can be contained to around £600k at year end. This is being closely monitored as numbers fluctuate. There is also an unavoidable overspend forecast in Planning, Development and Regulatory services. These overspends will be more than offset by a series of one-off in-year savings including the waste disposal contract, culture and leisure and lower than budgeted spend on concessionary fares. There is predicted to be a significant increase in income from parking services by year end. Overall it is anticipated the Directorate will have a surplus of £767k at year end.

3.3 Children, Education & Early Help Services

There are overall pressures within Children's Services have increased sharply in the last few months to £3.5m, flowing from more and higher cost placements, high turnover of social work staff leading to an increase in agency & interim staffing, in addition to existing pressures on allowances and bed and breakfast costs. In addition the Authority is making a significant financial investment in service improvement. Within Education services there is a pressure of £0.3m arising from an unachieved saving within business support, which was beyond the control of the Education service as it flowed from a change more broadly within the Directorate, 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 of social workers. At present we have assumed full use of the strategic reserve of £1.9m and in addition we have factored in number of funding sources, service savings and underspends in order to reduce the overall pressure to £958k. There is a risk that the pressure may increase further before the financial year end.

Within the Dedicated Schools Grant there is a budget gap of £2m on the high needs block in 2015/16, with a significant increase due to placement changes in the new academic year. The Authority and the Schools Forum are taking steps to address the current deficit and this issue going forward.

3.4 Adult Care & Health Services

After making full use of the available Strategic Demand Reserve, the Directorate is currently reporting a projected overspend of £310,000 which is a decrease of £132,000 compared to the previous month. This is mainly the result some additional offsetting Health funding (£60k). Whilst there have been some small reductions in a couple of areas there have been increases in pressure in both Physical Support and Mental Health services.

3.5 Corporate Support Services

There is a range of budget variances within Corporate Support. In particular from recent monitoring, it has become apparent that there is forecast to be an adverse variance (flowing from increased children's social care caseloads) in child care lawyers, currently forecast at £450k. We also anticipate that there will be a shortfall between housing benefit expenditure and grant (both of which are figures over £80m) of at least £550k. Other adverse variances total £160k, but we also anticipate across a range of services some under spending and a preliminary view would be that will be around £490k to produce an overall net overspend of £670k. Work continues to drive out further savings.

4. TREASURY MANAGEMENT

4.1 We are planning to revise our approach to the minimum revenue provision in line with developing treasury management practice in a number of local authorities, and the full details will be brought forward as part of the budget proposal and treasury strategy for 2016/17 (a draft of which will be presented to Audit & Governance Committee as usual on 21 January). No significant change arose from the underlying activity in 2015/16 during November, so the underlying in year under spend is forecast to be at least £693k, subject to the proposal on the minimum revenue provision being approved.

5. FORECAST GENERAL FUND BALANCE

5.1 The General Fund Balance at the end of 2014/15 was £5.62m. As indicated in the table above, assuming remedial action highlighted is carried out, there is now expected to be a net overspend on service revenue budgets of £1.171m.

5.2 The pressure on service directorate budgets is offset by a favourable treasury position (see para 4.1), so there is an overall £478k over spend forecast. This would increase the planned use of balances of £142k to £620k, so we would end the financial year at the £5m minimum level.

6. CAPITAL PROGRAMME 2015/16

6.1 The current forecast level of capital expenditure for the year is £86.4m, of which £70.1m relates to General Fund services and £12.4m 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	2.5
Providing the best life through education, early help & healthy living	39.3
Providing homes for those most in need	11.3
Keeping the town clean, green and active	7.6
Proving infrastructure to support the economy	15.7
Remaining financially sustainable to deliver these service priorities	6.1
Total	**82.5**

FORECAST FUNDING	**£m**
Grants	27.8
Receipts (inc. S106 and HRA Major Repairs Reserve)	15.8
Borrowing	38.9
Total Funding	**82.5**

6.3 General Fund capital expenditure to 30 November totalled £41m**.** For HRA capital, a £500k underspend is anticipated, together with £1.2m of the Hexham Road work carrying forward into 2016/17 in comparison with the agreed budget last February.

7. HRA

7.1 Supervision and Management

There is a projected underspend of £185k made up of £85k from employee budgets arising from vacancies and a projected under spend on training budgets and £100k from various running costs.

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 capital funds for the works to Block 3 (£1.2m) will be carried forward to 2016/17 as indicated above.

7.3 Repairs (Revenue)

Projected overspend of £185k made up of £85k responsive repairs and £100k void work due to bringing Dee Park properties back into use for a temporary period.

7.4 **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.

7.5 **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)

7.6 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 now been made);
- Demand for adult social care which is forecast to effectively deplete its share of the strategic demand reserve;
- Demand for children's social care which depletes its share of the strategic demand reserve;
- Increased requirement for childcare solicitors linked to activity on the above;
- 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 August (last PC report) %**
Red	430	5	3
Amber	2,049	24	31
Green	5,976	71	66
Total	**8,455**	**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.

10. COUNCIL TAX & BUSINESS RATE INCOME

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

Council Tax	2015/16 £000	Previous Year's Arrears £000	Total £000
Target	60,258	1,350	61,608
Actual	59,989	960	60,949
Variance	**269 below**	**390 below**	**659 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 November 2015, collection for the year was 73.76% compared to a target of 74.8%, and collection is slightly behind 2014/15 (74.09% by end of November 2014).

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

Business Rates	2015/16 £000	2015/16 %
Target	80,203	72
Actual	78,210	70.2
Variance	**1,933 below**	**1.8% 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 November 2014, 71% 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 30 November 2015 stands at £4,425k in comparison to the 31st March figure of £3,176k. This shows an increase of £1,249k, but this includes large amounts due from other public sector bodies and we note that £2,947k of the balance as at 30 November 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.