

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

Our Ref:  
Your Ref:

Direct: ☎ 0118 937 2432  
e-mail: peter.driver@reading.gov.uk

13 July 2016

Your contact is: Peter Driver - Committee Services

### NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE - 21 JULY 2016

A meeting of the Audit & Governance Committee will be held on Thursday 21 July 2016 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

#### AGENDA

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2. MINUTES OF THE COMMITTEE'S MEETING OF 19 APRIL 2016	1
3. HEALTH & SAFETY - ADDITIONAL SAFEGUARDS EMPLOYED FOLLOWING THE INCIDENT AT THE WILLOWS AND REVISED HEALTH, SAFETY & STAFF WELLBEING STRATEGY 2016-2019	5

This report outlines actions taken and additional safeguards put in place reflecting the learning points from a recent critical incident and the risks of any such incident from recurring. This report also appends an updated Health, Safety and Staff Wellbeing Strategy.

4. BUDGET MONITORING 2016/17	12
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This report regarding the Council's budget monitoring position at the end of May 2016 was prepared for the Policy Committee meeting on 18 July 2016 and is now presented to the Audit & Governance Committee for information.

*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.	<b>DRAFT OUTTURN POSITION 2015/16</b>	17
	This report, presented to the Policy Committee on June 2016, sets out the draft budget outturn position for the 2015-16 accounts for the Council showing budget variances since the February Council report.	
6.	<b>EXTERNAL AUDITORS UPDATE</b>	35
	This is a progress report from EY, the Council's external auditor.	
7.	<b>INTERNAL AUDIT ANNUAL ASSURANCE REPORT</b>	41
	This report presents the annual assurance report of the Chief Auditor required by the Accounts and Audit Regulations and the Public Sector Internal Audit Standards.	
8.	<b>ANNUAL GOVERNANCE STATEMENT 2015/2016 AND IMPLEMENTATION PLAN</b>	65
	This report presents the draft Annual Governance Statement publication of which is required by the Accounts and Audit Regulations 2015.	
9.	<b>AUDIT &amp; INVESTIGATIONS QUARTERLY PROGRESS REPORT</b>	87
	This report provides the Committee with an update on key findings from Internal Audit reports issued since the last quarterly progress report in April 2016.	
10.	<b>TREASURY OUTTURN REPORT 2015/16 &amp; RELATED UPDATE</b>	94
	A report presenting the 2015/16 on treasury activities. A short presentation will be made at the Committee to highlight key treasury management issues.	
11.	<b>STRATEGIC RISK REGISTER - QUARTER ONE</b>	113
	This report provides an update on the first quarter status of the Council's 2016/17 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.	

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2016

Present: Councillor Stevens (Chair), Debs Absolom, Lovelock, McElligott, Page, Steele & Terry.

Also in attendance:

Alan Cross	Head of Finance
Paul Harrington	Chief Auditor
Ian Wardle	Managing Director
Helen McMullen	Director of Children, Education and Early Help Services
Katherine Peddie	Head of Governance & Transformation, DCEEHS
Maria Grindley	Director and Engagement Lead, EY LLP
Alan Witty	Engagement Senior Manager, EY LLP
Michael Popham	Democratic Services Manager

### 17. MINUTES

The Minutes of the meeting of 28 January 2016 were confirmed as a correct record and signed by the Chair, subject to the following amendment:

Minute 14. Add an additional sentence to the preamble: *“Regarding Health and Safety Training, it was proposed that a follow-up report be presented to a future meeting to provide assurance that measures were in place to avoid recurrence of incidents such as the recent case at The Willows.”* Add a new resolution: *“(3) That progress on Health and Safety training assurance be reported to a future meeting.”*

### 18. DCEEH QUALITY ASSURANCE FRAMEWORK

Further to Minute 14 of the meeting held on 28 January 2016 and Minute 38 of the meeting of the Adult Social Care, Children’s Services & Education Committee held on 3 February 2016, the Director of Children Education and Early Help Services submitted a report on the refreshed Quality Assurance Framework that had been developed under the guidance of the Children’s Services Improvement Board for use within the Children, Education and Early Help Directorate. The report explained that the framework strengthened the audit process for the Directorate which would ensure the quality of case work and case-file management across children’s social care and ensure:

- Vulnerable children, young people and their families’ outcomes were improved;
- Services were achieving consistently high standards;
- Services were regularly monitored, reviewed and evaluated;
- The organizational culture was committed to learning and continual development;
- The continuous improvement and development of the children’s care workforce.

In discussion it was reported that the Quality Assurance Board had met for the first time earlier that week and that the report author and Internal Audit team would discuss how the corporate audit framework should engage with the DCEEHS case-file audit process.

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2016

Resolved: That the Quality Assurance Framework for use in Children, Education and Early Help Directorate be welcomed and noted.

### 19. AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT

The 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 January 2016.

The report set out a summary of the audit reports in respect of Foster & Adoption Allowances, Homelessness, and Local Sustainable Transport Fund Grant Sign-Off; it outlined the findings of two school audits, three audit follow-up reviews, and seven audit investigations.

Progress made in implementing actions reported in the 2014/15 Annual Governance Statement Action Plan was set out in Appendix 1 to the report.

In discussion on the investigation of Blue Badge fraud, it was noted that six successful prosecutions had been brought during the year and it was requested that a more detailed report on this be prepared for the Traffic Management Sub-Committee, to raise public awareness of the enforcement of this scheme.

Resolved: That the report be noted.

### 20. DRAFT INTERNAL AUDIT PLAN

The Chief Auditor submitted a report setting out the work that Internal Audit planned to undertake during the financial year 2016/17. The Indicative Internal Audit Plan was attached as Appendix A to the report.

The report explained that Internal Audit was responsible for forming opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. It stated that in the context of the Public Sector Internal Audit Standards, 'opinion' did not mean simply a view, comment, or observation; it meant that Internal Audit would have done sufficient, evidenced work to form a supportable conclusion about the Council's activities they had examined.

In discussion it was noted that while it was normal practice to seek to agree a convenient date for an audit with the service team, unannounced spot-checks were used when appropriate to an investigation.

Resolved: That the Internal Audit Plan for the period April 2016 to March 2017 be approved.

### 21. IMPACT OF REVISED MINIMUM REVENUE PROVISION POLICY FROM 2017/18

The Head of Finance submitted a report providing information enabling the Committee to undertake a review of a matter referred to it by the Council Meeting on 23 February 2016 (Minute 46 refers).

The report explained that the Council was required to set a Minimum Revenue Provision (MRP) policy each year, setting out its approach to debt repayment and that as part of the budget strategy for 2016/17 a revised MRP policy had been agreed by

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2016

the Council. It explained that the previous policy that included repaying historic debt at 4% per annum of the balance had been revised by reducing the repayment rate to 2% per annum with a fixed repayment period of 50 years after a transitional period explained in the report; and that on an approved amendment, the Council had agreed to adopt this revised policy only for 2015/16 and 2016/17, with later years subject to review by the Audit & Governance Committee.

The approved amendment to the Council Budget Resolution from 23 February 2016 was attached as Appendix A to the report.

The report explained the background to the revised MRP policy and provided detailed advice on the following matters:

- i) The additional overall cost of the revised policy;
- ii) The guidance regarding the length of asset lives;
- iii) A 'prudent' MRP in the light of the prevailing interest rates.

The report explained that the general effect of the revised MRP policy was to reduce the Council's debt repayment costs over the next decade by about £9.2m, with the impact that in the medium term the Council's overall debt would be higher up to around 2037 by £6.1m per annum, on average, at a total interest cost over that period of £4.6m; about £220,000 per annum on average.

Based on these estimates, the report provided a figure of £12.3m for the additional costs of the policy over a 40 year period at an average of £510,000 per annum until the mid-2030s and a reduced amount after that. In terms of the benefit, the Council would repay less debt of about £14.1m by 2019/20 (the period of the present Parliament for which the government had set the spending in the grant settlement).

In discussion the Committee noted that the Council had adopted a pragmatic approach to the management of the Council's debt in the short-term, given the current financial settlement. Members noted that the MRP policy was set annually and it would be possible to adjust it in future.

**Resolved:** That the Administration be advised that the Committee accepted the rationale for adopting the current MRP policy, provided that the policy would be actively reconsidered on a regular basis, having regard to the prevailing economic and fiscal conditions at the time.

### 22. EXTERNAL AUDIT ARRANGEMENTS AFTER 2017/18

The Head of Finance submitted a report explaining the latest position in relation to the requirement in the Local Audit & Accountability Act 2014 for the Council to eventually appoint its own external auditor. The report explained that the Department for Communities and Local Government had recently exercised its contract rights to extend by one year the two-year initial contract that had been agreed and therefore EY would continue to be the Council's auditor until the completion of the 2017/18 audit and a new appointment would be needed for 2018/19.

The report made an initial non-binding recommendation that the Council should

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2016

participate in a sector-led body arrangement by using the services of Public Sector Appointments Limited, a company incorporated by the Local Government Association to carry out selection of auditors on behalf of local authorities.

Resolved: That the proposal to ask Public Sector Appointments Ltd to assist with the appointment of an external auditor for the 2018/19 and subsequent accounts, be approved in principle.

### 23. EXTERNAL AUDIT PLAN UPDATE

Further to Minute 12 of the meeting held 28 January 2016, the Head of Finance submitted a report introducing the external auditor's updated Audit Plan.

Maria Grindley, the EY Director responsible for engagement with the Council, presented the updated Audit Plan, which had been adjusted to reflect revised Value for Money criteria and an update on EY's assessment of the Council's control and financial processes. She advised that EY hoped to be able to report at the next meeting on the IT controls in the Academy system. She looked forward to working closely with the Council on delivering financial resilience and facing the challenges ahead.

Resolved: That the updated Audit Plan be noted.

(The meeting started at 6.30pm and closed at 7.51pm).

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 JULY 2016	AGENDA ITEM:	3
TITLE:	HEALTH & SAFETY - ADDITIONAL SAFEGUARDS EMPLOYED FOLLOWING THE INCIDENT AT THE WILLOWS AND REVISED HEALTH, SAFETY & STAFF WELLBEING STRATEGY 2016 - 2019		
LEAD COUNCILLOR:	Cllr Lovelock	PORTFOLIO:	Leader
SERVICE:	Corporate Health and Safety	WARDS:	All
LEAD OFFICER:	ROBIN PRINGLE	TEL:	07730 804547
JOB TITLE:	CORPORATE HEALTH & SAFETY MANAGER	E-MAIL:	robin.pringle@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report outlines what actions have been taken and additional safeguards put in place reflecting the learning points from the Willows case to reduce the risks of any such incident from recurring. This report also appends an updated Health, Safety and Staff Wellbeing Strategy.

2. RECOMMENDED ACTION

- 2.1 To note the actions taken and additional safeguards put in place in relation to the Willows case;
- 2.2 To note the revised Health, Safety and Staff Wellbeing Strategy covering the period 2016 - 2019.

3. CONTEXT

- 3.1 Following the identification of Legionella bacteria in the water system at the Willows Care Home, a range of further safeguards were put in place across all buildings within the Council's portfolio. These include:
- 3.2 Local managers and staff were retrained to ensure that they were fully aware of their responsibilities. That retraining was rolled out to any manager, school and staff member who has to manage the risks of Legionella.
- 3.3 Extra resources were put in place within Property Services to support managers who have responsibility for Legionella control and to provide a greater level of monitoring, ensuring that essential tasks are completed on time.
- 3.4 Additional resources were allocated to the Facilities Team to enable them to carry out building management duties across a wider range of Council premises. This has

enabled services to concentrate on their service provision and created a consistent approach to the statutory checks that are needed.

- 3.5 All building managers (including schools) are now required to submit a checklist demonstrating that they have completed essential safety-related checks. Progress with the checklists is monitored by the Directorate and Corporate Health & Safety Committees. The Corporate Health & Safety team carry out spot audits on high risk buildings. (FLASH spreadsheet Appendix 1.)
- 3.6 The Hierarchy of Legionella controls is shown in the document Appendix 2.
- 3.7 A compliance audit was undertaken of all the directly-managed buildings within the Council's portfolio. The results of that audit have led to a comprehensive condition and compliance action plan that is managed through the Corporate Risk Group.
- 3.8 As part of the ongoing improvements, a building compliance guide was developed and circulated to all building managers and school leadership teams. This guide details what actions must be taken to ensure that all building safety-related items are addressed. (Appendix 3)
- 3.9 A new process is being developed for managers to proactively establish the health and safety competency of their staff by identifying and recording the essential health & safety training for each job role. Health and Safety Training is already managed via staff development plans and monitored through appraisals and 1:1's (Appendix 4). Confirmation that staff have understood the training and are following the necessary precautions is carried out through the normal supervision activities that managers undertake.
- 3.10 Building on the work that has been carried out over the last three years, a new Health, Safety and Staff Wellbeing Strategy and Action Plan has been developed to focus on a number of objectives to further imbed health & safety risk management into performance management (Appendix 5). Key aims include:
  - Increasing monitoring, especially health & Safety targets in appraisals;
  - Ensuring that health & safety is embedded in team meetings, 1:1's appraisals and planning;
  - Building a risk assessment register within the existing self-audit process;
  - Developing a project to match essential health & safety training to each job role on iTrent;

Directorate Health & Safety Committees and Directorate Management Teams monitor the progress of the actions that contribute towards the achievement of these aims. Overall progress with the Action Plan is monitored by the Corporate Health & Safety Committee which in turn reports its progress to the Corporate Management Team.

- 3.11 To give further assurance that these control measures are embed, the internal Audit Team are undertaking a review of:
  - The current Health & Safety Strategy and Action Plan to ensure these are up to date, approved, publicised and accessible.
  - The health and safety systems and structure(s)
  - The health and safety training plan
  - Health and safety audits to ensure that are carried out by directorates
  - Local Safety Practices (LSPs) and that they are up to date and appropriately authorised.
  - The processes used for the reporting, reviewing and monitoring of incidents
  - The systems, procedures and resources in place in the Health & Safety Team to provide adequate scrutiny of building compliance matters (FLASH).



The intention is to report findings of this audit as part of the Head of Audits regular progress updates to this Committee.

A further audit of safety-related building compliance will be carried out during Q3

#### 4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 The health and safety of everyone who is either a member of staff providing, or a recipient of, any of the Council's services is an underlying principle of the Corporate Plan priorities, and in particular:

Safeguarding and protecting those that are most vulnerable;  
Providing the best start in life through education, early help and healthy living;  
Keeping the town clean, safe, green and active;  
Providing infrastructure to support the economy;

#### 7. EQUALITY IMPACT ASSESSMENT

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 7.2 An Equality Impact Assessment (EIA) is not relevant to this report or decision.

#### 8. LEGAL IMPLICATIONS

- 8.1 The Health and Safety at Work etc Act 1974 and associated regulations require the Council to have suitable health & safety systems and process to identify and control risks.

#### 9. FINANCIAL IMPLICATIONS

- 9.1 Improving health and safety systems and processes will enable the council to be in a better position to defend claims for compensation arising from incidents affecting both employees and members of the public, and reduce the likelihood of fines imposed for breach of legislation.

#### 10. BACKGROUND PAPERS

- 10.1 Appendix 1 FLASH spreadsheet  
Appendix 2 Legionella Control Flowchart  
Appendix 3 Property Management and Compliance Guide  
Appendix 4 Health & Safety Competency Flow Chart  
Appendix 5 Health, Safety and Staff Wellbeing Strategy and Action Plan







Assurance Phase

Statutory Compliance checks: H&S Team carry out spot checks on high risk premises

Competent Person monitoring: SMS carry out annual audit & bi annual risk assessments

Internal Assurance monitoring: Property Service Audit onsite Log Book Checks

Primary Monitoring: Local Managers or FM Supervisors

**Duty Holder - RBC**

Undertake risk assessment

Is there a risk of Legionella

No

Carry out normal PPM

Yes

Full Risk assessment carried out to identify scheme of works, roles and responsibilities and action plan.

**Responsible Person  
P. Eldridge/Property Services  
To allocate resources and appoint  
Competent people  
(Mark Attree & SMS)**

Risk Assessment report sent to Property Services and building manager by SMS

Physical defects rectified by Prop Services

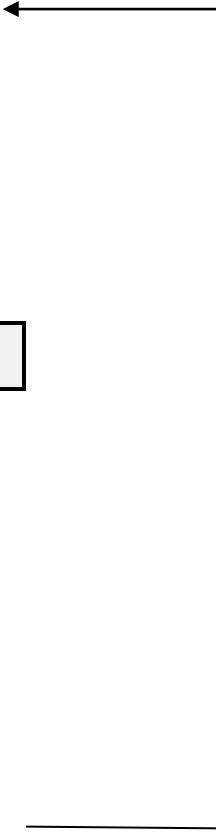
PPM carried out by Prop Services

Local Staff & FM staff trained by Prop. Services

**Site Staff  
(Local or FM Team)**

Carry out onsite temperature monitoring/flushing & record actions

Local managers to ensure that temperature monitoring/flushing is carried out through supervision & spot checks (Out of spec items to be reported to Prop. Services)



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

<b>TO:</b>	<b>POLICY COMMITTEE</b>		
<b>DATE:</b>	<b>18 JULY 2016</b>	<b>AGENDA ITEM:</b>	<b>4</b>
<b>TITLE:</b>	<b>BUDGET MONITORING 2016/17</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLORS</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>LOVELOCK/ PAGE</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
	<b>FINANCIAL</b>		
<b>LEAD OFFICER:</b>	<b>ALAN CROSS</b>	<b>TEL:</b>	<b>01189372058 (x72058)</b>
<b>JOB TITLE:</b>	<b>HEAD OF FINANCE</b>	<b>E-MAIL:</b>	<b>Alan.Cross@reading.gov.uk</b>

**1. EXECUTIVE SUMMARY**

1.1 This report sets out the budget monitoring position for the Council to the end of May 2016.

**2. RECOMMENDED ACTION**

2.1 To note that based on the position at the end of May 2016 budget monitoring forecasts an overspend of around £4m. (This has been allowed for in the separate report on your agenda on budget options).

**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	% variance budget
Environment & Neighbourhood Services	441	(363)	78	0.2
Childrens, Education & Early Help Services/	3,635	0	3,635	11.7
Adults Care and Health Services inc. Public Health	4,650	(4,200)	450	c.1
Corporate Support Services	0	0	0	0
<b>Directorate Sub total</b>	<b>8,726</b>	<b>(4,563)</b>	<b>4,163</b>	<b>3.9</b>
Treasury	(112)	0	(112)	(1.2)
<b>Total</b>	<b>8,614</b>	<b>(4,563)</b>	<b>4,051</b>	<b>3.8</b>

### 3.2 Environment & Neighbourhood Services

The initial budget monitoring exercise for the year has identified a small net overspend against budget of £78k, which is the result of a range of budget variances across the services within the directorate.

### 3.3 Children, Education & Early Help Services

The main pressures within the Directorate related to staffing & agency staff within children's social care and placements with recent changes in the structure of the service and the continued high use of agency. There has also been a recent increase in looked after children which is increasing the pressure on placements. Within Education the non-achievement of the Home to School Transport saving is causing a significant budget pressure, and also within the Schools Block there is special educational needs funding pressure which the Schools Forum is considering. Furthermore, the Directorate is incurring improvement costs and the full extent of these is difficult to quantify at this stage in the year. Overall, based on current forecasts of demand, as indicated above the Directorate will be over spent by £3.6m.

### 3.4 Adult Care & Health Services

Adult Social Care - Care costs commitments show that there is a large pressure within all services, particularly within the residential and community services costs. There are a number of transformation and deficit reduction projects currently being run in order to ensure that the service achieves savings targets and also operates within its net budget for the year. Some of these have delivery risks associated with them, but at this stage it is reasonable to expect that they can be successfully managed.

Public Health Budget - The PH grant has been cut further (on top of the 2015/16) in year reduction. Taking account of the present forecast commitment on contracts, currently the grant is over committed by £450-£500k; savings of £560k have been identified but at this stage we are only reasonably around £100k of these savings will be delivered, so currently there is a forecast £460k overspend .

### 3.5 Corporate Support Services

At this early stage in the year no significant budget variances have been identified within Corporate Support. The general pattern is for service budgets to be marginally under spent, but as in recent years, we anticipate the housing benefit budget will be under pressure. Based on the information currently available, it is reasonable, at this stage to anticipate these variations may net off.

## 4. TREASURY MANAGEMENT

4.1 An initial review of the capital financing budget has identified a potential under spend of £112k. In terms of treasury activity, we have arranged up to £60m of temporary borrowing during the year (with £120m borrowed from various other local authorities (or similar) for various periods to manage the

cash flow), and this should ensure we have enough cash available until at least the autumn. The impact of this has been to reduce the average interest rate we are paying from 3.6% to around 3.4%. The forecast incorporates the likely funding costs of the property Policy Committee agreed to purchase at its last meeting. Without this the under spend would be £195k, and the DENS budget monitoring therefore incorporates additional income, so the net gain being estimated is £250k (half a year, as per the report to committee). We will refine this estimate once the purchase is completed.

## 5. FORECAST GENERAL FUND BALANCE

5.1 Based upon the provisional outturn, the General Fund Balance at the end of 2016/17 was just over £5m. 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 £4.2m.

5.2 The pressure on service directorate budgets is offset by a favourable treasury position (see para 4.1), so there is an overall £4.1k over spend forecast. Subject to the savings in the separate report on the agenda being agreed, as indicated in that report additional one off measures will be needed in 2016/17 of £3.9m. Whilst this will be technically possible it will further weaken the Council's financial position, with an increased risk that we would end the financial year below the £5m minimum level (or have no organisational change reserve left to meet redundancy or other related costs).

## 6. CAPITAL PROGRAMME 2016/17

6.1 To the end of May £3.6m of the c.£70m programme had been spent. Capital spending is normally weighted to the latter part of the year, though with the need to complete significant parts of the school building programme by September we are expecting a greater proportion earlier in the year. A full detailed review of the position has yet to be completed.

## 7. HRA

7.1 Operational budgets (for repairs and management costs) at this early stage in the year appear to be broadly on track and no significant variances have been identified.

7.2 An initial review of the likely HRA capital financing position for 2016/17 has identified those costs should be around £300k under spent, and an initial consideration of the prospect for rent income, suggests that actual income should be at least £100k better than budget, amongst other reasons because of continuing good control of rent arrears.

## 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;
- Demand for adult social care;
- Demand for children's social care;
- Increased requirement for childcare solicitors linked to activity on the above;
- Homelessness, and the risk of a need for additional bed & breakfast accommodation;
- Demand for special education needs services;
- 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 2016/17 budget are subject to a monthly review. The RAG status in terms of progress is summarised below:

	£000	%
Red	710	5.0
Amber	7,345	51.4
Green	6,231	43.6
Total	<u>14,286</u>	<u>100</u>

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 May 2016 position is:

Council Tax	2016/17 £000	Previous Year's Arrears £000	Total £000
Target	17,188	570	17,758
Actual	17,455	500	17,955
Variance	267 above	70 below	197 above

10.2 For 2016/17 as a whole the minimum target for Council Tax is 96.5%, (2015/16 collection rate 96.8%). At the end of May 2016, collection for the year was 91.91% compared to a target of 20.3%, and collection is slightly ahead of 2015/16 (20% by end of May 2015).

10.3 Business Rates Income to the end of May 2016

Business Rates	2016/17 £000	2016/17 %
Target	20,851	18.0
Actual	20,743	17.9

Variance	108 below	<0.1%
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The target for 2016/17 as a whole is 98.50%. By comparison, at the end of May 2015, 17.4% of rates had been collected.

## 11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 31 May 2016 stands at £5.189m in comparison to the 31<sup>st</sup> March figure of £3.861m. This shows an increase of £1.328m, but this includes large amounts due from other public sector bodies and we note that £2.571m of the balance as at 31 May 2016 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 2016/17 budget as a whole.

## 17. BACKGROUND PAPERS

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

READING BOROUGH COUNCIL  
REPORT BY HEAD OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	JUNE 13 2016	AGENDA ITEM:	13
TITLE:	DRAFT OUTTURN POSITION 2015/16 (UPDATED 10 JUNE TO REFLECT FINAL DRAFT POSITION)		
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 sets out the draft outturn position for the 2015-16 accounts for the Council showing budget variances since the February Council report.

## 2. RECOMMENDED ACTION

- 2.1 Policy Committee is asked to note the draft outturn position for 2015/16 set out below and note that Audit & Governance Committee will receive the final accounts in September.
- 2.2 Policy Committee is asked to approve the use of S106 receipts set out in Appendix A to finance the 2015/16 approved capital programme
- 2.3 Policy Committee is asked to agree the write off of £270k business rate debts as outlined in paragraph 3.17, noting in most cases the businesses are in liquidation or have been dissolved

## 3. DRAFT OUTTURN POSITION

This report has been updated from that included in the original agenda to reflect the final draft closing accounts position, including the earlier sections that were "to follow".

- 3.1 For 2015/16 the Council had a budget requirement of £124.9m which was funded by revenue support grant £24.3m, retained business rates £29.4m, council tax £68.5m and the estimated collection fund surplus of £2.7m. Government Regulations mean that the budget requirement does not change, but budget variances require either compensating adjustments elsewhere or result in a movement on the General Fund Balance. Variations

in Business Rate and Council Tax income will leave the Council with a Collection Fund Balance, which is taken into account in future budget rounds.

- 3.1 At the time of writing the Finance Service was nearing completion of the closing accounts processes, and in Table 1 the draft outturn position is set out. The table compares the outturn with the probable position approved by Council in February 2016.

Table 1: Draft Outturn Position

	Probable (Adjusted <sup>1</sup> ) 2015-16	DRAFT Outturn Position	Variance to Probable
	£'000		
	£'000		
DENS	32,710	32,039	-671
DCEEHS	32,090	32,325	235
DACHS	38,665	39,270	605
CSS	12,929	12,992	63
Directorate Total	<u>116,394</u>	<u>116,626</u>	<u>232</u>
Capital Financing	8,516	8,147	-369
Insurance	900	887	-13
Property, Pension & Other Liabilities, & Environment Agency Levy	2,153	2,641	488
TOTAL	<u>127,963</u>	<u>128,301</u>	<u>338</u>
Capitalisation	0	-884	-884
Use of Reserves	425	425	0
Grants	-5,041	-5,159	-118
Add to GF Balance	1,520	2,184	+664
Budget Requirement	<u>124,867</u>	<u>124,867</u>	<u>0</u>

### 3.2 Environment & Neighbourhood Services

The Directorate has delivered a positive year-end variance of £0.67m. This represents an improvement on forecasts, but is largely due to a number of one-off in-year savings that are not expected to recur in future years, along with better than expected income generation in some areas towards the financial year end.

As previously forecast, the Housing Bed and Breakfast budget was over spent on its original budget by £541k at year end, reflecting the continued pressure for, and cost of, emergency homeless placements. A range of

<sup>1</sup> Adjustments reflect the move of a recharge budget between DENS & CSS associated with property costs, and the reflection of the NNDR levy and grant for business rate relief which were earlier netted off

mitigations have been or are being implemented to increase the supply of decent and affordable temporary and permanent accommodation and to strengthen prevention activity. To reflect this on-going pressure, the Council made additional provision in setting the 16/17 budget.

Overall, the positive year-end variance has arisen as a result of some significant but non-recurring, one-off benefits. These non-recurring savings include reduced spend on concessionary fares, the waste disposal contract and reduced cost of subsidised Greenwave bus route due to early opening of Mere oak Park and Ride. In addition, one-off in-year salary savings were accrued as a result of efficient implementation of organisational change to deliver previously agreed savings.

Improved income has been achieved across a range of fee-generating services, including planning, transport and regulatory services, and through additional grant for New Directions. Where appropriate and sustainable, these increases have been reflected in the base budget going forward.

### 3.3 Children, Education & Early Help Services

The Directorate has a £235k adverse variance to the February forecast. The main reason for this was that the DSG deficit position (see below) was such that the planned full use of this could not be made given the worsening position on the high needs block.

The Schools Forum, on 12 May 2016 received a report that there was a £2.1m deficit on the high needs block which was some £0.2m higher than anticipated. An overall deficit balance is being carried forward into the 2016/17 year and there is only £0.9m available to fund high needs in the new financial year, whereas costs are likely to exceed £2m. Schools Forum also received a report about individual school balances; a small number of schools are in deficit; and that deficit will need to be funded by DSG when such schools convert to an academy. We are visiting the schools concerned to discuss recovery measures.

As reported previously in budget monitoring, the original budget overspent because of significant pressure on placements and agency, the majority of which are expected to be ongoing. Within Education services there was a small one off pressure. With regard to the main offsets against the overspending, use was made of reserves by £2m with the £1.9m strategic demand reserve balance being fully deployed as a one off. There was also a £0.9m underspend in Early Help services flowing from additional income and the use of grants, part of which will be ongoing.

### 3.4 Adult Care & Health Services

The Directorate outturn was higher than forecast in February with an overspend of £605k. Key variations were included Adult, where the draft outturn £477k higher than forecast in February. Key challenges were included the increase in demand towards the end of the year with significant pressures in the local Acute Hospital and community based services (across all services). During the course of the year we had forecast that around 85%

of the commitments showing on MOSAiC<sup>2</sup> likely to become a real cost. At year-end this percentage increased to 89% once the detailed analysis had been completed. The Directorate has been aware of some of the data challenges for a period of time and the higher percentage would indicate that data quality is improving, but more work is required. The remainder of the changes relate to specific issues such as Learning Disabilities, two clients being set up late and having backdated costs. The Commissioning and Procurement draft outturn was c. £150k underspent, mainly due to staffing savings.

In the circumstances we have considered the impact on the outturn for 2016/17. At this stage in the year there is considerable uncertainty, but overall the best case scenario is currently for a £0.7m over spend, with a possibility the overspend may be around £1m higher. This range is due to uncertainties around how much of the commitments with potential packages of care will translate in actual spend. The Directorate will be implementing, wherever possible corrective actions mitigate the prospective overspend.

It will remain a risk that social care demand will continue to increase above levels currently being managed within existing budgets across both in 2016/17 and beyond. Growth pressures are likely to emerge from

- Learning Disability and Physical Disability clients transitioning from Children's to Adults services (post 18)
- Increasing Older Peoples community based service demand, together with increasing complexity of need, with particular reference to the pressure to avoid delayed discharges from hospital and very significant increases in the number of people being admitted (and then discharged in need of care).

### 3.5 Corporate Support Services

The Directorate outturn was overspent by £63k against the forecast in February. The key drivers of this overspend were the pressure on child care lawyers but the major issue was the housing benefit subsidy position, where as well as needing to cover the 2014/15 additional subsidy loss following the final audit of our claim there is also an estimated £0.6m shortfall between expenditure and budgeted subsidy entitlement. This has been in part offset by smaller underspends and increased income across a range of other services within the Directorate.

### 3.6 Capital Financing & Other non service lines

The capital financing position is slightly better than forecast by about £0.37m; the returns (both by way of dividend and capital growth) on the CCLA Property Fund investment have exceeded forecasts, actual borrowing is slightly lower than forecast, though we did need some short term temporary borrowing in the last few days of the financial year.

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<sup>2</sup> MOSAiC is the Council's Information System for social care expenditure; as people's circumstances change, our experience is that not all the "commitments" showing are incurred as circumstances change (people don't need as much support, or in the elderly client group, some will die in the course of the year)

Non service lines include various property and pension liabilities as well as the NNDR Levy. The Council continues to have a pension fund deficit, and the draft position includes allowances to meet costs that will fall due for payment that are unlikely to be covered by other resources in the near future. Overall the year end of year Capitalisation, for which there was a capital budget in place enabled the movement of the General Fund balance to be better than was planned in February, which will provide some flexibility to help manage 2016/17.

### 3.7 Capital Expenditure

The table below shows a comparison by service between the Draft Outturn and Probable Expenditure as reported to Policy Committee & Council in February. The outturn is broadly consistent with the projection based on the end of January position, reported to Policy Committee in March.

Table 2: Capital

	Probable £'000	Outturn £'000
Safeguarding & Protect Vulnerable	2,270	1,590
Providing best life through education, early help and healthy living	39,307	39,020
Providing homes for those most in need	12,350	9,807
Keeping the town clean, safe, green and active	5,545	4,548
Providing infrastructure to support the economy	15,715	15,490
Remaining financially sustainable to deliver these service priorities	6,127	4,932
<b>Total</b>	<b>80,260</b>	<b>75,387</b>
HRA	12,371	10,417
General Fund	67,889	64,970
Funded by:		
Grant	27,839	25,385
S106 Receipts & Other Contributions	7,160	6,264
Borrowing	36,678	35,121
Other (mainly HRA/MRA)	8,583	8,617
	<b>80,260</b>	<b>75,387</b>

### Borrowing Outstanding

In line with the requirements of the CIPFA Prudential Code there will be a treasury outturn report to Audit and Governance Committee as part of the final accounts package setting out in full the outturn Prudential Indicators. Table 3 shows the summary position of capital debt outstanding as measured by the adjusted capital finance requirement

Table 3: Capital Debt Outstanding

(Adjusted CFR)	Probable £m	Outturn £m
General Fund	198.1	194.9
HRA	195.1	193.4
Total	<u>393.2</u>	<u>388.3</u>

Actual treasury borrowing at 31 March 2016 was £318.4m and £306.4 net of investments. (The only investment the Council had was the £12m CCLA long term property fund investment).

### 3.8 Early Termination (Redundancy) Costs

As part of in year budget reductions to keep net expenditure within the approved budget and the requirement to make savings so that the budget could be set for 2016/17 within the available resources, taking account of the on-going reductions in government support for the council's activities, the Personnel Committee has agreed redundancy, compensation and early retirement packages to the value of £812k for 35 employees.

### 3.9 General Fund Balances

Based on the provisional outturn the General Fund Balance as at 31<sup>st</sup> March 2016 will be just above £5m.



### 3.10 HOUSING REVENUE ACCOUNT

The outturn position for the Housing Revenue Account is set out in table 2

Table 2 Preliminary Outturn - Housing Revenue Account

	Probable 2015/16 £'000	Draft Outturn 2015/16 £'000	Variance to Probable £'000
Repairs	11,925	10,998	-927
Management	16,157	15,340	-817
Capital	10,600	10,103	-497
Total Expenditure	38,682	36,441	-2,241
Rents & Service Charges	36,625	37,932	-1,307
PFI Allowance/Grant	3,997	3,997	0
Interest & GF Contribution	262	289	-27
Total Income	40,899	42,218	-1,334
Net Income	-2,202	-5,777	-3,575
HRA Balance b/f	18,345	18,345	
Funded from b/f Balances	3,187	1,921	
HRA Balance c/f	17,360	22,201	

The table shows the HRA having a balance £4.8m higher than was forecast in January when the budget was set for 2016/17. Some of this has occurred because some planned major repairs had not been completed in the year and the resources will now be spent in 2016/17. In addition the repairs contingency of £400k was not needed and this carries forward.

Management costs, including the PFI contract were underspent by £817k; in part this arose from good cost control, notably in voids and allocations, but also reflects reduced support costs from other directorates.

Capital Financing Costs were underspent, reflected by lower interest rates and reduced debt. On the income side because of the risk of the benefit cap we had budgeted for some addition to the bad debt provision, but owing to the good performance of the rent recovery team this was not required, and our voids position was better than budgeted, having been substantially improved in year.

We will in due course recast the HRA business plan to take account of these changes, and whilst they will have a positive effect, over the 30 year life the impact will be less significant in most years beyond the first.

### 3.11 Final Accounts Process

Appendix B explains the final requirements for Local Authority Accounts and in particular the formal approval process at the end of June & September. The draft accounts which must be prepared in a prescribed format will be “signed off” by the Head of Finance by the end of June prior to audit before being presented to the Audit & Governance (A+G) Committee before the end of September for approval. The external auditor (EY) is expected to review the draft accounts during July and August, prior to issuing an opinion on them at the A+G Committee at the end of September. The accounts will be published on the Council’s website as signed off initially (with a “subject to audit” cover) and with the audit opinion at the end of September. At the time of preparing this report, not all the figures set out above had been checked in detail, and therefore may vary in the final accounts. Any significant variations, if not apparent from a full reading of the accounts will be explained in the cover report to the Audit & Governance Committee.

### 3.12 Debt Outstanding

The accounts include various streams of income where money was owed to the Council at the year end, and the remaining sections of this report include a commentary on those debtor streams.

### 3.13 Council Tax

Table 6 shows the Council Tax Collection Rate over the last 5 years:

	2011/12	2012/13	2013/14	2014/15	2015/16
Collection Rate	97.41%	97.54%	96.93%	96.61%	96.84%

Since 2013/14 collection performance has been slightly reduced following the introduction of the working age Council Tax Support Scheme which requires a new or increased contribution from non pensioner households formerly entitled to council tax benefit. In addition to in year collection, previous year’s arrears to the value of almost £1.25m (2013/14 £1.3m) were also collected, leaving gross arrears (for all years since 1997/98) at 31 March 2016 of £11.3m (31/3/15 £10.3m). We anticipate collecting around £2.0m of this in due course (based on our historic arrears collection performance, a forecast that has been revised downwards from last year’s £2.4m - we would expect to collect about £1.5m of this arrears in 2016/17, and the remainder in later years).

We have accounted accordingly, but have a year end council tax deficit on the collection fund of around £467k, of which RBC’s share is £400k. However, the 2016/17 income is running ahead of forecast, and we anticipate there should be a small surplus in the fund by the end of the 2016/17 year.

Recovery activity of recent years has resulted in irrecoverable debt written off continuing to fall. Only £5k was written off in 2015/16 (£32k in 2013/14

and £7k in 2014/15). However, the level of provision above against older historic effectively means that it is not economically recoverable.

### 3.14 Business Rates

Arrears of Business Rates total £4.9m in 2015/16 (£5.8m in 2014/15). For 2015/16 the in year Collection Rate was 97.9% (almost 97.0% in 2014/15). In addition there was a reduction in previous years arrears of £2.9m (2014/2015 £2.0m).

The Committee will recall that in January we estimated that there would be an NNDR collection fund surplus of £1m. That estimate has been confirmed at the year end. In addition we are holding a gross provision of £16.5m towards the business rate appeals liability which is currently estimated to be around £20m (the remaining money will be set aside over the next two years as part of the 5 year transitional arrangements introduced in 2013/14).

### 3.15 Housing Rents

Arrears of rents from Council Housing and Temporary Accommodation totalled just below £0.9m broken down as follows:-

2015-16	Current Tenants		Former Tenants	
	£'000	% of rent	£'000	% of rent
Council Housing	482	1.29%	346	0.92%
Temporary Accommodation	6		53	
	488		399	

A bad debt provision of £0.6m has been made to cover the risk of non recovery. In comparison at 31/3/2015, current tenants rent arrears were £480k and former tenants rent arrears were £357k.

### 3.16 General Debtors

The table at Appendix G summarises the level of general debtors outstanding of £9.99m greater than 60 days old (31/3/15 £6.68m), beyond the normal reminder process.

The most significant areas of debt relate to Housing Benefit Overpayment and Community Care, where the majority of debt relates to domiciliary care and older peoples residential accommodation awaiting administration of clients estates. A large proportion of the debt is being paid by instalments or awaiting legal action.

Where Housing Benefit overpayments occur in most cases 40% is claimable through subsidy and the Council seeks to recover the overpayment from the claimant by either deductions from on-going benefit or by raising an invoice. In most cases arrangements to pay are agreed with claimants linked to ability to pay hence the age of the debt.

### 3.17 Write Offs

Financial regulations require that Committee approval is given for write offs above £20,000. Your approval is therefore requested for the following write offs for the reasons stated.

#### Write Offs over £20,000

Company Dissolved	£26,330.11
Absconded	£36,984.20
Liquidation	£45,684.90
Liquidation	£57,268.89
Liquidation	£52,722.02
Company Dissolved	£51,092.98

### 4 Contribution to Strategic Aims

- 4.1 The production of accounts does not in itself contribute to the Council's strategic aims, however maintaining a sustainable financial position is a key element underpinning sound Corporate Governance of the organization.

### 5 Community Engagement and Information and Legal Implications

- 5.1 None directly from this report.

### 6 Financial Implications

- 6.1 As set out above.

### 7 Background Papers

Code of Practice on Local Authority Accounts

Closing working papers save confidential/person sensitive items

## Appendix A - S106 Receipts to be applied 2015/16

Scheme	Total applied
<b><u>Highways and Transport revenue costs:</u></b>	
3256 - Former reservoir and pumping station, Bath Road	16,733.34
1057 - Horncastle, Bath Road	32,500.
3264 - 60 Granville Road	21,704.66
<b>Highways and Transport revenue total</b>	<b>70,938.</b>
<b>Revenue Total:</b>	<b>70,938.</b>
<b><u>Employment and Skills work - Reading UK CIC</u></b>	
1624 - Land at junction of Forbury and Vastern Roads (Reading Central One)	67,775.
<b>Transferred to Reading UK CIC total:</b>	<b>67,775.</b>
<b><u>Abbey Quarter</u></b>	
576 - Land adj Central Pool, Bedford Rd	16,000.
1259 - 70A London Road	6,500.
1267 - Guillaime Court, Muirfield Close	3,140.19
1306 - 149-153 Oxford Rd & Langley Court, Goldsmid Road	4,602.01
1334 - 6a-8 Lorne Street	9,000.
920 - 24/26 East Street	13,184.04
<b>Abbey Quarter total:</b>	<b>52,426.24</b>
<b><u>Mapledurham Pavillion</u></b>	
1841 - Rosehill Park	280.63
3176 - 29 Woodcote Road	125.48
<b>Mapledurham Pavillion total:</b>	<b>406.11</b>
<b><u>Palmer Park</u></b>	
1611 - Land at Green Road Reading	28,005.16
1687 - Talisman House 81-83 Kings Road	19,844.61
3033 - Land r/o 61-65 Eastern Avenue	382.
3037 - 146 Wokingham Road	4,787.54
<b>Palmer Park total:</b>	<b>53,019.31</b>
<b><u>Christchurch and Hills Meadows</u></b>	
1758 - 27-29 Church Road	1,171.03
1710 - 2 and 4 Gosbrook Road	416.4
<b>Christchurch and Hills Meadows total:</b>	<b>1,587.43</b>
<b><u>John Rabsons</u></b>	
1644 - Kennet Island	16,218.7
1999 - The Whitley Tavern, Northumberland Avenue	40.31
1736 - 11 Elm Road	1,500.
3984 - 44 Greenfields Road	1,500.
<b>John Rabsons total:</b>	<b>19,259.01</b>
<b><u>Arthur Newbury</u></b>	
3300 - 98-100 School Road	445.64
3125 - 45 Oak Tree Road	1,525.71
<b>Arthur Newbury total:</b>	<b>1,971.35</b>
<b><u>Cintra Park</u></b>	
2075 - 1 Northumberland Avenue	2,230.64
3051 - 77-81 Basingstoke Road	1,578.04
3232 - 8-10 Kendrick Road	5,400.
<b>Cintra Park total:</b>	<b>9,208.68</b>
<b><u>Forbury Gardens</u></b>	

3174 - 27 Castle Street	3,763.45
<b>Forbury Gardens total:</b>	<b>3,763.45</b>
<b><u>Robert Hewett Recreation Ground</u></b>	
3045 - 32 Brunswick Street	1,356.69
<b>Robert Hewett Recreation Ground total:</b>	<b>1,356.69</b>
<b><u>Lousehill Copse</u></b>	
1983 - Dee Park	2,271.77
<b>Lousehill Copse total:</b>	<b>2,271.77</b>
<b><u>Museum Store</u></b>	
1880 - Land at Windermere Road	2,660.04
<b>Museum Store total:</b>	<b>2,660.04</b>
<b><u>Prospect Park</u></b>	
3083 - 51 Silchester Road	2,037.74
3264 - 60 Granville Road	4,675.75
3313 - 2-4 Western Elms Avenue	2,576.51
4055 - 67 Winser Drive	2,800.
<b>Prospect Park total:</b>	<b>12,090.</b>
<b><u>Thames Parks Plan</u></b>	
3141 - Abbotsmead Place/School Lane	31,311.77
1381 - Land r/o 88-96 Lower Henley Road	20,493.75
3236 - Land r/o 50 Norcot Road	4,289.86
<b>Thames Parks Plan total:</b>	<b>56,095.38</b>
<b><u>Town Hall lift</u></b>	
1359 - 34 Waylen Street	3,202.53
1475 - 125 Friar Street	7,717.
1425 - 121 Oxford Road	10,500.
1417 - Briants Avenue	19.26
1476 - 16 Kings Road	2,068.86
<b>Town Hall lift total:</b>	<b>23,507.65</b>
<b><u>Beresford Road Recreation Ground</u></b>	
1445 - Land at Battle Hospital site (Kingsoak S106)	9,161.49
<b>Beresford Road Recreation Ground total:</b>	<b>9,161.49</b>
<b><u>Kensington Road Recreation Ground</u></b>	
1445 - Land at Battle Hospital site (Kingsoak S106)	67,768.12
3194 - 409-411 Oxford Road	3,000.
3990 - 617-621 Oxford Road	4,500.
<b>Kensington Road Recreation Ground total:</b>	<b>75,268.12</b>
<b><u>Coley Recreation Ground</u></b>	
3002 - 2 Berkeley Avenue	90.
<b>Coley Recreation Ground total:</b>	<b>90.</b>
<b><u>Cintra Park</u></b>	
1695 - 16a Alpine Street	8,955.96
3051 - 77-81 Basingstoke Road	17,381.96
1666 - 68-72 Northcourt Avenue	1,912.08
<b>Cintra Park total:</b>	<b>28,250.</b>
<b>Arts and Leisure total:</b>	<b>352,392.72</b>

<b><u>Alfred Sutton Primary</u></b>	
3033 - Land r/o 61-65 Eastern Avenue	16,457.47
3987 - 7 Craven Road	10,269.
3193 - 8 Crown Place	16,569.13
1517 - Alexandra House, 103 London Road	2,094.34
3293 - 276 Wokingham Road	21,107.14
<b>Alfred Sutton Total:</b>	<b>66,497.08</b>
<b><u>Churchend Primary School</u></b>	
4026 - 5a Riley Road	11,334.
3114 - 52 Queens Road RG1	2,185.14
<b>Churchend Total:</b>	<b>13,519.14</b>
<b><u>Geoffrey Field Infant and Junior Schools</u></b>	
3254 - Kennet Island Phase 3	143,030.07
3984 - 44 Greenfields Road	5,413.
861 - 90 Winton Road	532.
1736 - 11 Elm Road	1,599.21
3051 - 77-81 Basingstoke Road	19,221.63
<b>Geoffrey Field Total:</b>	<b>169,795.91</b>
<b><u>Hodsoll Road Academy</u></b>	
1047 - 12-18 Crown Street	10,000.
3081 - 53 Greyfriars Rd	849.12
3145 - 74-76 London Street	12,775.78
3111 - British Sch, 153 Southampton Street	42,934.16
3203 - Land adj 122 Wantage Road	21,022.7
4017 - 52 Russell Street	14,322.75
1945 - 41 St Georges Road	10,782.87
3146 - 76A London Street	6,608.77
1406 - 27 Argyle Street	4,700.
<b>Hodsoll Road Total:</b>	<b>123,996.15</b>
<b><u>Newtown Primary School</u></b>	
3263 - Kennet House, Kings Road	136,120.74
4049 - 34 Queens Road RG1 4AU	10,269.
<b>Newtown Total:</b>	<b>146,389.74</b>
<b><u>Ridgeway Primary School</u></b>	
1644 - Kennet Island	1,032,760.96
<b>Ridgeway Total:</b>	<b>1,032,760.96</b>
<b><u>Southcote Primary School</u></b>	
3149 - 89 Gainsborough Road	10,717.33
3264 - 60 Granville Road	110,931.71
4055 - 67 Winsor Drive	11,334.
1441 - Land adj 58 Ashampstead Road	46.92
3001 - Hastings Close	14,805.67
3276 - 4 Granville Road	2,394.23
1546 - land between 138-142 Southcote Lane and 10-14 Aldworth Close	45,854.45

<b>Southcote Total:</b>	196,084.31
<hr/> <hr/>	
<b><u>St Michaels Primary School</u></b>	
3256 - Former reservoir and pumping station, Bath Road	460,397.05
3105 - 41 Bath Road (3105)	21,929.82
780 - Land rear of Chimney Court	3,000.
3164 - 1 Oak Tree Road	10,691.9
3117 - Taylor Court, Tilehurst Road	111,500.45
3086 - The Happy Prospect Coronation Square	64,837.
4025 - Highlands School, Wardale Avenue	114,359.48
<b>St Michaels Total:</b>	786,715.7
<hr/> <hr/>	
<b><u>Thameside Primary School</u></b>	
1381 - Land r/o 88-96 Lower Henley Road	96,961.07
4064 - 68-70 Grosvenor Road	11,267.41
<b>Thameside Total:</b>	108,228.48
<hr/> <hr/>	
<b>Education Total:</b>	2,643,987.47
<hr/> <hr/>	
<b><u>MAPP building</u></b>	
3111 - British Sch, 153 Southampton Street	9,435.
<b>MAPP building total:</b>	<b>9,435.</b>
<hr/> <hr/>	
<b><u>Chatham Place CCTV</u></b>	
1305 - Chatham Street Car Park Complex	3,672.
<b>Chatham Place CCTV total:</b>	<b>3,672.</b>
<hr/> <hr/>	
<b>Corporate total:</b>	<b>13,107.</b>
<hr/> <hr/>	
<b><u>A33 Pinchpoint Scheme</u></b>	
1337 - 280 South Oak Way aka Smallmead Triangle	120,185.6
<b>A33 Pinchpoint Scheme total</b>	<b>120,185.6</b>
<hr/> <hr/>	
<b><u>Pedestrian Cycle Bridge</u></b>	
1009 - 4 Micklands Road	1,200.
1023 - Addington Road Playing Field	4,999.43
1036 - 3 Princes Street	1,000.
1039 - 50 St Michaels Road, Tilehurst	1,542.86
1080 - 5-9 Blakes Cott's & 99-105 Kings Rd	3,440.4
1172 - 2 Caroline Street	13,071.33
1233 - 358 The Meadway	3,000.
1270 - 2 Berkeley Avenue	2,500.
1284 - Kidmore End Road	15,640.39
1381 - Land r/o 88-96 Lower Henley Road	30,509.75
-	



1546 - land between 138-142 Southcote Lane and 10-14 Aldworth Close	12,868.88
1549 - 120 Connaught Road	2,393.38
1595 - Garages At Ivydene Road	10,957.64
1611 - Land at Green Road Reading	16,350.
1666 - 68-72 Northcourt Avenue	44,000.
1669 - 53a Craig Avenue	3,197.14
1687 - Talisman House 81-83 Kings Road	5,512.25
1726 - 137 Honey End Lane	4,323.36
1729 - 27-29 Highgrove Street	8,792.52
1752 - Land r/o 91 School Road	2,083.03
1782 - 177-179 Whitley Wood Lane	8,644.56
1813/2105 - Aldwych House, Blagrove Street	31,499.22
1841 - Rosehill Park	1,017.97
1855 - 2-4 Church Street	2,760.42
-	
1897 - 28 Lower Elmstone Road	9,120.
1910 - 73 Edinburgh Road	6,967.38
1918a - 13 Wilson Road (Deed of Variation)	4,639.05
1927 - 17 Deacon Way	3,004.8
1930 - Plot 1 Vallpineda, The Warren	3,000.
1931 - Plot 2 Vallpineda, The Warren	3,000.
1967 - 4-8 Winchester Road	3,229.17
2006 - 89 Cressingham Road	2,243.77
2065 - 644 Oxford Road	4,719.75
2070 - 199 Basingstoke Road	1,000.
2075 - 1 Northumberland Avenue	4,455.26
2097 - 11 Kendrick Road	25,861.14
2098 - 35-43 Greyfriars Road	2,813.
2108 - 154 Overdown Road	9,439.53
3043 - 147 Henley Road	1,616.07
3089 - 217 Oxford Road	120,026.45
3105 - 41 Bath Road (3105)	8,542.14
3125 - 45 Oak Tree Road	6,060.15
3144 - 15 Newton Avenue	3,203.22
3154 - Webbs Court, 8 Holmes Road	9,148.04
3184 - 8 George Street	3,000.
3214 - 1 Brigham Road	2,089.03
3216 - 25-27 Rose Kiln Lane	56,827.3
3230 - Land r/o 11 and 12 Bramble Crescent	1,905.17
3254 - Kennet Island Phase 3	200,000.
3277 - 93 Chapel Hill	6,141.

3290 - 38 Hamilton Road	4,578.
3300 - 98-100 School Road	4,000.
3323 - 32-36 Kings Road	2,073.69
3330 - Land at Regis Park Road	2,381.
3332 - Land r/o 54a-66 Norcot Road	20,000.
3337 - 32 Russell Street	1,027.48
3345 - 3 Derby Road	3,094.91
3976 - 72 George Street	3,597.
3986 - Unit 21 Deacon Way, Tilehurst	8,175.
4015 - 3 Kiln Road	2,850.
4017 - 52 Russell Street	3,171.
4026 - 5a Riley Road	3,500.
4032 - 9-11 Tessa Road	19,932.
4036 - 7-11 Station Road	8,156.71
4043 - 88 Connaught Road	10,204.
4055 - 67 Winser Drive	2,366.
4064 - 68-70 Grosvenor Road	3,500.
4082 - Land at Kings House, 33 Kings Road	79,755.
465 - Land Off Patrick Road	2,241.19
540 - Tesco, Napier Road	301,570.05
565 - 45-57 Queens Road	5,000.
759 - Land adj/incl 43-47 Crown Street	1,693.
966 - 153 Oxford Road	4,781.59
Holybrook School REG3 Application	6,735.
<b>Pedestrian Cycle Bridge total:</b>	<b>1,237,738.57</b>
<hr/> <hr/>	
<b><u>Park and Ride/Rail scheme</u></b>	
3175 - 46 Northcourt Avenue	6,337.64
3324 - Energis House, Forbury Road	491,155.8
3984 - 44 Greenfields Road	1,000.
4052 - Museum of Rural Life, Redlands Road	13,228.
<b>Park and Ride/Rail scheme total:</b>	<b>511,721.44</b>
<hr/> <hr/>	
<b><u>Napier Road Underpass</u></b>	
4011 - 42 Kenavon Drive	202,170.48
<b>Napier Road Underpass total:</b>	<b>202,170.48</b>
<hr/> <hr/>	
<b>Transport total:</b>	<b>2,071,816.09</b>
<hr/> <hr/>	

**Capital total:**

**5,081,303.3**

## Appendix B

### Final Accounts Process

The final accounts for previous years can be accessed on the Council's website

A cursory glance at these documents will show that the presentation therein is somewhat different to that used for the Council's budget, and indeed in the above explanation of year end variances. This is because the accounts must be prepared in accordance with the Code of Practice for Local Authority Accounting (the "Accounts Code").

Amongst other things, the code requires that the Council's accounts are presented in in with International Financial Reporting Standards (IFRS). Furthermore, the Accounts Code requires many adjustments to the day to day accounts by which the Council manages its budget including capital charges for all services, the apportionment of much of all support services across front line services (so the cost of services are shown including their managerial, corporate and administrative on-costs), and technical adjustments to reflect the long term cost of LA pensions, the cost of untaken leave at the year end.

In principle, by requiring all local authorities to prepare accounts in line with the same accounting guidance comparative information drawn from those accounts between authorities ought to be more accurate, and more fairly represent the relative total cost of services. In addition the Account Code requires the council to produce group accounts that include the activities of companies we own; principally Reading Transport.

The Accounts Code is published by CIPFA and each year they consult about amendments to the Code to keep local authority accounting practice up to date. CIPFA's Local Authority Accounting Panel (which the Head of Finance attends) produces guidance notes to explain how to prepare most aspects of the accounts.

The Accounts & Audit Regulations currently require the Head of Finance to signs the accounts off by the end of June. They are then audited and must be approved by Councillors (hopefully with their audit opinion) by the end of September. Audit & Governance Committee formally do this approval on behalf of the Council. Over the next 2-3 years the approval date will move forward to 31 May (CFO sign off) and July (Audit & Governance Committee approval). Given the proximity of the May date to the election date and timing of meetings, we will need to revise our approval process through committee to meet the new requirements.

As in previous years the accounts both pre audit, after the end of June, and following audit at the end of September will be published on the website, with a small number of printed copies being available to Councillors.

Appendix C  
 General Debtor Arrears (accounts over 60 days old)

The table sets out the arrears by service @ 31 March 2016  
 By Age of debt (days)

	TOTAL	61-90	91-120	120+
Community Care	1,780	141	89	1,550
Culture & Sport	173	26	27	120
Education & Early Help	320	117	17	186
Environment	433	90	26	317
Housing GF	1	0	0	1
Valuation	302	12	19	271
Corporate Support	120	80	3	37
Housing Benefits	6,860	310	283	6,267
Total	9,989	776	464	8,749

As at 31 March 2015, debt totalled £6.684m.

# Reading Borough Council

Audit and Governance Committee Progress Report

July 2016



Audit and Governance Committee  
Reading Borough Council  
Civic Offices  
Bridge Street  
Reading  
Berkshire  
RG1 2LU

21 July 2016

Dear Committee Member

## **Audit Progress Report**

We are pleased to attach our audit progress report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the audit plan or the audit results report.

Our audit is undertaken 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.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
Executive Director  
For and behalf of Ernst & Young LLP  
United Kingdom

# Contents

<b>2015/16 audit</b> .....	<b>2</b>
<b>Timetable</b> .....	<b>3</b>

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](http://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 progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance 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.

## 2015/16 Audit

### Audit Plan

We presented our 2015/16 updated audit plan to the Audit and Governance Committee in April 2016. We will keep the plan under review and will inform you of any changes to our risk assessments and planned work. Our initial review of the financial statements confirms our initial assessments and we will take a substantive testing approach.

### Meetings and progress to date

We continue to have regular meetings with key officers as part of our ongoing audit process.

These have proved beneficial as we have developed our understanding of the financial processes discussed a number of areas of the statements and have already selected our samples for income and expenditure spending and shared these with the Council's finance team.

Our IT team have also reviewed controls around the main financial systems run by the Council and will be shortly concluding on this work. We have shared a report of the initial draft findings with your Head of Finance for review and agreement and following this we will finalise our report.

We have given the Council our samples for the initial Housing Benefit testing and the indications are that a number of potential errors have been identified and we are reviewing these to assess the implications of them for our certification work.

Future meetings include:

- Weekly meetings with key finance staff during the opinion audit visit to discuss issues arising from our audit; and
- Quarterly meetings with the Head of Finance and Managing Director to discuss current issues faced by the Council and progress with the audit.

### Audit and Governance Committee

If members of the Audit and Governance Committee have any particular issues they want to discuss with us we would be pleased to discuss these with you.



## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Audit and Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	April 2015	Completed
Risk assessment and setting of scope of audit	<b>Dec 2015 - January 2016</b>	Audit Plan (updated)	April 2016	Completed
Testing of routine processes and controls	<b>Feb - March 2016</b>	Progress Report	July 2016	Completed
Year-end audit	<b>June - September 2016</b>	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources). Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate.	September 2016	Work is planned to start the week commencing 11 July and aim to complete our audit work by 19 August 2016.
Reporting	<b>October 2016</b>	Annual Audit letter	October 2016	Not yet due
Housing benefit	<b>September - November 2016</b>	Certification of claim	November 2016	Not yet due
Grant claims report	<b>December 2016</b>	Grant claims report	December 2016	Not yet due

EY | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

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READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 JULY 2016	AGENDA ITEM:	7
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	Chief Auditor	E-MAIL:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

1.1 The attached annual assurance report of the Chief Auditor required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, sets out:

- the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- the key themes arising from the work of the Audit Team during the 2015/2016 financial year; and
- the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

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

Appendix 1 - Internal Audit Annual Assurance Report

2. RECOMMENDED ACTION

2.1 The Audit & Governance Committee are requested to note the assurance opinion given by the Chief Auditor and consider the issues raised in the annual report.

### 3. KEY ISSUES

- 3.1 The Chief Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, internal control and governance processes. The opinion is designed to assist the Council to meet its obligations, under the Accounts and Audit Regulations. In giving this opinion, it should be noted that assurance can never be absolute and, therefore the most that the Internal Audit service can provide the Council's Audit and Governance Committee with, is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.
- 3.2 In our opinion, based on the work we (Audit Services) have undertaken, for the financial year ended the 31<sup>st</sup> March 2016 the Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisations objectives.
- 3.3 Based on the work the internal audit team has completed during the course of the year, which is set out in the attached report in more detail, we *have concluded that the system of internal control is satisfactory and processes to identify and manage risks are in place.*
- 3.4 However there were a small number of reports issued as part of the agreed audit plan that identified specific areas for improvement. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.
- 3.5 The matters raised in the attached report are only those, which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
- 3.6 A high level summary of the main issues raised as a result of Internal Audit activity during 2015/2016 are given below:

#### High level Summary of Key Issues

- 3.7 Our audit programme for the year has highlighted both good practice and areas for improvement. Some of the key messages identified during our audit work are set out below:
- Adult Social Care Income - Work is required to review the end to end process to address the build-up of backlogs and improve the quality and timeliness of referrals for financial assessment.
  - Accounts Payable: need to continue to develop process improvements within Accounts Payable through system releases and greater utilisation of system functionality.

- Foster Care & Adoption Allowances: the audit highlighted the continued dependency upon high cost independent Foster Agencies. Recommendations were made to strengthen operational procedures, incorporating the governance arrangements of the Access to Resource Panel.
- Fuel - Internal Audit recommended improved information on vehicle fuel usage and apply appropriate restrictions on quantity and frequency of fuel dispensed. A further in-year follow up of recommendations noted improvements had been made.
- Fleet Management - Internal Audit recommended further development of systems and processes to ensure compliance with legislation and value for money is achieved. A further in-year follow up of those recommendations noted good and ongoing progress in their implementation.
- As part of the work completed on spending appropriately, procedures have been strengthened in a number of areas and establishment control has been improved. However more work is required to strengthen the leaver process.

3.8 All of these reviews have been reported to CMT and the Audit & Governance Committee during the year and follow up action will be reported back during 2016/2017 as part of the audit plan.

#### 4. THE PROPOSAL

4.1 That this report forms the basis for CMT and the Audit & Governance Committee to undertake their annual review of internal control and to approve the annual governance statement for 2015/16 for signature and publication with the Council's accounts.

#### 5. CONTRIBUTION TO STRATEGIC AIMS

5.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

#### 6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 N/A

## 7. LEGAL IMPLICATIONS

- 7.1 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.
- 7.2 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.
- 7.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 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”.

## 8. FINANCIAL IMPLICATIONS

- 8.1 N/A

## 9. BACKGROUND PAPERS

- 9.1 N/A

# INTERNAL AUDIT AND INVESTIGATIONS

Annual Report  
For the year ended 31 March 2016

DRAFT

## 1. ANNUAL ASSURANCE

### 1.1 Introduction

- 1.1.1 The Accounts and Audit (England) Regulations require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system on internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards<sup>1</sup> and corresponding Local Government Application Note<sup>2</sup>.
- 1.1.2 The Public Sector Internal Audit Standards requires the Head of Internal Audit (Chief Auditor) to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.
- 1.1.3 Reporting the work of Internal Audit to the Audit and Governance Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit and Governance Committee receives quarterly reports regarding internal audit and fraud activities and outcomes during the year.

### 1.2 Purpose and scope of this report

#### 1.2.1 The coverage of this report:

- a) includes an opinion on the overall adequacy and effectiveness of the council's risk management systems and internal control environment
- b) discloses any qualifications to that opinion, together with the reasons for the qualification
- c) presents a summary of the audit and anti-fraud work from which the opinion is derived, including reliance placed on work by other assurance bodies
- d) Draws attention to any issues the Chief Auditor judges particularly relevant to the preparation of the Annual Governance Statement.

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<sup>1</sup> Public Sector Internal Audit Standards - Applying the CMIIA International Standards to the UK Public Sector. Institute of Internal Auditors, April 2013.

<sup>2</sup> CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards



## 2. ANNUAL ASSURANCE STATEMENT

### 1.1 Control Environment

- 2.1.1 The management of the Council are responsible for ensuring that the organisation operates in accordance with the law and proper standards, that public funds are safeguarded, properly accounted for and used economically, efficiently and effectively.
- 2.1.2 The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise; *internal control*, *governance*, and *risk management* arrangements. These three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

### 2.2 Internal Audit Effectiveness

- 2.2.1 As a prerequisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Chief Auditor is required to confirm the effectiveness of the internal audit service and its resultant fitness for purpose to carry out work that informs the annual assurance opinion.
- 2.2.2 The Internal Audit Service last carried out a self-assessment in 2013 to ensure that the Internal Audit Service is effective when compared against the Public Sector Internal Audit Standards (PSIAS). A further self-assessment will be undertaken in the summer of 2016, with the findings reported to the Audit and Governance Committee in September 2016. The PSIAS, which came into force in April 2013, require an external assessment to be completed once every 5 years. It is the intention of the Service to have an external assessment completed via peer review in 2017, the results of which will be reported to the Corporate Management Team (CMT) and the Audit and Governance Committee.
- 2.2.3 The Chief Auditor undertakes periodic reviews of the quality of internal audit work completed and also reviews all draft and final reports issued. In delivering the Internal Audit Service, the planning, conducting and reporting on reviews have been completed in conformance with the requirements of the PSIAS, published by the Chartered Institute of Internal Auditors and the subsequent Local Government Application Note in respect of PSIAS published by CIPFA.
- 2.2.4 The Head of Finance (Sec 151 Officer) and Managing Director also periodically review Internal Audit work and discuss issues as necessary with the Chief Auditor through regular one-to-one meetings.

2.2.5 The Chief Auditor is therefore able to report for 2015/16 a significant level of compliance with the Public Sector Internal Audit Standards and considers the Internal Audit service to be effective. No significant deviations from the Public Sector Internal Audit Standards have been identified which warrant inclusion in the Council's Annual Governance Statement. The main restriction to service delivery has been the vacancy within the team during 2015/16.

## 2.3 Basis of Assurance Opinion

2.3.1 Our assurance opinion is derived from work carried out by Internal Audit during the year as part of the agreed Internal Audit plan for 2015/16, including our assessment of the Council's corporate governance and risk management processes. The Internal Audit Plan for 2015/16 was developed to primarily provide the Audit & Governance Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk.

2.3.2 The 2015/16 Internal Audit Plan, of 762 days, was approved by the Audit and Governance Committee in July 2015. This does not include the resources deployed on reactive and proactive fraud which is referred to in section 7. Progress reports from the Chief Auditor are presented to the Committee at quarterly meetings.

2.3.3 During the year there is some flexibility needed to react to changes in risk or accommodate changes in the needs of management; the focus of audits may therefore be changed or new audits included in the programme. The plan also makes provision for internal audit to accommodate requests for advice and guidance on specific issues or investigation of specific issues. Before any tasks are undertaken risks are considered to ensure that resources continue to be used in an efficient and effective manner and tasks that provide the greatest added value to the organisation are prioritised.

## 2.4 Annual Assurance Opinion for 2015/16

2.4.1 Based on the work the internal audit team has completed during the course of the year, which is set out in more detail below, *we have concluded that the system of internal control is satisfactory and processes to identify and manage risks are in place.*

2.4.2 The Council continues to face significant challenges; however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance. This is in turn reflected in the Council's Annual Governance Statement.

2.4.3 The Council has to secure further savings in the region of £18m in 2016/17 and has already embarked on significant transformation and change programmes. The Council will have to continue to change the way it operates to deal with reductions in funding and because of the amount of money the Council will have to save, through the course of 2016, councillors will be presented with further options and proposals to reduce spending. The Corporate Plan and the Budget provides an important framework for the Council to do this.

- 2.4.4 Whilst it is important for the Council to remain flexible and agile to ensure that changes are successfully embedded and savings are delivered, it is also vital that lines of responsibility and accountability are clear, both during the transition and into any new target operating model. This needs to include an effective framework for providing assurance (often referred to as the three lines of defence) to senior management, members and citizens: service management, corporate oversight and independent assurance provided by Internal Audit.
- 2.4.5 On occasions we have experienced difficulties in commencing and finalising audits during the 2015/16 financial year and likewise have on occasions detected reduced capacity in services to action audit recommendations. Given the risks presented via the significant changes being delivered and further cost reduction activity across the Council senior management needs to continue to closely monitor the operation of the Council's control environment through the transformation and change processes. It is also important that effective mechanisms for learning lessons are embedded. In continuing to provide ongoing robust assurance on the control environment Internal Audit will need management's support to ensure that reviews are undertaken as planned and management responses are prompt and appropriate. The message is consistent with prior reports and will continue to be a challenge into 2016/17.
- 2.4.6 There were a small number of reports issued as part of the agreed audit plan that identified specific areas where improvements were required. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.
- 2.4.7 This opinion takes into account of the work undertaken by the Audit and Investigations Team.
- 2.5 Inherent qualifications to the assurance opinion
- 2.5.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, not absolute, assurances of effectiveness.

### 3. SUMMARY OF THE AUDIT WORK

- 3.1 An annual audit plan was produced by Internal Audit to cover the period 1 April 2015 to 31 March 2016, which was agreed with CMT and the Audit & Governance Committee. The Internal Audit Plan is developed to allow adequate coverage of the key risks faced by the Council.
- 3.2 Midway through the year the internal audit team were requested by CMT to review and update procedures in targeted areas to ensure proper processes are being followed and the Council can demonstrate it is spending appropriately. Our objective was to ensure procedures were fit for purpose, determine if procedures could be improved to reduce spend and/or control and work with services to update were appropriate. Although this impacted on planned audit work the requested work still required the control environment and governance process to be evaluated, but is not included in the report classification table on the following page.
- 3.3 In addition there was a vacancy in the team throughout the second half of the financial year and although the post has now been filled, the audit plan was reassessed to factor in the vacancy and complete the additional work described above and as a result some planned audit reviews were delayed or postponed until the following financial year. A revised audit plan was submitted to CMT and the Audit & Governance Committee in September 2015.
- 3.4 The table below summarises the report classifications for the planned audit reviews undertaken in 2015/2016.

Report Classification (2015/16)	No. of Audits
Substantial Assurance	7
Reasonable Assurance	2
Limited Assurance	5
No Assurance	0
Projects in progress	3
Assurance N/A	1
Subtotal	18
Grant Claims certified	6
In year requests (inc audit investigations)	8
Recommendation follow up reviews	8
Total	40

### 3.5 Priority of Recommendations

- 3.5.1 At the time of writing we have made a total of 111 audit recommendations in our reports (both draft and finalised), of which 16% were classified as a high priority.
- 3.5.2 In the following section we have set out the key themes and findings identified during our audit work for 2015/2016.
- 3.5.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 1.

## 4. KEY MESSAGES FROM PLANNED AUDITS

- 4.1 Some of the key areas for improvement identified during our audit work are set out below:
- **Adult Social Care Income & Charging:** Our audit review identified a potential loss of income to the Authority, due to the delay in assessing individual care cost contributions for non-residential care. Work was required to review the end to end process to seek to address the build-up of backlogs and improve the quality and timeliness of referrals for financial assessment.
  - **Key Financial Systems:** The main area where improvements were identified through internal audit work was Accounts Payable. During the past year the Accounts Payable Team responsible for processing payments experienced a backlog which resulted in operational issues for some service areas. This issue was recognised by senior finance management and has now been cleared. Work is progressing to address system, through system releases and greater utilisation of system functionality. Our audit review highlighted areas for development in respect of process improvements.
  - Following an audit of the RBC fuel dispensing system we made recommendations to improve control over the use of fuel for the Council's fleet of vehicles. Recommendations to impose restrictions to limit the volume of fuel dispensed at any one time and the volume of fuel dispensed within a set period of time were made. In addition to fuel usage restrictions it was also recommended that more needed to be done to manage and restrict the number of fuel keys - including override keys - and to develop better information on vehicle/equipment fuel usage such as fuel capacity (for identification of variations in fuel consumption), fuel efficiency and possible fuel misuse. A further follow up of those recommendations noted an exercise has been completed to review the usage of all existing fuel keys (vehicle & plant) and there has been an improvement of management information and monitoring is now in place.

- Following a review of the Council’s fleet management we made recommendations to increase the frequency of checking of driver licences with respect to fleet vehicles and for staff using their own vehicles on Council business (these are known as the ‘grey fleet’). We also recommended that the implementation and use of vehicle trackers for the council fleet needs to be reviewed, updated and then universally implemented. A further follow up of those recommendations noted good and ongoing progress in their implementation.
- Foster Care & Adoption Allowances: the audit highlighted the continued dependency upon high cost independent Foster Agencies. Recommendations were made to strengthen operational procedures, incorporating the governance arrangements of the Access to Resource Panel.
- As part of the work completed on spending appropriately (see section 5.1 below), procedures have been strengthened in a number of areas and establishment control has been improved. However, more work is required to strengthen the leaver process.

#### 4.2 Implementation of Internal Audit recommendations

4.2.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where “limited” assurance is given then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources and agreed recommendation target dates, but our aim is to complete the follow up within six to twelve months of completion of the audit.

4.2.2 The table below shows the number of recommendations which are now due to have been implemented, and the number and percentage of those which have been evidenced as implemented, by level of risk.

	Total Recs reviewed	Recs implemented	%	Recs partially implemented	%	Recs not implemented	%
Priority 3 (Low Risk)	21	12	57%	8	38%	1	5%
Priority 2 (medium risk)	35	16	46%	18	51%	1	3%
Priority 1 (High Risk)	8	6	75%	2	25%	0	0%
Total	65	36	55%	28	42%	2	3%

4.2.3 Based on the data in the table above, overall management has implemented or partially implemented 97% of all recommendations reviewed with 3% having not been implemented. It is crucial that Priority 1 (High Risk Recommendations) are implemented promptly if the Council is to improve its overall control environment and therefore we are pleased to note this level of performance has been maintained during 2015/16.

## 5. ASSURANCES FROM OTHER SOURCES

5.1 In compiling this Annual Report, we have taken account of other sources of assurance in arriving at our overall opinion for 2015/16. These sources include, but are not limited to: the achievement of Public Services Network (PSN) accreditation for the Council, however it is noted that further work is required to maintain and keep up to date ICT Security Policies and develop an approach for dissemination of existing and new policies to staff. We have reviewed the draft AGS which adequately reflects the governance arrangements in place, the effectiveness of those arrangements and the identification of significant issues. Reports by officers to the various Council committees on matters including health and safety, treasury management, budget monitoring, complaints and human resources related matters. In particular KPMG's 2014/15 opinion stated that the financial statements give a true and fair view of the financial position of the Authority and the Group and of its expenditure and income for the year. In relation to value for money, KPMG also concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In addition regular communication has been maintained with the Council's new external auditors Ernest and Young throughout 2015/2016.

### 5.2 Spending Appropriately

5.2.1 Internal Audit were requested to undertake some targeted reviews during the year to ensure proper processes are being followed and the Council can demonstrate it is spending appropriately. Our objective was to ensure procedures were fit for purpose, could be strengthened to reduce spend and/or control and to also work with services to update procedures were appropriate.

5.2.2 Although these were not audit reviews where we would be providing assurance on the control environment, the work required the control environment and governance process to be evaluated, thus enabling the work to inform the annual assurance opinion on the Council's control environment. The areas covered to date and a summary of the work is as follows:

- *Courses/Conferences and Training:* Procedures have been developed so spend on learning and development activity is more closely monitored and a consistent approach to ensure that spend is appropriately applied to all directorates.
- *Stationery:* Procedures have been implemented to centralise spend for stationery for Civic based services and remove budget lines for those services.
- *Procurement Cards:* Existing procedures encompass a good degree of control measures in order to comply with Lloyds' Bank terms and conditions. However despite this, application is poor and there are no monitoring measures to ensure compliance. Procedures were updated and reissued to card holders.

- *Purchase to Pay:* As from April 2016 the Council has implemented a ‘No Purchase Order’- ‘No Pay’ policy - from this date services must raise an Oracle Fusion Purchase Order before ordering goods/services and suppliers must quote the purchase order number on their invoice and send directly to the Accounts Payable team. These changes are important as they will allow us to improve our financial control on expenditure and will also ensure suppliers are paid in a timely manner.
- *Establishment Control:* With continuing budget savings to find, having a better understanding and control over the shape and make up of our staffing establishment (the total number of roles/ jobs in the Council) is essential. Internal Audit have worked closely with the HR & Payroll and Finance teams to develop robust processes and controls around recruiting to vacancies and in special circumstances over establishment ensuring Budget Holders are accountable for managing their staffing complement including agency staff.
- *Consultants/Interim Managers and Ad Hoc Staff:* We’ve updated existing procedures to incorporate the employment and/or taxation liabilities. These are under review by HR and Legal.
- *Train Travel:* There are already written procedure notes in place that detail the corporate system for buying tickets in advance of train travel, and this guidance is generally comprehensive and up to date.
- *ICT (Equipment) Spend:* there are plans to link this to the central establishment, for improved control over the growing number of requests for temporary, agency, interim managers, to be provided with ICT. Leaver procedures are weak and gaining full accountability over stock levels is a problem because managers are responsible for procuring the new equipment and are not recharged directly for this (except for mobile phones). Internal audit will work with Business Improvement to develop procedures to control ICT spend, linked with establishment control.

### 5.3 Corporate Governance

5.3.1 In our opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- Assurance provided by the external auditors in their Annual Audit and Inspection Letter with regard to the Council’s accounts and governance,
- Work completed by the internal audit team throughout 2015/2016
- The Council’s annual governance statement and action plan



- 5.3.2 As in 2015/16, it has been necessary for the Council to continue to find significant budget reductions and further significant reorganisations and transformation programmes have been ongoing and will continue. It is intended that the new ways of working and digitalisation programme will reshape our support activities across the whole Council, reducing our employee cost by transforming the way we support front line services. During 2016/2017 we will look to assess the management of the risks associated with some of these changes and future planned changes.
- 5.3.3 Governance arrangements also need to be sustained by appropriate management information that can support key strategic and operational decisions. These decisions are needed to make longer-term savings whilst minimising impact on service delivery. They need to be based on high quality information that covers the entire organisation, in order to support the Council to prioritise activities and generate alternative ways of working that will be needed to achieve these goals.
- 5.3.4 The Council has recognised this and during 2015/16 introduced a new approach to performance monitoring to increase accountability on service areas. Internal audit recommendations, lessons learned, other inspections have been reported which we believe will further improve governance and accountability.
- 5.3.5 During the year the Council's Financial Procedural Rules (Regulations) were updated across their length. The Regulations provide the framework for managing the authority's financial affairs and apply to every Member and Officer of the Authority and anyone acting on its behalf. Work has also begun on updating the budget manual guidance for budget holders.

#### 5.4 Risk Management

- 5.4.1 The Council Management Team (CMT) manages and reviews the Council's strategic risks and regular reports are provided through the year providing status updates on corporate risks to the Council's Audit & Governance Committee.
- 5.4.2 Internal Audit have used the Council's strategic register to inform the audit planning process and at the same time can provide assurance that appropriate measures are being taken to manage the Council's key business risks.

## 6. OVERALL PERFORMANCE OF INTERNAL AUDIT

### 6.1 Performance of the Internal Audit Service

6.1.1 The Public Sector Internal Audit Standards document the expected professional standards for internal audit in Local Government and are the applicable standards against which the quality of internal audit in local government is assessed. The Chief Auditor monitors compliance against the code, by either self-assessment and/or peer review.

6.1.2 Our performance during the year in relation to the performance indicators agreed for the internal audit service are shown in the table below: -

Key Performance Indicators	Target	Actual
Client Satisfaction	90% or above	90%
Production of final report within 2 weeks of receipt of management responses	100%	100%
Management responses received within 3 weeks of issue of draft report	75%	50%
Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	60%
Number of audit projects completed relative to those in the (revised) plan	80%	76%
Actual spending of controllable budget	100%	96.95%
% Of working days lost to sickness	1.6%	2.95%

### 6.2 Quality

6.2.1 Quality control is achieved through:

- Preparation of a detailed audit plan according to an agreed risk assessment methodology and widely consulted upon throughout the Council.
- A documented audit methodology supported by standard working papers, and the review of each draft audit report by the Principal Auditor/Chief Auditor prior to issue.
- Working hard to ensure audits meet the requirements of our customers by giving them the opportunity to comment on terms of reference and timing of work, and by working with managers to identify solutions in areas where there is scope for improvement.
- Seeking feedback from our customers after each audit and fostering a culture of continuous improvement within the audit service.
- Undertaking an annual quality review with Directors/Heads of Service and senior managers on the Internal Audit service over the past year (results are summarised in section 6.4).

### 6.3 Customer Satisfaction Analysis

6.3.1 On completion of each audit review the client is asked to complete an online questionnaire to provide feedback on the conduct of the auditor and quality of the audit review.

6.3.2 Clients are asked to score our services on a scale of 1 to 4, 1 = unsatisfactory, 2 = Potential for Improvement, 3 = Good, 4 = Very Good. The performance figures below represent the customer satisfaction as a percentage of total respondents.

#### *Pre Audit Arrangements*

6.3.3 Our aim is that you are clear about the purpose and process of the audit. How would you rate our performance on:

No.	Statement	Performance %
1	Explaining the audit process	92%
2	Consultation and scoping the audit	90%

#### *Audit Visit*

6.3.4 Our aim is to perform the audit in an unobtrusive and professional manner. How would you rate our performance:

No.	Statement	Performance %
3	Conduct and professionalism of the Auditor	98%
4	The Auditor obtaining an understanding of your business needs	83%
5	Opportunity to discuss the findings during the audit	90%

#### *Post Audit*

6.3.5 Our aim is to provide information that is beneficial to you. How would you rate our performance on:

No.	Statement	Performance %
6	Usefulness of recommendations	83%
7	Clarity and fairness of the report	92%
8	Were your comments taken into account	92%

## Adding Value

6.3.6 Our aim is to provide assurance on existing controls and to add value. Please indicate where the audit has added value:

No.	Statement	Performance %
9.a	Provide assurance on existing controls	93%
9.b	Identified areas of improvement	60%
9.c	Improved procedures and processes	40%
9.d	Highlighted areas of good practice	40%
9.e	Escalated issues to senior management	27%

## 6.4 Annual quality review

6.4.1 We undertook an annual survey in May 2016 asking Directors, Heads of Service and senior managers to assess the importance and quality of the service provided.

6.4.2 Questions were rated and scored on the following basis:

Importance		Performance	
Rating	Scoring	Rating	Scoring
High	3	Excellent	4
Medium	2	Good	3
Low	1	Adequate	2
No opinion	0	Poor	1
		No opinion	0

6.4.3 Managers were asked to rate a total of 41 questions against 6 service areas, the summaries of the findings are detailed below.

Importance		Performance
Average Importance Rate	Service Area	Average Satisfaction Rate
87%	Audit Service	78%
93%	Audit Staff	89%
92%	Conduct of Audits	90%
93%	Audit Reporting	88%
90%	Customer Service	85%
88%	Improving the Authority's Culture	81%
91%	Average	85%

6.4.4 In addition to the set questions, three free text fields were made available for individuals to provide further comments. A summary of the comments are shown in annex 2.

## 7. COUNTER FRAUD ACTIVITY

7.1 The Investigations Team that deals with benefit, housing tenancy, blue badge and internal fraud etc., have had a successful year and have once again demonstrated the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified £405k from both overpayments and savings. The deterrent of this activity should not be underestimated. The following table contains details of successful outcomes by the Investigations Team:

	2015/16	2014/15
<b>Housing tenancy Fraud</b>		
Properties Recovered	3	3
Estimated saving from Recoveries <sup>3</sup>	£45,000	£45,000
Prosecutions Secured	2	1
<b>Housing Benefit Fraud<sup>4</sup></b>		
Prosecutions	15	19
Other Sanctions ( Caution/Add Pens)	0	11
Value fraudulent Overpayments Identified	£72,594	£293,467
<b>Council Tax Reduction Scheme</b>		
Prosecutions	0	17
add pens	34	0
value of fraudulent overpayments identified	£48,089	£21,467
Value of add pens	£22,590	0
<b>Parking Fraud</b>		
Blue badge referrals	47	
Blue Badges recovered	10	2
prosecutions secured	3	1
PCN's issued	17	2
estimated annual savings <sup>5</sup>	£1,000	£200
<b>Adult Social Care</b>		
estimated annual savings	£24,000	£0

<sup>3</sup> Based on Finance's assessment that on average it costs the Council £15,000 per year to place a family in temporary accommodation.

<sup>4</sup> On the 1 Dec 2015, responsibility (along with staff) for the investigation and prosecution of Housing and Council Tax Benefit transferred to the Department for Work and Pensions. These are residual cases which were progressed by RBC

<sup>5</sup> This is based on the average Penalty Charge Notice fee and does not take into account potential lost income through residential and other parking charges.

## 7.2 Housing Fraud

- 7.2.1 Housing fraud is now the most resource intensive function carried out by the team. The Council has recognised the need to maintain a resource of investigators given the risks of tenancy fraud. Although nationally tenancy fraud is the most widespread in the London area, where the differential between social housing rents and private housing rents is greatest, the prevalence of tenancy fraud is also applicable to Reading.
- 7.2.2 A significant development in recent years was the introduction of the Prevention of Social Housing Act 2013. This makes subletting a criminal offence and allows councils to prosecute those found to be subletting their property. Unlawful profit orders can also be applied to those who are found to have sublet their tenancies for a profit.
- 7.2.3 The team have also undertake a programme, with housing services to undertake checks into any suspect succession application submitted. These checks help to prevent persons with no entitlement in obtaining an RBC tenancy. Succession allows tenants to “pass on” their tenancies to close family members, providing the criteria are fully met.

## 7.3 Tenancy Fraud Hub - joint working

- 7.3.1 Following a successful bid for funding from the DCLG in 2015 the fraud hub was launched in January 2016. The bid provided the technology to set up an intelligence hub for proactive tenancy fraud prevention, detection and deterrence through the sharing and matching of data from both Local Authorities and registered Social Housing.

## 7.4 Benefit Fraud

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

## 7.5 Fraud & Error Reduction Incentive Scheme

- 7.5.1 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.
- 7.5.2 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.

## 7.6 Adult Social Care

7.6.1 Over the period April 2015 to March 2016 the team have been involved with a complex investigation relating to allegations of overcharging by a residential care provide. Following a lengthy investigation the provider agreed to repay almost £24,000 back to the Council.

## 7.7 Blue Badge (Parking Fraud)

7.7.1 Blue badges or disabled parking permits are issued by Reading BC to persons with a genuine need to access facilities by car. However there are some people who are prepared to misuse or fraudulently acquire these badges. There is a significant cost to the Public purse as inappropriately used Badge holders may avoid car parking charges.

## 7.8 Internal

7.8.1 The investigation officers have assisted in 4 investigations into internal matters, two of which were dealt with under the Council's disciplinary procedure.

DRAFT

## ANNEX 1: Detailed analysis of internal audit reviews 2015/16

**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.

Title	Start	Draft	Final	Recs		
				H	M	L
Waste PFI	May 15	Jul 15	Jul 15	0	1	7
Homelessness	Jan 16	Feb 16	Feb 16	0	2	1
Business Rates	Jul 15	Aug 15	Aug 15	0	0	2
Better Care Fund	Apr 15	Jul 15	Aug 15	0	1	0
E P Collier Primary School	Oct 15	Nov 15	Dec 15	0	2	1
Geoffrey Field Infant School	Nov 15	Dec 15	Jan 15	0	0	2
Holybrook	Sep 15	Oct 15	Oct 15	0	0	4
Early Years	Jun 15	Jul 15	Jul 15	0	0	3

**REASONABLE ASSURANCE**- 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.

Title	Start	Draft	Final	Recs		
				H	M	L
St Mary's & All Saints Church of England	Oct 15	Nov 15	Dec 15	0	2	5
School Places Capital programme	Mar 15	May 15	Jun 16	0	7	4
Katesgrove Primary School	Feb 16	May 16	Jun 16	0	8	6
Creditors (Accounts Payable)	Dec 15	Apr 16		0	4	1
Additional Salary Payments	Apr 15	Jun 15	Nov 15	1	4	1

**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.

Title	Start	Draft	Final	Recs		
				H	M	L
St Anne's Catholic Primary School	Feb 15	Feb 15	Mar 15	2	2	3
Adult Social Care Charging	Aug 15	Sep 15	Oct 15	2	5	0
Foster & Adoption Allowances	Oct 15	Jan 15	Mar 16	1	5	3
Receivership	Jun 15	Jun 15	Jul 15	2	4	1
Reading Girls School	Nov 15	Dec 15	Feb 15	6	10	5



## ANNEX 2: summary of comments provided by individuals completing the annual survey

### 1. How can Audit better meet your needs - 18 comments in this area

#### Positive Comments

- Not sure it can, the service has always done what we needed it to do.
- I reckon you do a pretty good job!
- No suggestions
- This is restricted by resource.
- I have not experienced any gaps in service provision.
- A good robust service with adequate interaction with service teams/Heads of Service.
- More resources in the team would allow for more audits to take place - not a criticism of the team in any way - and fully understand that the audit plan sets out the top areas for investigation / audit each year based on the resources available.
- Continue to work through a programme that is agreed with our service heads
- We have a good relationship and advice is always given when sought.
- At present I think Audit perform well given the issues currently faced by most services
- Generally meet needs

#### Negative Comments

- Ensure the HT is involved as well as the Bursar- don't just accept a Bursar's response, for example about Governing Body meetings. The HT is the appropriate person to respond to these questions because they know the answers.
- Deeper understanding of the business area and its constraints
- General advise is very good but some concern when a formal investigation is carried out which often doesn't seem to progress.

#### Suggestions

- Carrying out HBMS / SPD NFI Matches
- Being more visible
- I would appreciate knowing when to expect our next Audit. I started here in 2007 and have only just had my first audit!
- It might be worthwhile creating a simple when do you need to involve audit info sheet or similar to ensure services engage when required, not just as an afterthought

### 2. How can the quality of Internal Audit be measured - 15 comments in this area

#### Suggestions already done

- Maybe a customer satisfaction survey directly after a piece of work has been completed?
- Reporting on effectiveness of following recommendations
- Follow up audit recommendations and escalate those that are not acted upon.
- A survey much like this one. A request for feedback following each audit undertaken/service/advice given - much like Northgate.
- setting Key performance indicators
- Outcomes after audits are complete are regularly measured and achieved where possible
- maybe seeking feedback at the end of the process?
- Completion of audits on time, actions clear, follow up of recommendations
- Managers review or effectiveness of recommendations
- on line feedback on each report reports responses submitted in time and post audit de briefing

#### Negative Comments

- Staying within the brief.

### *Suggestions*

- Objective feedback from service departments/benchmark against outcomes from other LA's/wider Public Sector.
- Determining whether services deliver value for money and are competitive (can win outside work).
- Corporate risk register shows governance to be improving

### 3. Any other comments - 9 comments in this area

#### **Positive Comments**

- I've always found the team to be very professional, approachable and easy to work with. Many thanks.
- good service, thanks very much.
- A professional service that is probably under resourced for the size of the organisation.
- Excellent/ Good Service, no complaints.
- Audit function is more important at current time to ensure serious holes are not left in terms of governance with the impending cuts.

#### **Negative Comments**

- Audit need to be aware that services don't have the level of authority that they would expect. Audit recommendations are not always easy to carry out.
- I have to admit the form was very arduous when completing which means it was very repetitive and not particularly focussed on what I was assessing as so many different parts to it.

#### *Other Comments*

- My experience relates to engagement whilst working for Leisure Services. I have worked alongside audit officers in dealing with disciplinary issues featuring elements of dishonest behaviour and alleged theft. Whilst I appreciate a desire to manage such investigations in-house, I do wonder if staff are as concerned by auditors as they may be by police engagement?
- Audit should attend service team meetings to advise on areas of work

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

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>21 July 2016</b>	<b>AGENDA ITEM:</b>	<b>8</b>
<b>TITLE:</b>	<b>ANNUAL GOVERNANCE STATEMENT 2015/2016 AND IMPLEMENTATION PLAN</b>		
<b>LEAD COUNCILLOR:</b>	<b>Councillor Lovelock</b>	<b>PORTFOLIO:</b>	<b>AUDIT &amp; GOVERNANCE</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
	<b>Alan Cross</b>	<b>TEL:</b>	<b>937 2058</b>
<b>JOB TITLE:</b>	<b>Head of Finance</b>	<b>E-MAIL:</b>	<b>Alan.Cross@reading.gov.uk</b>

**1. EXECUTIVE SUMMARY**

- 1.1 The Council is responsible for ensuring that financial management is adequate and effective and that the Council has a sound system of internal control, which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Accounts and Audit Regulations 2015 requires local authorities to prepare and publish an Annual Governance Statement (AGS) each financial year, which accompanies the authority's financial statements.
- 1.3 The Annual Governance Statement is a key record of the overall effectiveness of governance arrangements within the Authority. The statement reflects the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrates how the key governance requirements have been met.
- 1.4 The following documents are appended:

Appendix 1 Draft Annual Governance Statement (AGS) 2015/2016

Appendix 2 - AGS Implementation plan for 2016/17

**2. ACTIONS REQUIRED**

- 2.1 Audit & Governance Committee is requested to receive and approve the draft Annual Governance Statement for 2015/2016 for publication with the Council's accounts.
- 2.2 The Committee is asked to authorise the Managing Director, in consultation with the Leader and Chair of the Audit & Governance Committee, to make any necessary amendments that are needed before final publication in September.

### 3. GOVERNANCE FRAMEWORK

#### Internal

3.1 The governance framework, comprises the systems and processes, and culture and values, by which we are directed and controlled and the activities through which we account to and engage with our residents and businesses. The headings and documents, activities, processes and outcomes which underpin the framework are included in paragraphs 3.2 - 3.4

#### 3.2 Values

Key documents reviewed annually

- Corporate Plan
- Financial Plan
- Annual Statement of Accounts
- Council tax leaflet
- Members Allowance Scheme
- Pay Policy
- Service Plans
- Treasury Management Strategy

#### 3.3 Purpose and Outcomes

Key documents reviewed as required

- Constitution
- Anti-Fraud and Corruption Policy
- Business Continuity Arrangements
- Complaints Procedure
- Policy Statements e.g. Health & Safety
- Decision Book
- Member Training and Development Programme

#### 3.4 Engagement

Supporting processes monitoring and regulation

- Council
- Committees
- Annual Governance Review
- Budget Framework
- Appraisals
- CMT/ SLG Performance Meetings
- Internal Audit
- External Audit
- Job Descriptions
- Head of Paid Service role
- Monitoring Officers role
- S151 Officer role

- Corporate Procedure Rules
- Risk Management
- Website and Intranet
- Procedure Notes

### External factors

- 3.5 The CIPFA/SOLACE statement of recommended practice: Guidance notes for practitioners specifically makes reference to where an authority is in a group relationship and undertakes significant activities the review of the effectiveness of the system of internal control should include its group activities. In material terms the only organisation that this applies to remains Reading Transport Limited (RTL). RTL has an operating financial year to September 2015 and it is this period which its AGS relates. For the purpose of the AGS review, the Chief Executive of RTL and the Board considered the work carried out by their auditors was sufficient to enable them to complete an annual governance statement.
- 3.6 The statement received from the Chief Executive of RTL confirmed that their accounts had been audited by the company's appointed auditors, in accordance with the relevant statutory requirements and appropriate accounting standards.

### Views of External Audit (KPMG) and other inspection agencies

- 3.7 Consideration has been given by the Chief Finance Officer to the views of KPMG as indicated in their Annual Audit and Inspection Letter for 2014/15. In particular KPMG issued an unqualified value for money ('VFM') conclusion for 2014/15. This means they were satisfied that the Council had proper arrangements for securing financial resilience and challenging how we secure economy, efficiency and effectiveness. To arrive at their conclusion they looked at our financial governance, financial planning and financial control processes, as well as how we are prioritising resources and improving efficiency and productivity.
- 3.6 KPMG issued an unqualified opinion on the 2014/15 financial statements. This means that they consider the financial statements give a true and fair view of the financial position of the Authority and the Group of its expenditure and income for the year.

### Internal Audit Assurance

- 3.7 One of the assurance statements the Council receives is the annual opinion of the Head of Internal Audit in respect of the financial control framework. The opinion of the Chief Auditor in respect of audit work completed in 2015/16 is that *the Council's system of internal control is satisfactory and processes to identify and manage risk are in place*. There were a small number of reports issued as part of the agreed audit plan that identified specific areas where improvements were required. Those audits where improvements were highlighted, whilst non material in terms of the council's overall Risk Management, Governance and internal control framework, are set out below:

- Adult Social Care Income - Work was required to review the end to end process to seek to address the build-up of backlogs and improve the quality and timeliness of referrals for financial assessment
- Accounts Payable: Continue to develop processes improvements within Accounts Payable through system releases and greater utilisation of system functionality
- Foster Care & Adoption Allowances: the audit highlighted the continued dependency upon high cost independent Foster Agencies. Recommendations were made to strengthen operational procedures, incorporating the governance arrangements of the Access to Resource Panel
- Fuel - Internal Audit recommended improved information on vehicle fuel usage and apply appropriate restrictions on quantity and frequency of fuel dispensed. A further in-year follow up of recommendations noted improvements had been made
- Fleet Management - Internal Audit recommended further development of systems and processes to ensure compliance with legislation and value for money is achieved. A further in-year follow up of those recommendations noted good and ongoing progress in their implementation

#### 4. THE PROPOSAL

- 4.1 Based on the governance framework and statement together with the Internal Audit review of the Council's control framework, 13 governance related themes are highlighted that warrant reporting in the action plan which accompanies the Council's 2015/2016 Annual Governance Statement, Appendix 2.
- 4.2 The report covers the period up to the publication of the accounts following the Committee's late September meeting, but as the Statement is signed off by the Leader of the Council and the Managing Director, it would be sensible to authorise minor amendments that may be needed before then. The accounts will be part of that agenda, the committee will have an opportunity to reconsider the statement at that time. The need for material amendment is not currently anticipated. External Audit will review the statement for consistency with their knowledge of the Council, but does not "audit" it as such.

#### 5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 Good governance enables us to pursue our vision and corporate objectives effectively as well as underpinning these with mechanisms for the control and management of risk. Governance must be owned by all stakeholders, including senior management and Members, thus forming the intrinsic core of the Council. It should remain embedded in the culture of the Council and applied within a transparent framework of legislative requirements, governance principles and management processes.

## 6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area. The annual governance statement accompanies the authority's published financial statements.

## 7. EQUALITY IMPACT ASSESSMENT

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 7.2 We are mindful of the Equality Act and Equality Impact Assessment which is not relevant to this report

## 8. LEGAL IMPLICATIONS

- 8.1 Regulation 6 1b of Statutory Instrument 2015 No. 234 "The Accounts and Audit Regulations 2015" requires local authorities to prepare and publish an Annual Governance Statement (AGS) each financial year, which accompanies the authority's financial statements. It also requires the findings of the review to be considered by a committee of the Council (or the whole Council).

- 8.2 The CIPFA/SOLACE governance framework recommends that the assurance gathering process should have a structured link between the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered. It requires the identification of key controls that are deemed critical to the delivery of these objectives and expects a formal review and risk assessment for the management and delivery of these key controls.

## 9. FINANCIAL IMPLICATIONS

- 9.1 There are no financial implications directly arising from this report.

- 9.2 As indicated above the statement must be published with the Council's accounts, and will be reviewed by External Audit (though is not subject to audit).

- 9.3 In respect of the Council's Financial Management Arrangements, the CIPFA/SOLACE Guidance makes reference to specific CIPFA guidance covering the role of the Chief Financial Officer in Local Government and

Head of Internal Audit in Public Service Organisations. Those roles in Reading are unchanged from recent years, and therefore continue to comply with the requirements.

## 10 BACKGROUND PAPERS

10.1 CIPFA/Solace - Delivering Good Governance in Local Government

10.2 Audit & Accounts Regulations 2011/2015



**DRAFT**  
**Annual Governance  
Statement 2015/16**

## 1.0 WHY WE HAVE THIS DOCUMENT

- 1.1 The Council is required to publish an Annual Governance Statement (AGS), with its Statement of Accounts. This outlines how the authority has monitored and evaluated the effectiveness of our governance arrangements in the year, and any planned changes in the coming period.

## 2.0 WHAT GOVERNANCE IS LIKE IN THE COUNCIL (THE SCOPE)

- 2.1 We are responsible for ensuring that the Council's business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.

## 3.0 THE PURPOSE OF OUR GOVERNANCE FRAMEWORK

- 3.1 The governance framework comprises the systems and processes, and culture and values, by which we are directed and controlled, and the activities through which we are accountable to, engage with and lead our communities. This enables us to monitor the achievement of the Council's priorities in the Corporate Plan and other key strategies to improve service delivery and to test and consider that these continue to provide value for money.
- 3.2 Our governance framework has been in place for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

## 4.0 OUR GOVERNANCE FRAMEWORK

### Political Leadership

- 4.1 Councillors make decisions that set the policy direction of the Council are elected by residents of the Borough for a four year term to represent them in taking decisions about services and funding. Reading is divided into 16 wards and 46 members are elected to represent them, with one third of councillors (who normally have a political party affiliation) being elected in three of every four years.
- 4.2 Normally, the political party that has the largest number of councillors forms an Administration and therefore has a greater influence on key decisions within the Council. The Council appoints a Leader of the Council, Deputy Leader of the Council, lead councillors and chairs of the committees and Mayor at the Annual General Meeting. There are nine lead councillors who have particular responsibilities or 'portfolios' such as Health, Housing and Adult Social Care.

- 4.3 The Council and the Committees shape what services are delivered and how Reading develops and grows sustainably. The Council is responsible for approving the priorities for the Council each year through the Corporate Plan supported by the resources in the Council's Budget and Financial Plan. The Council and Committees also develops policies, makes constitutional decisions and decides on local legislation.

#### Our Approach

- 4.4 The Council has developed a set of guiding values to help decision making and agree priorities:

- **Fair**
  - tackling inequality and promoting residents' rights
  - ensuring residents are part of decision making
  - ensuring our staff have enough support
- **Caring**
  - putting residents at the heart of what we do
  - working with residents to look after each other
- **Enterprising**
  - unlocking the power of our communities
  - acting now to create a better future

- 4.5 For 2015/16 onwards we adopted 6 service priorities to focus our efforts to help narrow the gaps within Reading:

- 1 **Safeguarding and protecting those that are most vulnerable**
- 2 **Providing the best life through education, early help and healthy living**
- 3 **Providing homes for those in most need**
- 4 **Keeping the town clean, safe, green and active**
- 5 **Providing infrastructure to support the economy**
- 6 **Remaining financially sustainable to deliver these service priorities**

- 4.6 To deliver these priorities within the Corporate Plan there is a continued focus on the Council's contribution to narrowing what the gaps are within Reading. We have ensured that the funding and other resources we have available, such as our property and our people, are aligned to these priorities for the coming year.

#### Good decision-making

- 4.7 Councillors sit on a variety of committees, which oversee and guide the organisation's different functions. These are mostly open to the public. There are four cross-party committees whose membership is proportionate to the representation of each political party on the Council.

These committees are:

- Policy Committee;
- Adults, Children's and Education Committee;
- Housing , Neighbourhoods and Leisure Committee; and
- Strategic Environment, Planning and Transport Committee (SEPT).

4.8 In the committee arrangement the four standing committees also carry out overview and scrutiny exercises. All the committees set goals and guidelines for the operation of services.

4.9 There are also committees for:

- Audit & Governance
- Licensing
- Planning and
- Personnel

4.10 Traffic Management Sub-Committee considers relevant issues on behalf of the SEPT committee. The regulatory committees - Licensing Applications and Planning Applications - together with the Audit and Governance, Personnel, and Standards Committees have continued as committees of full Council. In addition, a Health and Wellbeing Board has been set up as a committee of full Council. The Heights Free School sub-committee has also been established to exercise delegated powers in respect of any proposal that may be made by the Education Funding Agency (EFA) as its preferred site for The Heights free school on land owned by the Council in West Caversham.

### Constitution

4.11 Our Constitution sets out the roles of, and relationships between the Council, the committees involved in making our policies and officers. The Constitution also sets out the responsibility of each group or individual for making particular types of decisions or for director decisions relating to particular responsibilities. Under the Constitution, all decisions that we make or that are made on our behalf must be made in line with the principles and frameworks set out in the Constitution.

4.12 The Constitution also sets out how members of the public can get involved in the decisions we make (under the 'Access to Information Rules'). We have a legal responsibility to carry out consultations before we make certain decisions.

### Day-to-day operations

4.13 The day-to-day work is carried out by officers within the Council. Their direction comes from Council and the Committees. Officers are employees of the Council and are non-political and ensure that the work is carried out as decided by Council and the Committees.

- 4.14 Some officers have statutory duties that they must uphold. Our Managing Director is 'Head of Paid Service' and is responsible for the organisation's efficient management. The role also involves giving Members strategic advice on policy-related issues, drawing on the experience and expertise of the organisation as a whole. All officers must provide objective, comprehensive and impartial advice to councillors so that they can rely upon this to make decisions.
- 4.15 The remaining statutory roles of Monitoring Officer, Chief Financial Officer, (statutory) Director of Adult (Care and Health) Services & (statutory) Director of Children's, (Education and Early Help) Services are fulfilled by relevant members of the Corporate Management Team. The role of Director of Public Health is fulfilled by one person for all authorities in Berkshire who is employed by Bracknell Forest BC.
- 4.16 Through our recruitment and learning and development we ensure that officers have the right skills and experience to ensure that governance is strong and they understand the requirement of legislation and how this needs to be considered when making recommendation to councillors and when delivering services.

## 5. HOW WE COMMUNICATE WITH AND INVOLVE STAKEHOLDERS

- 5.1 We welcome views from the residents and businesses as part of the constitutional process. Communication and consultation is important to us. It is vital we keep people informed of the work we do, the proposals we put forward that may affect them, and the decisions we make. These views are considered through formal and informal consultation processes, attendance at local meetings (e.g. community meetings) or contact with local ward councillors. Trades unions are consulted on issues that affect staff.
- 5.2 During the last year we have continued to work hard to communicate (and receive feedback on) our aims for the community. During the 2015/16 financial year, we:
- Carried out major consultations on both a possible location for a new primary school in the north of the Borough, on behalf of the Education Funding Agency
  - Consulted on a major package of budget proposals. Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify nearly £39 million worth of savings.
  - Continued to communicate effectively with people so they understand the reasons why the Council needs to make these savings. We have been and will continue to provide opportunities for Reading people to get involved in the decision-making process so their views play a major part in helping to set spending priorities

- Devoted our annual community event to identifying priorities and actions that we, our partners and residents can take together to address the issues that concern everyone: 'Tackling Poverty', 'Narrowing the Gap' and 'The Housing Crisis - Reading's Response: A Call to Action' have been the most recent themes. The outcomes of those events are reflected in the Corporate Plan 2016-19: Building a Better Reading.
  - Have made significant developments to our website which mean customers can now register for an account and track enquiries with the Council at a time that is convenient to them
- 5.3 We get regular and detailed information on what people think about the quality of each of our services and we use this feedback to improve services.

## 6.0 KEY STRATEGY DOCUMENTS

- 6.1 We continue to review and update the Constitution as necessary and have updated the Scheme of Delegation, Financial Procedure Rules and operational and financial delegations to reflect the changes following restructuring of services within the Council. Moving forward a programme of work continues to keep operational and financial delegations and procedures which underpin the Council's constitution up to date. The driver for this review is to have shorter and clearer policies for staff as far as is practical.
- 6.2 The Council's Corporate Plan provides the link between our strategic priorities and the way in which the Council operates. The Corporate Plan and the Council's budget to support the delivery of the Council's service priorities for 2016-2019 were approved by full Council in February 2016. The priorities within the Corporate Plan form the basis of our spending plans over the next three years with an on-going need to reduce our budget further. Therefore, this plan and the budget will continue to be updated every year to take account of changes.
- 6.3 The overall budget and policy framework is set by the Council and all decisions are made within this framework. The medium term financial plan is incorporated as part of the Corporate Plan.

## 7.0 KEY GOVERNANCE CHALLENGES

- 7.1 Safe budget for (2016/17) - Due to the significant alteration to the way government funding to local authorities changed without prior warning just before Christmas 2015, the Council had an unexpected budget gap of more than £5m. To bridge that immediate gap we used some one-off funding measures to set a budget and will be returning to agree longer term measures during the 2016/17 financial year.
- 7.2 The use of one-off measures to set the budget for 2016/17 has provided us with some limited time to consult on and deliver the further compensatory savings that are needed to enable us to set safe budgets in future years. These savings will form part of the 4 year Financial Sustainability Plan that the Government has now asked councils to prepare by October 2016, in order to provide some certainty over future Revenue Support Grant (RSG) settlements.
- 7.3 The Council will have to continue to change the way it operates to deal with reductions in funding as we protect as many vital services as we can with the focus on narrowing the gaps within Reading. The Corporate Plan and the Budget provides an important framework for us to do this. Because of the amount of money we will have to save, through the course of 2016, councillors will be presented with further options and proposals to reduce spending and to focus on what services we can continue to deliver with our remaining budget.
- 7.4 Workforce Challenges - Some services within the Council have experienced high staff turnover over the last year, and at times an over reliance on temporary agency staff. On occasions this has meant it has been more difficult to maintain continuity of service. This is a particular issue within social care services, especially within Children's services some teams have up to 80% agency staff. To address this we have both launched initiatives for staff to retrain and develop to work in areas where we know recruitment can be challenging and embarked on a major recruitment drive to ensure we have stable team of (mainly) employed staff in key services where staff continuity is vital to good service delivery.
- 7.5 News of working and digitisation - The objective of the New Ways of Working and Digitisation Programme is to redesign the front to back delivery of services to achieve the minimum time and cost between a customer and the service being delivered. This is attained by redesigning processes, organisational patterns and using modern technology to enable transformation of the service. The Council is preparing a new ICT strategy in 2016 which will underpin this programme by setting out the plans for a technical infrastructure to digitise service delivery.

- 7.6 Information Governance - The way in which we utilise, manage, retain, share and dispose of our information are the core components of robust information governance. We are aware of our responsibilities and have engaged with the ICO data governance guidance in a positive way, recognising that it takes time and resources to react to the changing requirements. We strive to address and minimise the level of risk within the authority, against the backdrop of the constantly evolving regulatory environment in which information governance requirements are set, but that's not to say there isn't room for improvement.

We also recognise the importance in maintaining compliance with the Payment Card Industry Data Security Standard (PCI DSS), which is vital to the long-term success of all merchants who process card payments. This includes continual identification of threats and vulnerabilities that could potentially impact the Council and its services.

- 7.7 Key financial and information systems - With continuing budget savings to find, having a better understanding and control over the shape and make up of our staffing establishment (the total number of roles/ jobs in the Council) is essential. In order to support the Corporate Management Team (CMT), a complete staffing establishment for the Council has been created. Officers have developed robust processes and controls around recruiting to vacancies and in special circumstances over establishment ensuring Budget Holders are accountable for managing their staffing complement including agency staff.

We have upgraded our financial system to a cloud based solution and some new financial processes have been developed. We also made changes to our procedures including tightening up the purchase order process to ensure orders are raised in a timely fashion.

During the past year the Accounts Payable Team responsible for processing payments has experienced a backlog. There were multiple causes for this, including the changed financial system, staff sickness and issues associated with insufficiently robustly embedded processes that worked efficiently. The Council initially increased staffing levels temporarily to make sure payments were made on time, and is now in the process of updating processes to ensure they work effectively and efficiently, and help deliver some of the savings that were anticipated from the upgraded financial system.

MoSAIC is the Council's Social Care System. It has also been upgraded during 2015/16 from a predecessor systems (framework-i) supplied by the same supplier. Whilst the upgrade has generally improved the information available, we have identified that considerable more work needs to be done to benefit fully from the investment and there will be an on-going project throughout 2016/17 to further develop the system, particular in relation to Children's Services, where at an earlier stage some decisions had been made to limit the use of the system. The Council has identified a new cross directorate officer project board chaired by the Director of Children, Education & Early Help to ensure this work proceeds effectively.



7.8 Transformation programmes - A number of priority programmes are in place to transform services to meet service needs and reduce costs. Within Children's Education and Early Help Services work has been commissioned to, complete research and analysis in the following areas of change:

- Refreshing partnerships with schools and other key partners
- Enhancing early help, prevention and early intervention
- Reviewing SEN and disability services
- Managing demand for Children's Social Care services

This will enable the council to design and implement a programme of change. This work complements work-streams currently in train within the directorate to improve the quality of services and deliver savings.

The Children's Services Improvement Plan will continue to be monitored and reported alongside this project to DCEEH Transformation Board

Within Directorate of Adult Care and Health Services an ambitious three-year transformation programme is underway to:

- Deliver a new model of care delivery for the Directorate and associated services in Reading.
- Adopt service approaches that maximise independence and self-care and prioritise preventative activity as opposed to the present emphasis on reactive crisis response.
- Through delivering the necessary efficiencies, deliver a model of care that will help to ensure that the service remains safe, viable, deliverable within decreasing budgets, and fulfils the statutory functions of Reading Borough Council.

The programme will deliver transformation, improve the quality of service and deliver efficiencies. A robust governance structure is in place, reporting into the Adult Social Care Transformation Programme Board, to ensure delivery of the transformation programme, and projects within it.

7.9 Better Care Fund - In Reading, we have a history of pooling health and social care budgets to deliver improved outcomes, and have developed governance arrangements appropriate for integrated care. These have been refreshed to establish joint governance arrangements covering both our Better Care Fund and Care Act implementation programmes.

The primary accountable board for the Better Care Fund schemes across Reading is the Reading Integration Board. This is chaired jointly by the Head of Adult Social Care at Reading Borough Council and the Operations Directors for the Berkshire West Clinical Commissioning Groups.

Reading's Health and Wellbeing Board has strategic oversight of our plans to develop more integrated services within the Borough.

For projects that span all three unitary authorities in Berkshire West (Wokingham Borough Council and West Berkshire Council as well as Reading Borough Council), accountability is held with the Berkshire West Integration Board, with the Berkshire West 10 Delivery Group acting as the programme board on their behalf.

As many of our Better Care Fund schemes span all three unitary authorities and all four CCGs across Berkshire West, as well as local projects specific to particular unitary authority areas, we have established robust governance structures for working across the sub-region. The Reading Locality Board is the Reading Integration Board.

7.10 *Procurement & Commissioning* - The procurement work programme is monitored through the Procurement Governance Board which is chaired by the Director of Adult Care and Health Services and is also reported through the Senior Leadership Group performance monitoring process. The regular highlight reports identify the status of procurement exercises:

- In progress
- Overdue for initiation - usually where existing contract terms have expired and the contract is held over pending a fresh procurement
- Due to be started in the coming 6/12 months to give early warning of potential resource bottlenecks and co dependencies with other priorities.

Each separate contract is assessed for risk. Procurements in progress will in future also have the targeted/anticipate contribution to budget savings recorded. PGB also reviews the approved plans for each high value procurement to quality assure the approach and business case for each project

We have refreshed our procurement and contract guidance

7.11 *Social Care Resource Panels* - One of the key financial control issues impacting the Council's budget over the long term is ensuring that only appropriate commitments are entered into, particularly for social care services, as these commitments can last many years and in some cases (particularly in Children's Services) be individually very costly. To improve governance of this, both DCEEH and DACHS have established resource /solutions panels that incorporate senior professionals and other key staff (including finance staff) to consider and agree (including the timing of reviews) what the Council should commit to.

## 8.0 MONITORING AND MANAGING SERVICES

8.1 We continue to monitor and manage our service delivery as part of good governance within the Council, and during 2015/16 we:

- Introduced a new corporate performance monitoring and reporting programme was introduced which has improved and strengthened our overall approach to performance to further promote the performance culture;

- Further developed compliance with information security standards;
- Ensured the Audit and Governance Committee undertook its responsibility for monitoring the effective development and operation of corporate governance in the council;
- Kept safeguarding practices and performance under continuous review at all levels and that escalation processes are in place;
- Responded to external audit and challenge as well as internal themed audits and performance is regularly reported to the Corporate Management Team;
- Peer Review of the Health and Wellbeing board to reflect upon our practices;
- Analysis of complaints raised under the Council's Corporate Complaints Policy are regularly reported and considered by CMT along with learning from complaints
- During 2015 the Council's Policy Committee approved a new Corporate Asset Management Plan (CAMP) which identified work streams to deliver capital receipts and rationalised and more cost-effective property portfolio.
- Continued to monitor following corporate and service reviews improvement plans for Finance and Children's Services
- Launched the "Reading Offer" to make sure our staff terms and conditions, development opportunities are equitable and comprehensive, and can ensure that we can recruit and retain staff in our present operating context
- Implemented a programme of learning and development to officers and members. Senior officers are keep abreast of developments in their profession;
- Continued to develop our training needs analysis to assess any potential skills shortages, single points of reliance and also staff that could be deployed in other areas of the organisation if required. The prioritised training needs analysis will inform what training and support is available to all staff but also particularly those whose roles have changed or are going to change to minimise potential risks. There will be an emphasis on shared learning to be managed within existing resources;
- Work is underway to map the council's current and planned activity against a set of agreed organisational development principles and objectives, with a view to developing a long term Organisational Development plan taking the council to 2020
- Developed our online and social media presence
- Launched a new website as a platform for delivering more of our services online and to enable customers to register for an account and track enquiries. As of April 2016 14,000 customers had signed up for e-billing for council tax, and all new customers are encouraged to operate their council tax account in this way.

## 9.0 REVIEW OF EFFECTIVENESS

9.1 We are responsible for carrying out, at least once a year, a review of how effective our governance framework is, including our system of internal control. Our review of how effective our systems and procedures are is supported by the work of CMT and the Chief Auditor's Annual Assurance Report. The review includes consideration of comments made by the External Auditor, peer reviewers, inspectors and other review agencies. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

- The Council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget process;
- Streamlining of purchase to pay is underway to ensure there is rigorous control of all expenditure and an efficient process for promptly paying council suppliers
- The Council's Internal Audit coverage, which is planned using a risk based approach. The outcome from the internal audit coverage helps form the Chief Auditor's opinion on the overall adequacy of the Council's Internal Control Framework, which is reported in his annual report; including any limited assurance audit reports and action taken
- The Chief Auditor's annual report on anti-fraud and corruption activities
- OFSTED annual children's services assessment (*other assessments e.g. youth services, New Directions etc. ;*)
- The Care Quality Commission's inspection of safeguarding and looked after children services;
- External Audit of the council's financial statements and VFM opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the council provides economy, efficiency and effectiveness ;
- The work of the Audit and Governance Committee, which reviews the outcomes from the Annual Audit Plan and the annual report of the Chief Auditor;
- Annual review of standards and complaints about councillors by the Monitoring Officer to the Standards Committee.

9.2 We have made progress in implementing actions contained within the 2014/2015 Annual Governance Statement. Some of the actions identified last year have been completed:

- Introduced cost effective solutions to meet the demand for safe and adequate emergency accommodation and mitigate the growing pressure on the B&B budget through a Homelessness Strategy to prevent homelessness and to ensure appropriate accommodation is available for those who are or may become homeless
- Continued work to accelerate progress and reduce the school attainment gap. The Educational Ambition and Achievement Strategy 2015-2018 and its associated Implementation Plan for Raising Standards were both approved and Reading First Partnership formally established
- Progress on the implementation of the SEND Reforms is on target to enable schools to meet the needs of children and young people with higher levels of need
- The Council has continued to refine and simplify processes and procedures and will provide guidance and training to staff to ensure that controls are embedded throughout the organisation. Including:
  - Purchase to Pay (PTP) is underway.
  - HR processes to make changes to the establishment, new starters, changes to an existing employee, working patterns, notice of leaving, recruitment request etc. redesigned and on line for self-serve by staff
  - Implemented procedure rules for financial processes setting 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
- Completed a Council wide review of the use of vehicles and fleet in general to ensure compliance with legislation and that value for money is achieved
- Delivered the requirements of the Local Government Data Transparency Code 2015 which sets out the requirement for Councils to publish key information

9.3 All other actions are in the plan and most are on-going and reflected in the implementation plan in the appendix.

**10.0 CONCLUSION AND PRIORITIES FOR IMPROVEMENT**

- 10.1 The arrangements continue to be regarded as fit for purpose in accordance with the governance framework, significant governance issues are identified in our improvement plan.
- 10.2 The annual review of governance provides evidence of how effective our governance framework is. As a result, we have put in place an improvement plan as mentioned at 9.3 above. Over the next year we will be taking steps to continue to improve what we do.
- 10.3 We are satisfied that these steps will bring about the improvements that we identified in our review of effectiveness, and we will monitor these improvements as part of our next annual review.

Signed:..... Signed:.....

S M Warren Interim Managing Director Councillor Jo Lovelock, Leader of Council

On behalf of the members and officers of Reading Borough Council

Appendix 2 2015/16 Annual Review of Corporate Governance Arrangements Draft improvement Plan 2016/17

Ref	Action	CMT Lead	Due date
AGS 1	Develop, manage and deliver a budget and financial management strategy to operate within available resources over the period to 2019/20. Draft four year financial sustainability plan to be submitted to government	Managing Director	Financial Sustainability Plan due 14 October 2016 Ongoing delivery
AGS 2	Strengthen financial and budget management throughout Council services and provide effective financial management support considering reducing budgets and the changing nature of income	Head of Finance	March 2017
AGS 3	Delivering Children's Service Transformation Plan - Ensure staffing and capacity in Children's Services	Director of Children, Education & Early Help Services	June 2017
AGS 4	Map the council's current and planned activity against a set of agreed organisational development principles and objectives, and develop a long term Organisational Development plan taking the council to 2020 - what we are going to do within available resources and what outcomes are expected	Director of Adult Care & Health Services	March 2017?
AGS 5	Continue to undertake work on embedding the policy, delivery, governance and monitoring arrangements for Health & Safety.	Managing Director	Ongoing
AGS 6	Continue to develop our commissioning, procurement and contract management and DACHS transformation programme to deliver improvements	Director of Adult Care & Health Services	Ongoing
AGS 7	Continue to undertake work to further improve information management and the Council's data protection policy and reduce the risk of loss of data. Including N3 health integration and Payment Card Industry Data Security Standard (PCI DSS) compliance. Implement action plan to include appropriate staff training (see AGS 12 below) to comply fully with information governance requirements	Head of Legal & Democratic Services	Aug 16 (PCI DSS) Dec 2016
AGS 8	Given the risks presented via the significant changes being delivered and further cost reduction activity across the Council, the Corporate Management Team will continue to closely monitor the operation of the	Managing Director	Ongoing

Appendix 2 2015/16 Annual Review of Corporate Governance Arrangements Draft improvement Plan 2016/17

Ref	Action	CMT Lead	Due date
	Council's control environment		
AGS 9	Review and embed project management / governance gateway to improve governance over projects are more widely introduced across the council	Head of Customer Services	December 2016
AGS 10	Succession Planning - Introduce and monitor arrangements to ensure an efficient and effective handover for senior management, particularly related to the role of Managing Director during 2016/17	Managing Director Head of Legal & Democratic Services	Ongoing Autumn 2016 (recruitment)
AGS 11	Continue with both adult and children's social care Resource Panels to manage demand and ensure appropriate service provision, delivering services within statutory requirements and operating within budget	Director of Adult Care & Health Services/ Director of Children, Education & Early Help Services	Ongoing
AGS 12	Development of a staff on line training programme for Information security, Finance and HR Management supported by up to date policies and procedures, subject to annual review in 2016/17	Director of Adult Care & Health Services	2016/17
AGS 13	For the purpose of care integration and the sharing of person identifiable data with NHS systems, we are undertaking a self-assessment using the Department of Health IG Toolkit and an improvement plan is in place to ensure requirements are complied with	Director of Adult Care & Health	2016/17



READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 July 2016	AGENDA ITEM:	9
TITLE:	AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2016.

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 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

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:

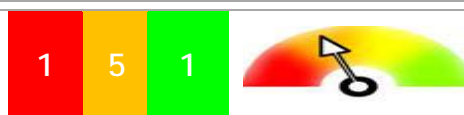
Priority	Current Risk
<b>High</b>	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.
<b>Medium</b>	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
<b>Low</b>	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 Electronic Document & Record Management

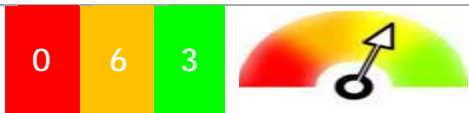


- 4.1.1 For a number of years the Council has been using an Electronic Document Records Management (EDRM) system from Northgate called Information@work (I@W). This service has been implemented in Revenues and Benefits, Planning, Human Resources and Payroll. EDRM offers considerable savings in paper handling and associated processes. Its corporate implementation across the Council has enabled the ‘front office’ to deal with document queries, ‘back office’ to handle all documents electronically and to enable remote workers access to key document information.
- 4.1.2 The overarching objective of this audit was to review internal procedures for collecting, organising and transferring documents to the courier for shipment.
- 4.1.3 The Council uses an established delivery and courier company, to collect and manage the transportation of paper documents to Information@work for scanning. Service performance is monitored and a protocol is in place to alert officers of any missing shipments.
- 4.1.4 There are procedures for sending documents via the courier, however these are in need of a refresh and do not provide a corporate approach for transferring documents. Current internal processes do not provide sufficient guarantees that documents will be safely accounted for and are in need of strengthening to protect the Council from the risk of data loss.
- 4.1.5 The highest priority risk identified related to the transfer of liability should shipments become lost, due to there being no central contract or framework agreement in place with the courier. The volume of documents being shipped for online scanning has remained reasonably consistent over the past 3-years, but is subject to the courier’s terms and conditions, which are only liable for costs in relation to weight or cost of carriage.
- 4.1.6 An action plan is underway to address the risk(s) identified. The Business Systems Support Team is progressing with the work to redesign the overall service provision including the arrangements for the secure transfer of hard copy documents. Information Asset Owners using the service will each need to assess whether the level of any residual risk is acceptable for the specific types documents being transferred by courier.

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4.2 Leisure Income

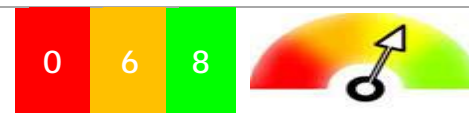


- 4.2.1 Reading Sports and Leisure (RSL) provide a number of activities across a number of venues and customers can access a wide range of facilities through either the ‘Your Reading Passport’ or the ‘Active Membership’ scheme. This review was at the request of the Head of Service and was focused on evaluating controls covering the identification and recording of income.
- 4.2.2 RSL is a well-run and established area of the Council and the staff members who contributed to this audit showed a high level of commitment to their operational areas and were keen to improve processes and procedures.
- 4.2.3 Notwithstanding the above, a number of administrative and control issues were identified in the course of this audit and while none are considered to be significant issues they still require to be resolved. It is acknowledged that progress has already been made in resolving a number of these issues and an action plan has been agreed with the Service Manager.

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4.3 Katesgrove Primary School



- 4.3.1 It is our opinion the School has a good understanding of its financial and operational risks and is keen to be proactive in improving its systems. In particular the new Executive Headteacher has recognised the need to strengthen control(s) and has brought in specific resource to do this, as well as recruiting an experienced School Business Manager.
- 4.3.2 It is recognised that the school is coming out of a period where financial and operational controls did not always operate in an appropriate manner leaving a number of areas with issues to be fully resolved, but which the Executive Headteacher is now in the act of addressing.

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## 6. AUDIT REVIEWS 2016/2017

6.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit Title	Timing	Start Date	Draft Report	Final Report
MOSAIC (Finance Payments)	Q1	Mar 16	July 16	
Creditors (Accounts Payable)	Q1	Dec 15	Apr 16	
Nursing & Residential Care Packages	Q1	Mar 16	June 16	
School Places Capital programme	Q1	Mar 16	May 16	
Right to Buy	Q1	Apr-16	Jun 16	July 16
Leisure (Income Collection)	Q1	Apr 16	Jun 16	Jun 16
MOSAIC/Oracle Fusion End of year reconciliation	Q1	May 16		
Overtime	Q1	Jun 16		
Nursing & Residential Care Packages	Q1	Mar 16	Jun 16	
Health & Safety Review	Q1	May 16		
Information Governance & Data Protection	Q1	Jun 16		
Electronic Document and Records Management	Q1	Apr 16	May 16	Jun 16
Troubled Families (Grant Sign Off)	Q2	-	-	
Pinch Point (Grant Cerification)	Q2	-	-	
LTP Capital Settlemet (Grant Certification)	Q2	-	-	
Integrated Discharge Scheme	Q2			
Access to Records	Q2	May-16		
MASH (Multi-Agency Safeguarding Hub)	Q2			
Use of cash vouchers & cash accounts	Q2	Jun-16		

## 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  
REPORT BY HEAD OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 JULY 2016	AGENDA ITEM:	10
TITLE:	TREASURY OUTTURN REPORT FOR 2015/16 & RELATED UPDATE		
LEAD COUNCILLOR:	COUNCILLOR LOVELOCK	PORTFOLIO:	LEADERSHIP/FINANCE
SERVICE:	ALL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	ALAN CROSS	TEL:	0118 9372058
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	<a href="mailto:Alan.Cross@reading.gov.uk">Alan.Cross@reading.gov.uk</a>

**1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 CIPFA recommends that after the financial year end councils produce an annual report of their treasury activities. This report presents the outturn report for 2015/16. A short presentation will be made at the Committee to highlight key treasury management issues.
- 1.2 The opportunity is also taken in this cover report to outline some current treasury and related issues likely to impact the Council during 2016/17; the establishment of the Municipal Bonds Agency, and the developing treasury position in the context of the Council's finances and Brexit vote.

**2. RECOMMENDED ACTION**

- 2.1 That the committee considers the annual Treasury Outturn Report for 2015/16.

**3. POLICY CONTEXT**

- 3.1 The Council is required to have a Treasury Strategy & Investment Statement in place in order to comply with legislative requirements and recommended professional practice. We are also required at least twice annually to report on the activity (which we normally achieve through this annual report and a mid year report in September).

**4. THE PROPOSAL**

The Treasury Outturn Report is attached in the Appendix.



**5. CONTRIBUTION TO STRATEGIC AIMS**

Proper management of the Council's Treasury position helps support the overall achievement of the Council's financial and service objectives, particularly the Corporate Strategic Objective of remaining financially sustainable.

**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.  
Papers received in connection with the establishment of Municipal Bonds Agency, save confidential and legally privileged items.

## 1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Authority's Treasury Management Strategy for 2015/16 was approved as part of the budget in February 2015 (which can be accessed on <http://www.reading.gov.uk/media/3069/7--Appendix6-TreasuryManagementStrategyStatement2015-16/pdf>).

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

The reporting arrangements enable those officers tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those Councillors with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. Given the technical nature of the subject, by way of introduction the annual report is intended to explain how, during 2015/16

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

It must be recognised that no treasury management activity is without risk, and the successful identification, monitoring and control of risk is an important and integral element of all treasury management activities. The main risks to the Council's treasury activities are:

- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources to meet commitments)

- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

## 2. External Context

Treasury Management is carried out in the context of UK & global economics and markets; Arlingclose's commentary on the market is as follows;

**Growth, Inflation, Employment:** The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the April 2016 showing the employment rate at 74.2% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.0%. Wage growth has however remained modest at around 2.3% (at the year end) excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

**Global influences:** The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of the Brexit referendum. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result. (Immediately after the result was announced the decline was much sharper).

**UK Monetary Policy:** The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and

reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. (i.e. although base rate was 0.5% throughout the year, longer term rates first rose c.0.6% then fell by slightly more). The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

### Local Context

At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £466.5, However, this includes £32.8m PFI debt and various adjustments for which borrowing is not normally needed, and the Council's net cash borrowing requirement during the year rose from £253.3m shortly after the start of the year, and was £306.4m at the end of the year, having fluctuated in the £265m-£285m range for most of the year.

At 31/03/2016, the Authority had £318.4m of borrowing and £12m of (longer term) investments. Our current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal

borrowing, subject to normally holding a minimum investment balance (for cash flow management reasons) of around £10m. We expect to have an increasing CFR over the next 3 years due to the need to fund some of the capital programme from new borrowing. In February our treasury strategy estimated that around £75m new borrowing would be needed over the next three years.

### 3. Borrowing Strategy

At 31/03/2016 the Council held £318.4m of loans, (an Increase of £4m on the 31/03/2015 position) as part of its strategy for funding previous years' capital programmes.

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

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to borrow short-term loans instead.

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

A summary of 2015/16 activity is:

**Borrowing Activity in 2015/16**

	Balance on 01/04/2015 £m	Maturing Debt £m	New Borrowing £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Short Term Borrowing <sup>1</sup>	0[HS1].5	3	17.5	15.0	<0.5%/ <1year
Short Term Borrowing - PWLB Variable	4.8	0	0	4.8	0.77%/6 yrs
Long Term Borrowing - PWLB Fixed	278.4	9.3	0	269.1	3.62%/30.3yrs
Long Term Borrowing - Market	30.0	0	0	30.0	4.18%/54.2yrs
<b>TOTAL BORROWING</b>	<b>313.7</b>	<b>9.5</b>		<b>318.9</b>	<b>3.63%/30.1yrs</b>
Other Long Term Liabilities	33.8	1		32.8	
<b>TOTAL EXTERNAL DEBT</b>	<b>347.5</b>	<b>10.5</b>		<b>351.7</b>	
Increase in Borrowing £m				5.2	

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 at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOS had options during the year, none of which were exercised by the lender. (Subsequent to the year end, one lender, Barclays, has indicated that it does not intend to exercise any of its future options, so the loan will remain fixed until 2055 at 3.99%).

LGA Bond Agency: The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association (LGA) as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council's Head of Finance worked closely with the LGA and MBA to set up the agency and in March Policy Committee approved the Municipal Bond Agency's framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee. It is now expected that subject to market conditions the first bond w

<sup>1</sup> Loans with maturities less than 1 year.

## Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between “premature repayment rate” and “new loan” rates so the premium charge for early repayment of PWLB debt remained too expensive for debt rescheduling activity to be undertaken that would create a treasury gain, so no rescheduling was done as a consequence.

## 4. Investment Activity

The Council has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council’s investment balances have ranged between £12m and £66m.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council’s aim is to achieve a yield commensurate with these principles.

### Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m
Short term Investments	15.0	30.0	45	0.0
Call Accounts	3.3	Changes Daily, Sometime Weekly		0.0
Money Market Funds(CNAV)	11.1	Changes Daily, Sometime Weekly		0.0
Money Market Fund (VNAV)	0.0	5.0	5.0	0.0
Long term Investments (Pooled funds) - CCLA Property Fund	5.0	12.0	0.0	12.0
<b>TOTAL INVESTMENTS</b>	<b>34.4</b>			<b>12.0</b>
(Decrease) in Investments £m				(22.4)

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

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council’s minimum long-term counterparty rating is normally A- across rating agencies Fitch, S&P and Moody’s); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

## Credit Risk

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

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2015	4.85	A+	5.32	A+
30/06/2015	5.64	A	5.84	A
30/09/2015	5.27	A+	5.33	A+
31/12/2015	4.94	A+	4.94	A+
31/03/2016	5.67	A	5.67	A

### Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

## Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

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

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



Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Council made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added though the Council has not made such investments. Certain non-rated UK building societies have also had extended durations for possible investment.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks. (Following the Brexit vote there have been further review of UK based banks, with a range of downgrades; we will report on these in full in the mid-year report).

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities resulted in the Council increasingly favouring secured investment options or diversified alternatives, notably the CCLA Property Fund over unsecured bank and building society deposits.

As indicated above the Council has had reducing cash available for lending; although in the treasury strategy we took a strategic decision to invest in the CCLA Property Fund, increasing our investment from the initial £5m just before 31/3/15 to £10m in April and £12m in the autumn (and to £15m

in early 2016/17). Cash has been held in either money market funds (MMF) or bank deposits, mainly with Santander UK. We also had £5m in a variable net asset value MMF for several months (after taking advice, as the yield was better).

## Budgeted Income and Outturn

The average cash balances were £37.7m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). Overall the yield was just below an average rate of 1.7%, but this masked an imbalance between cash and money market funds generating an average rate of about 0.5%, and the CCLA Property Fund around 4.7%. (The latter's yield is now expected to be lower in 2016/17 and the immediate future because of the uncertainty following the Brexit vote). Overall, our investment Income for the year was £640k.

### Externally Managed Funds:

As indicated above, the Council has had investments in cash plus and property funds which allow the Council to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated (though at the year end, had the Council ended its property fund investment here would have been a capital loss of £114k, but this is expected to be recovered in the future).

Although money can be redeemed from the property fund at each month end, the Council's intention is to hold its investment for the medium-term (possibly taking the value invested towards £20m, subject to growth of the fund overall). Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose. [HS2]

## 5. Compliance with Prudential Indicators

Our Prudential Indicators for 2015/16, which were set in as part of the Council's Treasury Management Strategy Statement in February 2015

### Treasury Management Indicators

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

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

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	120%	120%	120%
Actual Maximum	124%		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	24%		

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.

As has happened in the last couple of years the indicator maximum was briefly exceed in early April, and just before Christmas, though for most of the year was below the target limit.

**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:

	Upper	Lower	Actual
Under 12 months	25%	0%	14.6%
12 months and within 24 months	25%	0%	1.9%
24 months and within 5 years	25%	0%	3.7%
5 years and within 10 years	25%	0%	5.0%
10 years and above	100%	40%	74.8%

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, with LOBO option dates treated as potential repayment dates.

**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 total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£20m	£20m	£15m
Actual	£15m		

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	6.0	5.67

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. We normally hold £10m for this purpose, but at times allow liquidity to fall below this level, provided market conditions are such that temporary borrowing can be undertaken at short notice. Those conditions prevailed during 2015/16, and as indicated above at the year end we had no cash and £14.5m of temporary market borrowing.

#### Investment Training

Officers involved in treasury activity periodically attend training and other events organised by Arlingclose or CIPFA.

## Prudential Indicators 2015/16

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's original planned capital expenditure, probable (from February's Council report) and actual may be summarised as follows

Capital Expenditure and Financing	2015/16 Estimate £m	2015/16 Probable £m	2015/16 Actual £m
General Fund	65.5	71.3	65.0
HRA	13.9	12.4	10.4
<b>Total Expenditure</b>	<b>79.4</b>	<b>83.7</b>	<b>75.4</b>
Capital & Other Receipts	13.9	13.6	8.6
Government Grants	18.1	27.8	25.4
S106	3.5	7.3	6.3
Borrowing	43.9	35.0	35.1
<b>Total Financing</b>	<b>79.4</b>	<b>83.7</b>	<b>75.4</b>

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

Capital Financing Requirement	31.03.16 Estimate £m	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	278.6	273.2	309.2	307.6
HRA	195.1	193.3	195.0	193.5
<b>Total CFR</b>	<b>473.7</b>	<b>466.5</b>	<b>504.2</b>	<b>501.1</b>

The CFR is forecast to rise by around £35m over the next couple of years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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

Debt	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	318.4	347.0	354.8
Finance Leases	0.9	0.8	0.7
PFI liabilities	32.8	32.2	31.3
<b>Total Debt</b>	<b>352.1</b>	<b>380.0</b>	<b>386.8</b>

Total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

**Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	400	400	400
Other long-term liabilities	40	40	40
<b>Total Debt</b>	<b>440</b>	<b>440</b>	<b>440</b>

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	400	410	410
Other long-term liabilities	40	40	40
Total Debt	440	450	450

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

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised %	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	7.1	6.5	8.8	11.4
HRA	24.6	26.7	25.8	26.2

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2015/16 Budget £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase in Band D Council Tax (in-year)	12.58	12.62	14.56	5.98
Increase in Band D Council Tax (On-Going)	53.07	53.24	61.17	25.09
Increase in Average Weekly Housing Rents	0.10	0.10	0.22	0.26

HRA Limit on Indebtedness: The Council's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Council complied with this requirement.

HRA CFR Limit:	£208.5m		
	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA CFR	193.4	193.3	191.9

## Money Market Data and PWLB Rates

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

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

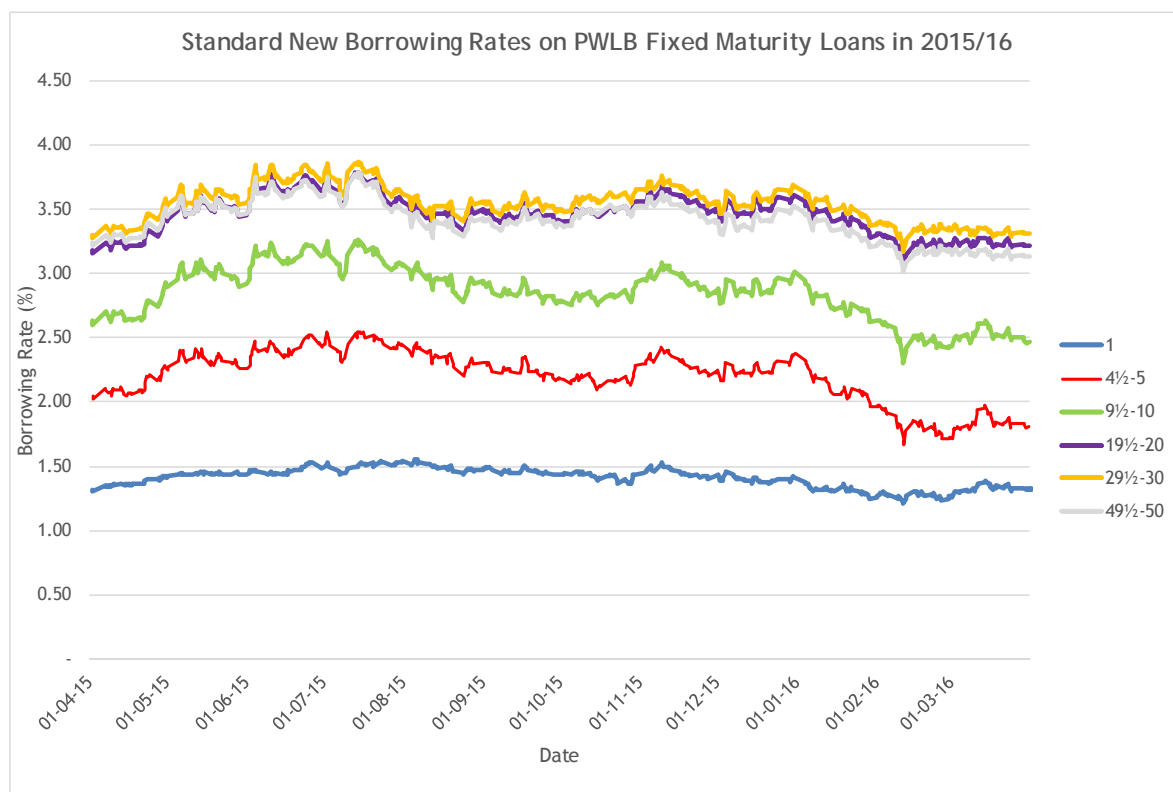
Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average	0.50	0.38	0.45	0.43	0.54	0.76	0.99	0.96	1.14	1.43
Maximum	0.50	0.48	0.58	0.57	0.66	0.92	1.02	1.17	1.44	1.81
Minimum	0.50	0.17	0.35	0.43	0.51	0.55	0.84	0.68	0.73	0.85
Spread	--	0.31	0.23	0.14	0.15	0.37	0.18	0.49	0.71	0.96

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12

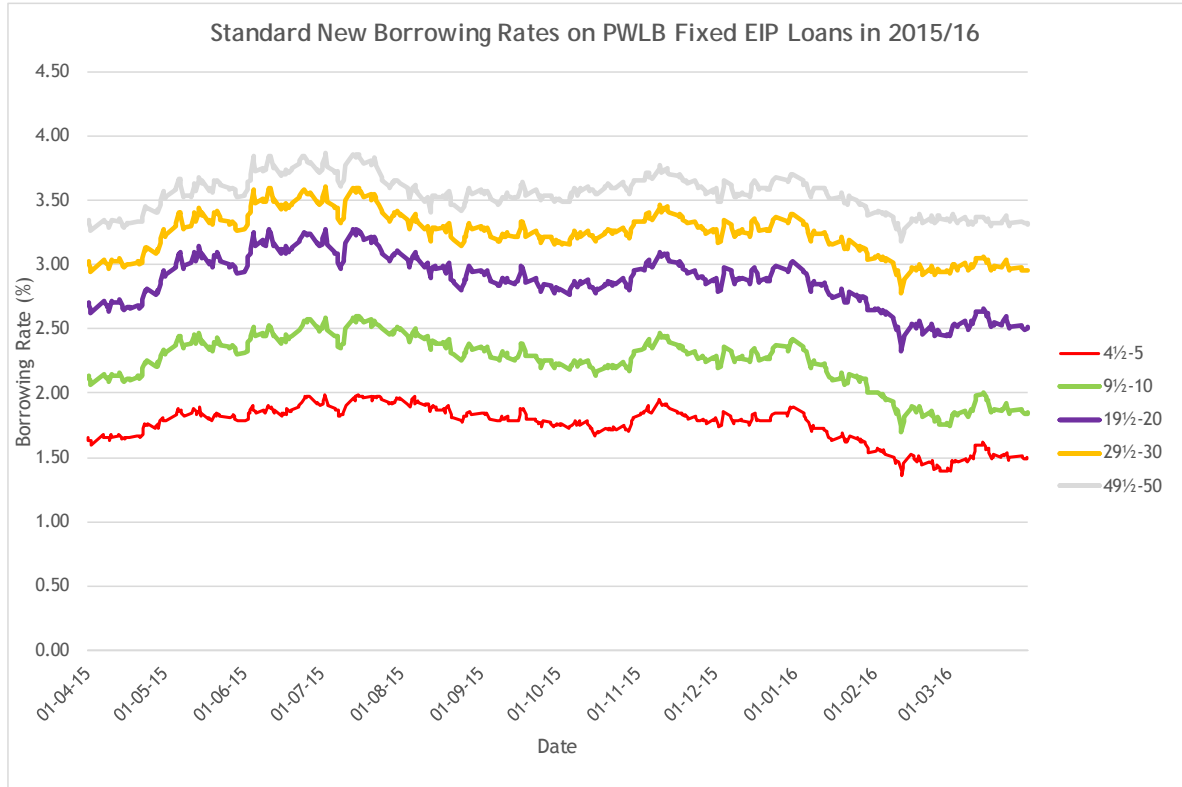


	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78



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

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87



**Table 4: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68

Ref No.	Risk Description	Inherent Risk			Mitigation required	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	<p>Agreement of further in year 2016/17 savings - a savings package is to be presented to policy Committee</p> <p>Budget monitoring and identification of mitigating actions for adverse variances. Implement agreed savings - monitoring report to committee includes RAG update</p> <p>Budget options identified for future years and revised policy approaches developed with administration - options b/f for decision in a timely manner in July, autumn and February.</p> <p>Develop a draft 5 year "efficiency plan" (to be known as a Financial Sustainability Plan) to be submitted (subject to agreement) to government by 14<sup>th</sup> October 2016 in return for a multi-year funding settlement which is intended to give more certainty for financial planning purposes.</p>	5	4	20	➔	SW/AC

Ref No.	Risk Description	Inherent Risk			Mitigation required	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE		IMP	LH	SCORE		
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, reputational damage and significant financial penalties levied by the Information Commissioner's Office.	5	4	20	<p>Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly during 2016/17</p> <p>Roll out training corporately and refresh yearly</p> <p>Need to test application of training by officers</p> <p>Incident management procedures mitigate loss or breach of data</p> <p>Need identified to update data protection suite of policies</p> <p>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. First attempt to recruit failed following preferred candidate withdrawing from process. New advert due out in May, agency worker (temp) being sought.</p> <p>Policy Revision to be agreed</p> <p>Information Asset Owners need to be identified and trained. Date for training set for 12 July</p>	3	4	12	→	CB

Ref No.	Risk Description	Inherent Risk			Mitigation required	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	<p>The comprehensive review of assets has included a rolling program of condition surveys that has informed a prioritised program of works. The initial program has been implemented and report is to be presented to July Policy Committee in relation to the work completed and revised programme for 16/17. Proactive planning monitored on a monthly basis by Land and Property Group.</p> <p>Review of Building Management responsibilities to ensure that responsibilities are clear and adequate. Action Plan developed and overseen by Corporate Risk Group. New Building Managers' guide published and rolled out to staff</p> <p>Training is in place in relation to FLASH responsibilities.</p> <p>Annual audit of FLASH items in high risk properties</p> <p>A number of Business Continuity plans have been updated. Timetable agreed for the review of plans.</p> <p>Review of staff accommodation and asset disposal proposals to be presented to July 2016 Policy Committee seeking to rationalise estate and reduce the number of properties.</p> <p>Review commenced to audit other 'structures' in the estate which may not be picked up under compliance and condition surveys such as floodlighting columns etc.</p>	4	3	12	➔	AB/GF

Ref No.	Risk Description	Inherent Risk			Mitigation required	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE		IMP	LH	SCORE		
4	Safeguarding (children). Risk of death or injury to children, through inappropriate care or attention.	5	4	20	<p>Routine audit process underway, reviewed monthly by HoS</p> <p>Deliver Children's Social Care Improvement plan with focus on improved record keeping, compliance with procedures and acting on poor performance indicators. Monitored monthly.</p> <p>New Notification process for top ten high profile cases</p> <p>Ensure that Assessments are recorded, timely and accurate</p> <p>External audit of case work, leading to practice improvements.</p>	5	3	15	→	HM

Ref No.	Risk Description	Inherent Risk			Mitigation required	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. Risk 5 continued	5	4	20	<p>Safeguarding team continues to deliver training at L1. Workshops for social care staff, learning lunches and attend team meetings.</p> <p>Levels 2 &amp; 3 face to face safeguarding training has been re commissioned with training dates throughout the year.</p> <p>Risk Enablement Panel (REP) is a panel for staff to take high risk and complex cases for discussion. REP is currently being reviewed to make this a multi-agency approach for all high risk complex work, with input from TVP, Drug and Alcohol services, and other key agencies.</p> <p>20% of Safeguarding cases are audited each month using an audit tool agreed by the Safeguarding Adults Board.</p> <p>Further ongoing work identified for Mental Health Services regarding reporting through the statutory safeguarding process as well as the trusts internal service. (DATEX).</p> <p>A further risk transpired related to fire related deaths. This has been both a local and national issue. We have worked with the fire service to provide awareness training for those who provide care both internally and through agencies.</p> <p>PAN Berkshire P&amp;P were launched on 1<sup>st</sup> April 2016. Local Guidance and further procedures/pathways are being developed.</p>	5	3	15	→	WF

Ref No.	Risk Description	Inherent Risk			Mitigation required	Residual Risk			DOT	Risk Owner
		IMP	LH	SCORE		IMP	LH	SCORE		
6	Failure to close the gap in school attainment for pupil premium groups	4	5	20	<p>Deliver targets within the Raising Attainment Strategy</p> <p>Develop a partnership with schools which enables the delivery of school to school support during academic year 2015/16</p>	3	4	12	➔	HM
7	Impact on staff resilience (stress and motivation) of organisational change & budget reductions.	4	5	20	<p>Ensure that managers are carrying out 1:1's, appraisal and team meetings at a local level</p> <p>Staff survey completed, action plan to be developed</p> <p>Publicise HR assessment and guidance on stress management.</p> <p>Staff to be reminded about the Employee Assistance Programme.</p>	3	4	12	➔	CB
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	<p>The Better Care Fund has been submitted and we await full assurance due from NHSE on 1st July 2016. Section 75 agreements are in place and accepted by CCG Boards and Health and Wellbeing Board. Submission to NHSE due 30th June 2016. This give legal and governance process of Commissioning programmes. RBC and CCG partners have business cases and project plans with individual risk logs which are closely monitored through Reading Integration Boards and quarterly reports to HWB. This is in line with peer review recommendations.</p> <p>In line with the integration agenda further reviews are being conducted throughout the year to identify further possibilities of efficiencies. This is conducted through joint commissioning plans and internal Programme structures.</p>	3	3	9	⬇	WF



Ref No.	Risk Description	Inherent Risk			Mitigation Required	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE		IMP	LH	SCORE		
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	<p>Develop council owned housing company to acquire homes to rent including a proportion at sub-market rent (target of 100 properties per annum, pro rata 30% sub market rent). Agreed March Council. Commence trading in the Autumn 2016.</p> <p>Subject to Planning agreement develop temporary modular homes at Lowfield Rd. Planning application submission - July 2016. Procurement, off-site construction, on-site installation and completion by Jan 2017.</p> <p>Develop training for staff cross sector and make 'every contact count'.</p> <p>Marketing of Rent Guarantee Scheme. Review offer / landlord research to respond to changing market.</p>	3	4	12	➔	SG
10	Health & Safety Training has not been completed by staff and managers leading to a risk of injury and litigation.	4	4	16	<p>Audit of health and safety training to identify gaps. Discussions with Learning and Development Team to agree a system to monitor training and refreshers. Report to A&amp;G Committee July 2016</p> <p>Training action point on Corp H&amp;S Action Plan. New Action Plan drafted and to be formally agreed at next Corporate H&amp;S Cttee. Plan to also be sent to A&amp;G</p>	4	3	12	➔	CMT

Ref No.	Risk Description	Inherent Risk			Mitigation Required	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE		IMP	LH	SCORE		
11	Data Protection: New data protection regulation "GDPR" due to come into force in 2018 introduces sweeping changes to the regulation of data protection Europe-wide. Risk that we are not prepared for the changes could result in a breach of the new regulation as soon as it is in force, attracting a fine of up to €1m	5	5	25	<p>Plan to assess requirements of the new law, against backdrop of Brexit</p> <p>Information audit needing to be carried out</p> <p>Wholesale review of Privacy Notices</p> <p>Individual consent and processing requirements to be reviewed</p> <p>New data breach reporting mechanisms to be established</p> <p>Data protection impact assessments to be carried out</p>	3	4	12	NEW	CB
12	Failure to achieve EU framework Directive of 50% recycling by 2020 -	4	4	16	<p>Waste Minimisation Strategy has been agreed</p> <p>Implementation of year 2 of the strategy in progress.</p> <p>New Service Standard for Waste Operations proposed for adoption July 16.</p> <p>Implementation of service change</p> <p>Schools recycling initiative</p> <p>Doorstepping and recycling bin contamination reduction scheme to carry on from June 16.</p> <p>Twice yearly Strategy update report to HNL Committee in March and November for years 1-5 of the Strategy.</p>	4	2	8	NEW	MS