

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

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10 July 2017

Your contact is: Michael Popham - Committee Services

NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE - 18 JULY 2017

A meeting of the Audit & Governance Committee will be held on Tuesday 18 July 2017 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

AGENDA

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1. DECLARATIONS OF INTEREST	-
2. MINUTES OF THE COMMITTEE'S MEETING OF 19 APRIL 2017	1
3. QUESTIONS	
4. INTERNAL AUDIT ANNUAL ASSURANCE REPORT	5
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.	
5. ANNUAL GOVERNANCE STATEMENT 2016/2017 AND IMPLEMENTATION PLAN	28
This report presents the draft Annual Governance Statement publication of which is required by the Accounts and Audit Regulations 2015 and sets out the progress made in implementing the actions which were reported in the 2015/16 Annual Governance Statement.	

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6.	INTERNAL AUDIT QUARTERLY PROGRESS REPORT	61
	This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2017.	
7.	CORPORATE STRATEGIC RISK REGISTER	73
	This report provides an update on the first quarter status of the Council's 2017/18 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.	
8.	BUDGET MONITORING 2017/18	87
	This report regarding the Council's budget monitoring position at the end of May 2017 was prepared for the Policy Committee meeting on 17 July 2017 and is now presented to the Audit & Governance Committee for information.	
9.	TREASURY OUTTURN REPORT FOR 2016/17 & RELATED UPDATE	93
	This report, presented to the Policy Committee on 12 June 2017, sets out the draft budget outturn position for the 2016-17 accounts for the Council showing budget variances since the February 2017 Council report.	
10.	HOMES FOR READING LTD -ARRANGEMENTS	103
	This report provides information about the operating arrangements in relation to Homes for Reading Ltd (HfR), the Council's wholly owned housing company, and asks the Committee to identify any information it needs to fulfil its scrutiny function.	
11.	PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24) RECOMMENDATIONS REPORTED AT BUDGET COUNCIL	136
	This report provides an update on the progress to implement the External Auditor's Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 recommendations, which were reported to Council on 21 February 2017 along with the Council's response addressing those recommendations.	
12.	ACCOUNTS 2016/17 & EXTERNAL AUDITOR UPDATE	141
	To receive a report advising of the publication of the Accounts and an update from the Council's external auditor EY.	

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2017

Present: Councillor Stevens (Chairman), Lovelock, McElligott, McKenna, Page & Terry.

Apologies: Councillor Steele; and
Maria Grindley, Director and Engagement Lead, EY LLP.

Also in attendance:

Peter Lewis	Strategic Finance Director
Alan Cross	Head of Finance
Paul Harrington	Chief Auditor
Zoe Hanim	Head of Customer Services
Sharon Warner	Entitlement and Assessment Team Leader
Alan Witty	EY LLP

29. MINUTES

The Minutes of the meeting of 26 January 2017 were confirmed as a correct record and signed by the Chairman.

30. INTERNAL AUDIT QUARTERLY PROGRESS REPORT AND ANNUAL SUMMARY OF INVESTIGATIONS FOR 2016/2017

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 2017.

The report set out a summary of the audit reports in respect of Bank and Cash Reconciliations, NNDR, Subject Access Requests, Council Tax Support, Childcare Operations, Payroll and Health & Safety Review; it outlined the findings of four school audits and nine audit investigations. The report also contained a table showing the audit reviews currently in progress and those planned for the next quarter.

Resolved: That the report be noted.

31. 2015/2016 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN FOLLOW UP

The Chief Auditor submitted a report following up implementation of the 2015/16 Annual Governance Statement (AGS). The report explained that the Council was required to prepare and publish an AGS each year as an accompaniment to the authority's financial statements.

The report explained that the Council was responsible for ensuring that its financial management was adequate and effective and that it had a sound system of internal control, which facilitated the effective exercise of the Council's functions, including arrangements for the management of risk. The AGS was a record of the overall effectiveness of governance arrangements within the Authority; it reflected the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrated how the key governance requirements had been met. The report had appended the plan showing progress against the actions identified in the AGS.

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Overall, thirteen actions had been identified, all of which had been or were in the process of being implemented.

Resolved: That the progress made to implement the actions reported in the 2015/16 Annual Governance Statement, as detailed in the appendix to the report, be noted.

32. INTERNAL AUDIT CHARTER 2017-18

The Chief Auditor submitted a report, in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), presenting the annual Internal Audit Charter for 2017/18, which was appended to the report for the Committee's information. The Charter set out the purpose, authority and responsibility of the Council's Internal Audit function.

Resolved: That the Internal Audit Charter 2017/18, which had been prepared in accordance with the requirements of the PSIAS and was appended to the report, be noted.

33. INTERNAL AUDIT PLAN 2017/18

The Chief Auditor submitted a report setting out the work that Internal Audit planned to undertake during the financial year 2017/18. The Indicative Internal Audit Plan was attached as Appendix A to the report. The Chief Auditor had the responsibility to produce an audit strategy of how the internal audit service would be delivered and how it linked to the organisational objectives of the Council.

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.

Resolved: That the Internal Audit Plan for the period April 2017 to March 2018, which was attached to the report at Appendix 1, be approved.

34. PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24, REPORTED AT BUDGET COUNCIL) RECOMMENDATIONS

The Head of Finance submitted a report setting out the progress that had been made in responding to the actions identified in letter issued by the Council's external auditor, EY, in accordance with Section 24 of the Local Audit and Accountability Act 2014. The letter and the Managing Director's response to the recommendations had been considered by the Council at its meeting on 21 February 2017. The report had appended the external auditor's recommendations, the Council's initial response and details of the current position.

Resolved: That the initial progress in implementing the external auditor's recommendations, which had been reported to the Council on 21

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2017

February 2017, be noted and that the intention to update the Committee at each meeting on the latest position until further notice be endorsed.

35. EXTERNAL AUDITOR UPDATE

The external auditor EY submitted the Audit progress report for 2016/17 and the certification of housing benefits subsidy claims and returns annual report 2015/16. The certification of claims report detailed the errors that had been found in the Council's administration of the Government's housing benefits scheme for tenants. Alan Witty of EY attended the meeting to present the report and answer questions from the Committee. He provided an explanation of the auditor's role in the process of checking the claim and classification of benefits awarded to claimants during the year and reporting the findings to the Council and DWP. He also explained the increase in the actual auditor's fee being sought compared to the indicative fee.

The Committee was concerned that the process of claiming housing benefit subsidy from the DWP was penalising local authorities generally and more importantly Reading in particular, because of Reading's proliferation of complex and fluctuating circumstances amongst its benefit claimants (which led to frequent benefit changes). It was suggested that the Local Government Association could be contacted to encourage lobbying of Government for reform of the Housing Benefits Subsidy claim scheme. It was also suggested that further 'invest to save' proposals could be pursued to determine whether there was any scope to reduce the level of error in administering the Government's housing benefits scheme for tenants and reduce the sum being clawed back by the DWP in the future and avoid a subsidy penalty. In view of the Committee's interest, it was also suggested that it might be appropriate to have a presentation to a future meeting on the complexity of the arrangements for administering the Government's housing benefits scheme for tenants in order to highlight the challenges being faced by the Council in order to keep within the permissible threshold for error before a financial penalty was activated.

Resolved:

- (1) That the Audit progress report for 2016/17 Audit Plan be noted;
- (2) That, in respect of reporting of the housing benefits subsidy claim certification, it was requested that future reports should provide the information in a more digestible format to assist the Committee's understanding and enable more scrutiny of the process, and in particular the report should, if possible, contain the following:
 - Initial number of cases reviewed;
 - Final number of cases reviewed;
 - The number of errors that had been identified in the cases examined;
 - An assessment of the proportion of errors compared with the number of cases being processed;
 - An indicative total value of the errors that had been identified, together with monitoring information to show the

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 APRIL 2017

Council's performance against the threshold after which the Department for Work and Pensions (DWP) would restrict the amount claimed in housing benefits subsidy;

- (3) That the Committee's concern at the process that had to be followed to claim housing benefit from the DWP be noted and the Strategic Finance Director, Head of Finance and Head of Customer Services, in consultation with the Leader of the Council and the Chairman of the Audit and Governance Committee consider any further action that could be taken to address the concerns raised by the Committee.

(Councillor Terry declared a personal non-pecuniary interest in this item. Nature of interest: Councillor Terry was the Chief Executive of Berkshire Women's Aid, which was referred to in the report).

(The meeting started at 6.30pm and closed at 7.30pm).

READING BOROUGH COUNCIL

DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	4
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:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF REPORT / THE PROPOSAL

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 2016/2017 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. The following document is attached to this report:

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 regulation 4 of the Accounts and Audit Regulations.
- 3.2 Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2016/17, are suitably designed and applied effectively.
- 3.3 This opinion is reflective of the relatively high number of limited assurance opinions provided and the significance to the control framework of some of those areas where weaknesses have been found. This opinion also takes into account the work of other inspection bodies, such as the Council's External Auditor and Ofsted.
- 3.4 Of particular importance in determining the opinion were the key weaknesses identified within some of the Council's financial systems. Compliance with core systems controls has deteriorated in recent years with slow resolution on issues relating to accounts payable, accounts receivable, general ledger and bank reconciliations. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall "limited assurance" opinion.
- 3.5 An area where in the past we have made recommendations to reinforce financial control has been journals. The journaling of monies within financial codes is still not under proper control and supervision. It is also not taking place in timely fashion which in turn means that there is a short period of intense pressure to allocate monies within the year end to balance activities taking place throughout the year.
- 3.6 Financial reconciliations remains an area of concern as progress on remedying weaknesses identified has been extremely slow and as a result the Council's bank account and other associated control accounts have not been reconciled in a timely fashion. Locally, we also identified gaps in documented financial procedures and corporate oversight.
- 3.7 Controls over financial processes and systems within social care require improvement; especially within Children's Services. There has been a lack of linkage between the procurement of services and the matching and payment of invoices for the same, leading to overpayments and potentially increasing the risk that suppliers or clients may try to defraud the authority. It is noted that this has been recognised by the Directorate and a project has been initiated to create a single co-located Access to Resources Team (ART) to address the collective need for cost avoidance and improved financial control.

- 3.8 A theme through a number of the significant governance issues is a lack of compliance. That is, the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not followed, leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption and/or poor value for money with the consequent negative reputational impact. There are also some corporate governance processes and policies across the Council which need updating and publicising. We found some key documents, such as the staff code of conduct, to be out of date and not communicated to staff on commencing employment with the Council or on a regular basis during their employment.
- 3.9 A balanced budget for 2017/18 was achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17. This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed. Hence the Council continues to face significant challenges; however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance, which in turn are reflected in the Council's Annual Governance Statement.
- 3.10 During 2016/17 the Council made particularly significant use of interim & agency staff, including several roles within the Corporate Management Team. It is however, recognised that the Council is in the process of replacing as many of these interim staff with permanently employed staff as possible, as quickly as practicable. This will reduce costs and deliver more stability in leadership and at practice level.
- 3.11 There have been some critical reports by external agencies: a qualified value for money opinion was offered by External Audit in 2015/16 and Children's Services were deemed inadequate by Ofsted. They found leadership, management and governance to be inadequate.
- 3.12 Implementation of improved measures, along with the Annual Governance Statement action plan, will be monitored monthly by a senior group of officers, chaired by a member of CMT and attended by the Chief Executive.

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 2016/17 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 & Investigations Annual Assurance report

For the year ended 31 March 2017



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1.0 OVERVIEW

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 Standards¹ and corresponding Local Government Application Note².
- 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 investigations activities and outcomes during the year.

1.2 Purpose & Scope of 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.

¹ Public Sector Internal Audit Standards - Applying the CMIIA International Standards to the UK Public Sector. Institute of Internal Auditors, April 2013 (amended 2016)

² CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards

1.3 Control Environment

- 1.3.1 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.
- 1.3.2 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.

Internal Audit Effectiveness

- 1.3.3 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.
- 1.3.4 The Internal Audit Service carried out a self-assessment in 2016 against the Public Sector Internal Audit Standards (PSIAS), 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 independent external assessment completed by CIPFA, in July 2017, the results of which will be reported to the Corporate Management Team (CMT) and the Audit and Governance Committee.
- 1.3.5 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.
- 1.3.6 The Chief Auditor is therefore able to report for 2016/17 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.

2.0 ANNUAL ASSURANCE STATEMENT

2.1 Basis of Assurance Opinion

2.1.1 Our assurance opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2016/17, including our assessment of the Council's corporate governance and risk management processes. The internal audit plan for 2016/17 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.

2.1.2 The 2016/17 Internal Audit Plan was approved by the Audit and Governance Committee in April 2016. This does not include the resources deployed on reactive and proactive fraud which is referred to in section 9. Progress reports from the Chief Auditor are presented to the Committee at quarterly meetings.

Annual Assurance Opinion for 2016/17

2.1.3 Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. The Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:

Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, which is set out in more detail below, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2016/17, are suitably designed and applied effectively.

2.1.4 This opinion is reflective of the relatively high number of limited assurance opinions provided and the significance to the control framework of some of those areas where weaknesses have been found. This opinion also takes into account the work of other inspection bodies, such as the Council's External Auditor and Ofsted.

- 2.1.5 Of particular importance in determining the opinion were the key weaknesses identified within some of the Council's financial systems. Compliance with core systems controls has deteriorated in recent years with slow resolution on issues relating to accounts payable, accounts receivable, general ledger and bank reconciliations. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall "limited assurance" opinion.
- 2.1.6 An area where in the past we have made recommendations to reinforce financial control has been journals. The journaling of monies within financial codes is still not under proper control and supervision. It is also not taking place in timely fashion which in turn means that there is a short period of intense pressure to allocate monies within the year end to balance activities taking place throughout the year.
- 2.1.7 Financial reconciliations remains an area of concern as progress on remedying weaknesses identified has been extremely slow and as a result the Council's bank account, along with key control accounts have not been reconciled in a timely fashion.
- 2.1.8 Locally we have also identified gaps in documented financial procedures and corporate oversight.
- 2.1.9 Controls over financial processes and systems within social care require improvement; especially within Children's Services. There has been a lack of linkage between the procurement of services and the matching and payment of invoices for the same, leading to overpayments and potentially increasing the risk that suppliers or clients may try to defraud the authority. It is noted that this has been recognised by the Directorate and a project has been initiated to create a single co-located Access to Resources Team (ART) to address the collective need for cost avoidance and improved financial control.
- 2.1.10 A theme through a number of the significant governance issues is a lack of compliance. That is, the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not followed, leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption &/or poor value for money with the consequent negative reputational impact.
- 2.1.11 Whilst the Council has appropriate governance arrangements, some corporate governance processes and policies across the Council need updating and publicising. Some key documents are out of date and not communicated to staff on commencing employment with the Council or on a regular basis during their employment.

- 2.1.12 A balanced budget for 2017/18 was achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17. This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed. Hence the Council continues to face significant challenges; however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance, which in turn are reflected in the Council's Annual Governance Statement.
- 2.1.13 During 2016/17 the Council made particularly significant use of interim & agency staff, including several roles within the Corporate Management Team. It is however, recognised that the Council is in the process of replacing as many of these interim staff with permanently employed staff as possible, as quickly as practicable. This will reduce costs and deliver more stability in leadership and at practice level.
- 2.1.14 There have been some critical reports by external agencies: a qualified value for money opinion was offered by External Audit in 2015/16 and Children's Services were deemed inadequate by Ofsted. They found leadership, management and governance to be inadequate.
- 2.1.15 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. 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 no doubt continue to be a challenge into 2017/18.
- 2.1.16 The open and transparent nature of the Council's response and the desire to improve internal practices is reflected in the Annual Governance Statement (AGS). It is considered that if the Council strengthens internal controls and processes throughout 2017/18, then it is likely that an improved audit opinion can be issued at the end of this financial year.
- 2.2 **Inherent qualifications to the assurance opinion**
- 2.2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk altogether and therefore can only provide reasonable, not absolute, assurances of effectiveness.

- 2.2.2 Pressures of work with reduced staffing and a large number of interim or acting managers means that it has been harder to get audits started and doubly difficult to get timely replies and engagement with the reports. This has been slow in many cases and there has been reluctance in some areas to either engage in the audit process and/or to provide responses to audit recommendations.
- 2.2.3 This, combined with reorganisations and the state of continuous change for a number of key services across the Council, has made the audit planning more difficult. This has resulted in several changes to the plan and more audits than usual being cancelled or deferred through the year.

3.0 SUMMARY OF THE AUDIT WORK

- 3.1 An annual audit plan was produced by Internal Audit to cover the period 1 April 2016 to 31 March 2017, which was agreed with the Corporate Management Team and the Audit & Governance Committee. The annual audit plan was in line with the Public Sector Internal Audit Standards for Internal Audit.
- 3.2 Satisfactory progress has been made against the Internal Audit plan during the period. Assignments have been completed in accordance with the plan, although there are a small number that still require finalisation of the reports. We completed 28 planned audit reviews, 5 school reviews and 3 grant claim certifications. The table below summarises the report classifications for the planned audit reviews undertaken in 2016/2017.

Report Classification (2016/17)	No. of Audits
Substantial Assurance	6
Reasonable Assurance	16
Limited Assurance	9
No Assurance	0
Assurance N/A	2
Total	33
Projects in progress	1
Grant Claims certified	3
Total	37
No of projects cancelled or deferred	6

3.3 Priority of Recommendations

- 3.3.1 At the time of writing we have made a total of 194 audit recommendations in our reports (both draft and finalised), of which 8% were classified as a high priority.
- 3.3.2 In the following section we have set out the high level key findings identified during our audit work for 2016/2017.
- 3.3.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 1.

4 LIMITED ASSURANCE REVIEWS

- 4.1 Some of the key areas for improvement identified during our audit work are set out below:
- *General Ledger* - There is a lack of clear documented business processes and identification of responsibilities that identify and describe the operation of the feeder systems and the requirements for data input on a manual or spreadsheet basis. The input of unstructured or poor quality data from feeder systems (particularly the AP system) increases the need for remedial action in the General Ledger in the form of journal activity. The audit noted the number of high value transactions surrounding the opening and closing of the accounts and the volume of amendment to transactions. There are also a high number of manual interventions to load information into the General Ledger. There are no formal processes or procedures to ensure that an audit trail is maintained for the source of the journals. Records of journal transactions are available, but there is no set policy for storage and protection of the original records used for manual or spreadsheet transactions in a centralised secure area.
 - *Bank & Cash Reconciliations* - The regular completion of reconciliations was not timely in 2016/2017, there is no centrally held list of the control account reconciliations and no process in place to ensure these are completed in a timely way. The Interim Director of Finance has confirmed that the finance service is committed to bringing the bank account reconciliation up-to-date and for it to be completed on a monthly basis going forward. Lessons are being drawn out to ensure that the reconciliations for 2017/18 can progress in a timely manner.

- *Accounts Payable* - Our audit identified inefficient processes and highlighted that the accounts payable function is incurring an unnecessary level of administrative delay, by not managing its supplier database. Invoices are processed manually, including printing off electronic invoices received by email and supplier set up is a time consuming manual process given the volume of new suppliers set up daily on the system. Supplier categorisation needs to be improved to provide better quality management information on categories of spend and to limit the number of suppliers on the system to a manageable level. There is no formal accreditation process for the majority of suppliers, who are chosen by the manager making the order. 35% of orders are still being raised after receipt of the invoice and this has not been addressed through the business process. This is replicated when it comes to the prompt receipting of goods received that impose delays on processing payments. This impacts the accuracy of management financial information in respect of budgeting and accounting for expenditure in a timely fashion.
- *Accounts Receivable* - Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance, as Income & Recovery staff also have to act as intermediaries when accounts are queried by customers. There are different procedures in place for the monitoring and chasing of unpaid invoices with no apparent consistency, priority or direction as to the work of Income & Recovery staff and in particular the order that accounts are worked on. As at the end of February 2017 there were a total of 5,280 unpaid invoices with a total of more than £11m, although this reduces to £4.4m outstanding (4,946 invoices) if sums due from other local authorities, schools and colleges, as well as other public organisations are disregarded. £2.5m of this was more than 5 months old, although the majority of this related to the current and previous calendar year(s).
- *S106 income* - Following the s106 fraud a subsequent audit review highlighted inherent weaknesses in the administration of the billing and collection of developer S106 contributions. The Director has confirmed new processes have been introduced to improve control. In addition, a new S106 data system has been installed. It is hoped that this system can link directly to Oracle Fusion, as this will be the most efficient way of monitoring receipts. This will be followed up by internal audit in Q1 of the 2017/18 financial year.
- *Nursing & Residential Care Packages* - There needs to be an improvement in audit trails to better evidence placement decisions made by the Adult Funding Panel and to improve procedures to ensure care packages are reviewed annually to comply with statutory review processes. The Adult Social Care Transformation Team has since been working to improve the function of Adult Funding Panel process.

- *Information Governance & Data Protection* - The audit highlighted a need to improve governance structures to evidence the effective management of information governance and data protection to meet evidence based accreditation programmes like PCIDSS³ for credit card use and N3⁴ for Health Service connectivity. The Head of Customer Services has confirmed that action is being taken to improve governance in this area including revised policies and procedures, enforced document marking, identification of Information Asset Owners and staff training.
- *Subject Access Requests* - Under the Data Protection Act 1998, individuals have a right to access information held about them by any organisation that processes personal data. There was a lack of a consistent policy and procedure which could be applied to subject access requests. The Council's Employment and Information Solicitor has confirmed that different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Services. A new policy and procedure has been implemented and key officers are being trained by Legal Services.
- *Electronic Document & Records Management* - The Council uses an Electronic Document Records Management system which offers considerable savings in paper handling and associated processes. Current internal processes to collect and manage the transportation of paper documents for scanning 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. 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.
- *Corporate Governance* - A review was conducted of the ownership, completeness and currency of documentation that the Council is required to hold, publicise and periodically review in relation to its own governance arrangements. This acknowledged that the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not always followed leading to weaknesses in internal controls. There are also some important governance processes across the Council which require strengthening. In particular, some key policies and documents are out of date and are not being communicated to staff on commencing employment with the Council or on a regular basis during their employment.

³PCI DSS is the Payment Card Industry Data Security Standard, that was set up to help businesses process card payments securely and reduce card fraud.

⁴N3 is the National Network for the NHS. Public health intelligence teams based in local authorities need to be connected to N3 in order to fulfil their function.

5.0 IMPLEMENTATION OF AUDIT RECOMMENDATIONS

- 5.1 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.
- 5.2 During 2015/16 we gave four areas limited assurance and scheduled a follow up review for 2016/17. A summary is as follows:
- Our review of Adult Care income & charging in 2015/16 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. Although we haven’t followed this up we have been kept informed of progress and plan to do some more testing in Q1 of 2017/2018.
 - A review of Accounts Payable in 2015/16 highlighted areas for development in respect of process improvements. This was followed up as part of the 2016/17 review of Accounts Payable, with limited progress found to have been made (Paragraph 4.1).
 - A review of Foster Care & Adoption Allowances 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. This follow-up was postponed following the Ofsted inspection in the summer of 2016 and has been rescheduled for Q2 of this year’s audit plan.
 - Reading Girls School was given limited assurance in 2015/16, but was not followed up in 2016/17 due to its planned conversion to academy status. The Head of Education was however informed of our concerns.

6.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

6.1 Corporate Governance

- 6.1.1 Although the Council has in place, in most areas, an appropriate set of governance arrangements we have identified gaps in processes and policies. An occurring theme is a lack of compliance, be it through lack of awareness or understanding, which in part could be due to governance documents being out of date, not directly accessible and/or not regularly communicated to staff. This produces a heightened risk of processes not being followed, either accidentally or deliberately, with the consequent negative reputational impact. During 2017/18 attention needs to be paid to professional practice and compliance to drive up standards.
- 6.1.2 In response, the Chief Executive has established a corporate governance group, whose task will be to review implementation of governance actions highlighted in the AGS and audit.

6.2 Risk Management

- 6.2.1 The Corporate 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.
- 6.2.2 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.
- 6.2.3 While risk management techniques are deployed, they have been less than robust at the strategic level throughout 2016/17, and need to be improved going forward. Risks have always been managed, but risk registers need to be updated more frequently at directorate and CMT level. This helps maintain transparency, in line with the principles of corporate governance. This in turn helps demonstrate that risk management an integral and explicit part of the Council's overall management arrangements.

7.0 ASSURANCES FROM OTHER SERVICES

7.1 External Auditor

- 7.1.1 Ernst & Young's (EY) 2015/16 opinion stated that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year. However they issued an adverse value for money arrangements conclusion for the financial year 2015/16 on 17 November 2016. This means that they had concerns over the Council's arrangements for

securing financial resilience and for how it secures value for money in its use of resources.

- 7.1.2 Although they did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about, they found that some of the basic financial controls were not working as expected. In particular, the regular completion of reconciliations was not timely. This increases the risk of fraud errors remaining undetected.
- 7.1.3 They highlighted that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making and that planned action had not been taken to achieve sustainable savings during 2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2017/18 budget.
- 7.1.4 EY made further recommendations in February 2017 under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 for sustainable resource deployment in relation to the immediate and medium term financial position of the Council and the need for robust budget monitoring.
- 7.1.5 We acknowledge a revised and strengthened monitoring process was put in place from 1st April 2017, which will ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.

7.2 Ofsted

- 7.2.1 Following an inspection in 2016, Ofsted concluded that Children's Services in Reading were inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The inspection found that children are left too long in situations of unknown and acute risk. The report also found leadership, management and governance to be inadequate and that instability in the senior leadership team had impeded progress in addressing identified weaknesses in services for children and families.
- 7.2.2 It should be noted that the Council accepted the findings of the Inspection and developed an improvement plan as a response to it, supported by the appointment of a Commissioner for Children's Services.

8.0 Resource availability, allocation & jobs completed

8.1 For 2016/2017, the planned and actual resource availability is summarised in table A below. This set out the requirement of 972 planned audit days. The actual resource availability for the year for planned reviews was 1030 days.

	Planned Totals	Actual Totals	Gain (+) Against
Resource Available	1530	1530	0
Non-audit time			
Annual & other leave	185	191	-6
Sickness	30	11	19
Training (1)	51	36	15
Supervision & appraisal (2)	91	96	-5
Administration (3)	56	49	7
Other (4)	32	17	15
Sub-Total:	445	400	45
Non Audit Related Work			
Risk Management (5)	18	16	2
Emergency Planning & Business Continuity (6)	12	4	8
Corporate Investigations Team (7)	46	42	4
Insurance (8)	29	28	1
Elections (9)	8	8	0
Sub-Total:	113	98	15
Audit time available:	972	1032	60
Time Allocated to Audit Work			
	Planned Days	Actual Days	Variance Days
Audit Reviews	636	800	164
Other Assurance work	94	75	-19
Contingency	100	80	-20
Audit Planning & Reporting	60	44	-16
External Clients	82	33	-49
Total	972	1032	60

- 1) Professional training support, external courses & seminars, internal courses/training.
- 2) One to ones, appraisals, staff supervision & audit sign off etc.
- 3) Review of internal audit, updating office procedures, IA web and intranet page etc.
- 4) Budgetary control, plan reconciliation, health & safety, quality control etc. team meetings
- 5) Facilitation of risk registers, training etc.
- 6) Assisting in emergencies, attending EP team meetings etc.
- 7) Management of the Corporate Investigations Team
- 8) Management of Insurance Team
- 9) Participation in election work (local election & referendum)

8.2 Performance of the Internal audit Service

8.2.1 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 self-assessment and/or external review.

8.2.2 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	91.4%
Production of final report within 2 weeks of receipt of management responses	90%	86%
Management responses received within 3 weeks of issue of draft report	90%	36%
Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	39%
Number of audit projects completed relative to those in the (revised) plan	80%	88%
Actual spending of controllable budget	100%	98%
% Of working days lost to sickness	2.0%	0.81%

8.2.3 As mentioned in the report, it has been harder to get audits started and doubly difficult to get timely replies and engagement with the reports. This in turn has led to audits being delayed, taking longer than originally planned, which has subsequently impacted upon internal audit performance statistic.

8.3 Annual Quality Review

- 8.3.1 We undertook an annual survey in May 2017 asking Directors, Heads of Service and senior managers to assess the importance and quality of the service provided.
- 8.3.2 Managers were asked to rate a total of 41 questions against 6 service areas; the summaries of the findings are detailed below on a scale of 1 to 4 (where 1 is very important/excellent and 4 is unimportant/poor).

Average Importance Rating	Service Area	Average Satisfaction Rating
1.9	Audit Service	1.6
1.2	Audit Staff	1.2
1.2	Conduct of Audits	1.1
1.2	Audit Reporting	1.3
1.4	Customer Service	1.2
1.2	Overall Rating	1.3
1.4	Average	1.3

- 8.3.3 In addition to the set questions, three free text fields were made available for individuals to provide further comments.

9.0 Counter Fraud Activity

- 9.1 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.
- 9.2 The table on the following page contains details of successful outcomes by the Investigations Team.

	2016/17	2015/16	2014/15
Housing tenancy Fraud			
No. Housing Tenancy Referrals (inc. RTB checks) investigated	86	67	35
Properties Recovered	10	3	3
Estimated saving from Recoveries*	£150,000	£45,000	£45,000
Prosecutions Secured	0	2	1
Application under the Proceeds of Crime Act	1	1	1
Value of POCA	43,000	£212,500**	£32,000***
Council Tax Reduction Scheme			
No. CTAX Referrals investigated	112	220	207
Prosecutions	2	0	17
add pens	14	34	0
value of fraudulent overpayments identified	£19,468	£48,089	£21,467
Value of add pens	£8,333	£22,590	0
Parking Fraud			
Blue badge referrals	25	47	
Blue Badges recovered	6	10	2
prosecutions secured	3	3	1
PCN's issued	4	17	2
estimated annual savings****	£400	£1,000	£200
Social Care			
No. Social Care Referrals investigated	1	1	6
Number	1	0	1
Value	£61,000	0	£30,000
ID Fraud			
Number of cases	7		
Value*****	£150,000		
Internal Investigations			
No. Internal Referrals	4	9	5
Number of cases investigated	1	2	3
Value*****	£43,000k	0	0

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

** This is a very complex case, the decisions on amounts and payments (if any) we will not know until the Court has considered all arguments. Court hearings have been deferred a number of times with the new date scheduled for the September 2017.

*** Settled out of court and payment received.

**** 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.

***** Referred to DWP for investigation. Will only recover all monies if fraud is proven (prosecutions). However 40% can be reclaimed via HB subsidy

***** Courts have ruled in the Council's favour and the defendant has been instructed to pay

ANNEX 1: Detailed analysis of internal audit reviews 2016/17

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
NNDR	Nov-16	Jan-17	Feb-17	0	0	1
Moorlands Primary School	Jan-17	Feb-17	Mar-17	0	2	2
Integrated Discharge Scheme	Aug-16	Nov-16	Dec-16	0	0	0
Pupil Premium Funding	Aug-16	Oct-16	Nov-16	0	0	3
Micklands Primary School	Feb-17	Mar-17	Apr-17	0	2	2
Cranbury College	Nov-16	Dec-16	Jan-17	0	1	1

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
MOSAIC (Finance Payments)	Apr-16	Jun-16	Aug-16	0	2	0
Payroll	Dec-16	Mar-17	Apr-17	0	3	2
Overtime	Jun-16	Jul-16	Aug-16	0	3	3
Childcare	Oct-16	Jan-17	Mar-17	0	6	1
Waste Operations	Jul-16	Nov-16	Dec-16	0	7	2
School Places Expansion Programme	Apr-16	May-16	Jul-16	0	7	4
Right to Buy	Apr-16	Jun-16	Jul-16	1	3	4
Bed and Breakfast Placements	Nov-16	Apr-17	May-17	0	6	2
MOSAIC/Oracle Fusion End of year reconciliation	Jun-16	Aug-16	Oct-16	0	6	0
Council Tax Support	Aug-16	Jan-17	Mar-17	0	5	1
Manor Primary School	Oct-16	Nov-16	Nov-16	0	7	1
The Ridgeway Primary School	Jan-17	Jan-17	Feb-17	0	3	2
Health & Safety Review	May-16	Dec-16	Feb-17	0	4	3
Leisure (Income Collection)	Apr-16	Jun-16	Jun-16	0	6	3
Caversham Nursery School	Oct-16	Nov-16	Nov-16	0	2	8
Use of cash vouchers & cash accounts	Jun-16	Aug-16	Nov-16	0	3	3

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
General Ledger	Oct-16	Mar-17	May-17	3	2	1
Creditors (Accounts Payable)	Oct-16	Mar-17	May-17	0	8	4
Information Governance & Data Protection	Jun-16	Aug-16	Oct-16	1	6	4
Nursing & Residential Care Packages	Mar-16	Jun-16	Oct-16	2	3	3
Access to Records	May-16	Oct-16	Jan-17	3	3	2
Debtors Accounts Receivable	Dec-17	Mar-17	May-17	0	6	4
Key financial system reconciliations	Nov-16	Feb-17	May-17	3	3	0
EDRM	Apr-16	May-16	Jun-16	1	5	1
S106 Income	Jun-16	Aug-16	Oct-16	2	2	0

NO ASSURANCE - 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.

				Recs		
Title	Start	Draft	Final	H	M	L
NIL						

Planned audit reviews cancelled or deferred:

Title	Start	Draft	Final
eTendering	Mar-17	May-17	Jul-17
Foster Care & Adoption Allowances (follow up audit)	Jul-17		
Entitlement & Assessment			
Corporate Buildings H&S Statutory Compliance Regimes	May-17		
Financial Assessments of Adult Care (follow up audit)	Mar-17		
Reading Girls School			

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	5
TITLE:	Annual Governance Statement 2016/2017 and Implementation Plan		
LEAD COUNCILLOR:	Councillor Lovelock	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
	Peter Lewis	TEL:	937 2058
JOB TITLE:	Interim Director of Finance	E-MAIL:	Alan.Cross@reading.gov.uk

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 require 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) 2016/2017

Appendix 2 - AGS Implementation plan

2. ACTIONS REQUIRED

- 2.1 Audit & Governance Committee is requested to receive and approve the draft Annual Governance Statement for 2016/2017 for publication with the Council's accounts.
- 2.2 The Committee is asked to authorise the Chief Executive, 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. KEY ISSUES

3.1 The draft AGS for the Council for 2016/17 is attached at appendix 1. Essentially, it outlines for the Council:

- the scope of governance responsibilities
- the purpose of the governance framework
- a description of the governance framework
- arrangements for review of the effectiveness of the governance framework
- Governance issues that need to be addressed.

3.2 The preparation of the Statement has built on previously established arrangements, which involves the collating of information from a number of sources, both internal and external. The information is analysed and a draft Statement is produced, discussed with key officers, and any amendments identified are then made.

3.3 A review was also undertaken by Internal Audit of the ownership and completeness of documentation that the Council is required to hold, publicise and periodically review in relation to its own governance arrangements. This was assessed against the CIPFA/SOLACE *"Delivering Good Governance in Local Government"* framework, which sets out best practice for UK local authority governance.

3.4 Draft versions of the AGS were presented to the Council's Corporate Management Team (CMT) in early May and June for consideration and discussion, with the final draft presented to the Audit & Governance Committee in July.

3.5 To support the Annual Governance review, each directorate is required to complete a Directorate Governance Statement in relation to systems of internal control and governance arrangements. These are signed off by the relevant director. The directorate statements demonstrate that directorates have evaluated and assessed their internal control environment. These statements along with the other aspects of governance outlined have enabled the Council to conclude that it has an effective governance framework including systems of internal control, although improvements are required, which are reported in section five of the AGS. These cover:

- (i) Children's Services
- (ii) Interim & Agency Staff
- (iii) Financial Challenge

- (iv) Internal Controls and
- (v) Compliance

- 3.6 The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service and its external auditors (Ernst & Young). The role of Internal Audit is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively.
- 3.7 The role of External Audit is to review the financial statements, obtain evidence that they are materially correct and provide an opinion as to whether these represent a true and fair view of the financial position of the Council. In addition, External Audit also audit some grant claims and provide a value for money opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the Council secures economy, efficiency and effectiveness.
- 3.8 One of the assurance statements the Council receives is the annual opinion of the Chief Auditor in respect of the control framework. The opinion of the Chief Auditor in respect of audit work completed in 2016/17 is that **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited, are suitably designed and applied effectively.
- 3.9 Principally, the 'limited assurance' opinion determined by the Chief Auditor for 2016/17 was not derived from a lack of clear rules and procedures within the Council, but from a lack of adherence to them.
- 3.10 The Council's external auditor for the 2015/16 accounts Ernst & Young (EY), issued an adverse value for money conclusion on 17 November 2016. This means that they had concerns over the Council's arrangements for securing financial resilience and for how it secures value for money in its use of resources.
- 3.11 Although they did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about, they found that some of the basic financial controls were not working as expected. In particular, the regular completion of reconciliations was not timely.
- 3.12 They highlighted that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making. Furthermore EY commented that planned

action had not been taken to achieve sustainable savings during 2015/2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2016/17 budget.

- 3.13 EY made statutory recommendations in February 2017 under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 by way of a letter calling for sustainable resource deployment in relation to the immediate and medium term financial position of the Council and the need for robust budget monitoring. The Council formally considered and approved an officer response to these recommendations at its February 2017 meeting and progress towards addressing the recommendations is being monitored by the Audit & Governance Committee.
- 3.14 EY issued an unqualified opinion on the Council's 2015/16 financial statements on 17 November 2016. This means that they believe the 2015/16 financial statements (as amended following audit) gave a true and fair view of the financial position of the Council and of its expenditure and income for that year. EY's audit of the financial statements identified various adjustments to the draft accounts which the Council agreed to make. The audit raised recommendations to improve controls over bank and housing rent account year end reconciliation procedures and IT controls over applications and infrastructure. The Council has been addressing these recommendations.

4. THE PROPOSAL

- 4.1 Based on the governance framework and statement together with the Internal Audit review of the Council's control framework, governance related themes are highlighted that warrant reporting in the action plan which accompanies the Council's 2016/2017 Annual Governance Statement, Appendix 2.
- 4.2 The report covers the period up to the publication of the accounts, but as the Statement is signed off by the Leader of the Council and the Head of Paid Service, it would be sensible to authorise minor amendments that may be needed before then. 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 framework (2016 Edition).
- 10.2 Audit & Accounts Regulations 2015.

Annual Governance Statement

2016/2017



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Borough Council
Working better with you

1.0 INTRODUCTION

- 1.1 This Annual Governance Statement for 2016/17 builds upon those of previous years. It summarises key governance mechanisms and records the significant governance issues that need to be addressed over the coming year. The Council's Corporate Governance arrangements are enshrined in the Council's Constitution, which can be found on the Council's website: <http://www.reading.gov.uk/constitution>.
- 1.2 Reading Borough Council (RBC) is responsible for ensuring that its 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. In support of this a governance framework has been in place at the Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.
- 1.3 This statement also enables the Council to meet its requirements under the Accounts and Audit Regulations 2015, which requires that the Council prepares an annual governance statement.

2.0 THE GOVERNANCE FRAMEWORK

- 2.1 Corporate governance refers to the process by which organisations are directed, controlled and held to account. Major elements of this framework are to monitor the achievement of strategic objectives, manage the Council's finances and provide a framework for public engagement. The governance framework of the Council endeavours to ensure that all operations and activities are fully compliant with these requirements.
- 2.2 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 these three years, and identify an on-going need to reduce our budget gap further. Therefore, the plan and the budget continue to be updated every year (on a rolling three year basis) to take account the changing outlook.
- 2.3 The level of Council Tax for each financial year is set through a structured process of budget setting and review. The annual Revenue and Capital budgets are prepared by officers working with the Administration, and presented to Policy Committee for consideration before approval by the Full Council. Significant changes are subject to public consultation.
- 2.4 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. The Council's Corporate Plan can be found on the Council's website: http://www.reading.gov.uk/media/4929/Corporate-Plan-and-Budget-2016-2019/pdf/Corporate_Plan_and_Budget_2016-2019.pdf

- 2.5 The Council also produces a Treasury Management Strategy Statement each year, which helps it manage the Council's cash flows, lending and borrowing activities and the mitigation of the risks associated with these activities. This is also considered and approved by the Full Council as part of the budget each year.
- 2.6 Members of the public and councillors are able to ask public questions about Council business at Council meetings, Policy and service committees (which are usually webcast). Other regulations permit the inspection of the accounts being audited and related documents during the audit process.
- 2.7 In support of the framework, the system of internal control is very important and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The Constitution

- 2.8 The conduct of the Council is defined by formal procedures and rules, which are set out in the Council's Constitution.
- 2.9 All Councillors meet together at Full Council meetings which are normally open to the public. 6 Council meetings took place in the 2016/17 municipal year.
- 2.10 As well as delivering statutorily-defined services to its residents, the Council also appoints a Returning Officer who is responsible for the administration of elections, referendums and other ballots within the Council's area. The Head of Legal & Democratic Services performs this role and no challenges have been received in respect of the Returning Officer's performance of his duties.

Key Statutory Officers

- 2.11 **The Head of Paid Service** (in RBC this is the Chief Executive¹) is responsible for all of the staff of the Council and for leading an effective corporate management team of directors and senior officers who focus on both strategic cross-directorate issues and operational delivery of individual service accountabilities. The Chief Executive's team of senior officers propose policy options and advise as necessary on possible action to elected councillors, who take the key decisions. The Chief Executive has overall responsibility for implementing Council priorities, managerial leadership, policy advice and the efficient and effective operation of the Council.

¹ In 2016/2017 the head of paid service was the Managing Director. The Chief Executive was appointed during March 2017 and joined the Council full time in June 2017

- 2.12 The **Interim Director of Finance** is appointed as Chief Finance Officer² (CFO) under Section 151 of the Local Government Act 1972. The CFO helps to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. The CFO is actively involved in, and brings influence to bear on, all material business decisions to ensure immediate and longer term financial implications are considered, that opportunities and risks are fully taken into account, and that there is alignment with the Council's financial strategy.
- 2.13 Furthermore, the CFO, supported by the Head of Finance, leads on delivery by the whole organisation in regard of financial management so that public money is safeguarded at all times and used appropriately.
- 2.14 The Council is required to appoint a **Monitoring Officer** and at RBC this is the Head of Legal & Democratic Services. The Monitoring Officer's functions include maintaining the Constitution, and overseeing compliance with the law and supporting the Standards Committee in the promotion of high standards of Member Conduct. The Standards Committee reported its review of the Members Code of Conduct on 30th June 2016. Whilst there have been 3 complaints about Member Conduct, involving 3 members, none of these cases required an investigation to be undertaken. The Head of Legal & Democratic Services has delegated authority to institute, conduct and where appropriate defend and settle criminal or civil legal proceedings and claims concerning the Council's responsibilities and interests, to take action to protect the interests of the Council and to give legal effect to any decision or action properly taken by the Council or a Committee or person on behalf of the Council.
- 2.15 To support the Annual Governance review, each directorate is required to complete a Directorate Governance Statement in relation to systems of internal control and governance arrangements. These are signed off by the relevant director. The directorate assurance statements demonstrate that directorates have evaluated and assessed their internal control environment to ensure controls are embedded across key areas including decision making, service planning and delivery, performance management, partnership governance and financial management.
- 2.16 These statements along with the other aspects of governance outlined have enabled the Council to conclude that it has an effective governance framework including systems of internal control, although improvements are required. One such improvement is a review and updating in 2017/18 of the Council's Code of Corporate Governance.

Partnership Governance

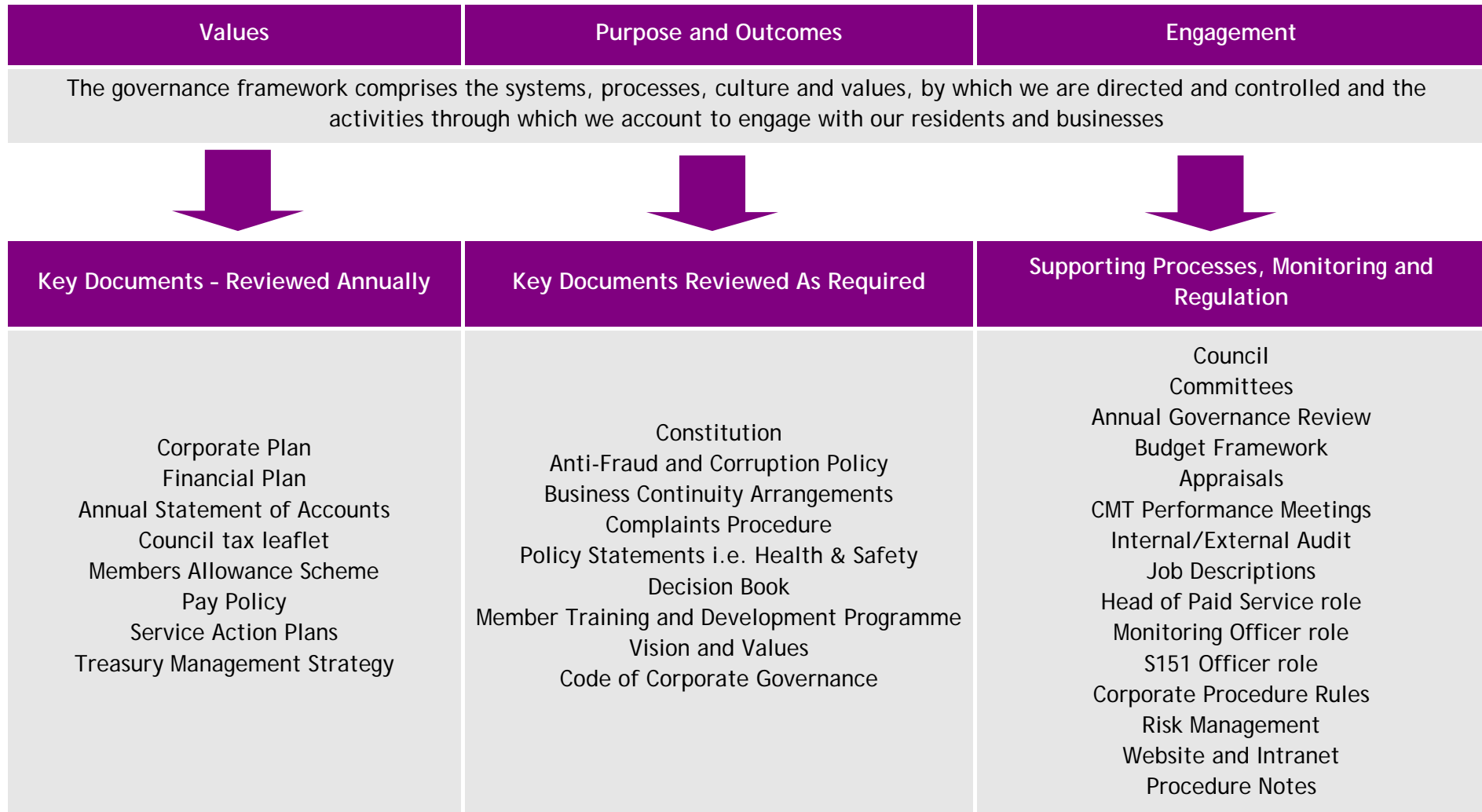
- 2.17 The Council has created a housing company, 'Homes for Reading Limited' (HfR), wholly owned by the Council with the aim of purchasing 500 residential properties to rent. HfR was incorporated as a private limited company on 6th April 2016 and directors have been registered at Companies House. The HfR Board (which includes the HfR Executive Management Team, consisting of two senior council officers, 4 councillors and 2 non-executive directors, meet monthly to agree policy and processes. A company Managing Director and Company Secretary have also been appointed.

² The Council appointed an interim Director of Finance as CFO in October 2016; prior to that the Head of Finance was the CFO.

- 2.18 The Council also owns Reading Transport Ltd (RTL)(which was incorporated in 1986 to comply with the Transport Act 1985) and runs the town's bus services. The Board includes councillors, executive directors and non-executive directors and the company operates at arms-length from the Council.
- 2.19 Both HfR and RTL have a formal governance structures, operates their own risk management strategy and are subject to internal and external inspection and audit, in compliance with the Companies Act (2006).
- 2.20 The Council shares a number of services with other councils, such as building control and health & safety. Each Council retains its own sovereignty and staff who work within the shared service arrangement do so through an agreement under section 113 of the Local Government Act 1972 whereby they are seconded to work on behalf of other Councils as well as continuing to work for their own employing authority.

Annual Governance Review

The following diagram outlines the Council's governance framework around three streams of core activity - values, purpose & outcomes, and engagement:



Audit and Governance Committee

2.21 The Audit and Governance Committee is the committee charged with governance and receives reports that deal with issues of good governance as well as those in need of improvement. During 2016/17 the Committee met in April 2016, July 2016, September 2016, November 2016 and January 2017. The Committee considers standing agenda items as well as specific items at particular times of the year, in part driven by the annual accounts preparation and finalisation and any matters that require further reporting. During the year the Committee reviewed:

- internal audit and counter fraud activity reports;
- Performance of the Internal Audit;
- implementation of recommendations;
- Internal Audit annual plan;
- Local Audit and Accountability Act;
- staffing issues;
- External Audit annual letter;
- External Annual audit plan;
- annual statement of accounts;
- risk registers;
- Chief Auditors annual audit opinion on internal control, governance & risk management.

Overview and Scrutiny Process

2.22 The statutory overview and scrutiny functions of the Authority are exercised by individual committees in respect of the functions, services and partnerships that they cover, and by the Policy Committee in respect of functions, services and partnerships that cover more than one committee. The statutory external scrutiny functions of the Authority, in respect of health, crime and disorder, and flood prevention, are delegated to individual committees.

Risk Management

- 2.23 It is recognised that risk management is an integral part of good governance. The Council's Risk Management Strategy Statement sets out the intended approach to risk management to be implemented by services. All councillors and officers are responsible for ensuring that risk implications are considered in the decisions they take.
- 2.24 The successful delivery of the Council's Risk Management Strategy depends on its ability to manage risk, rather than to eliminate it altogether.
- 2.30 The requirement for Health & Safety training is contained within the Council's Health & Safety Policy, whereby the training for *Heads of Service and Directors* is principally based on Business Risk Management. This enables health and safety to be integrated into the overall risk management process. In order to meet the requirements of Health & Safety Training we appointed the Council's insurers to provide strategic risk management training including health & safety, for Directors and Heads of Service during 2016/17.

Managing the Risk of Fraud

- 2.31 The financial resources available to the Council need to be maximised and used effectively, in order to help achieve the corporate strategies. One aspect to assisting with maximising available resources is to reduce the opportunity for fraud and misappropriation. The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors or service users and will take all necessary steps to investigate any allegation of fraud or corruption and pursue sanctions available in each case, including removal from office, dismissal and/or prosecution.
- 2.32 The Anti-Fraud and Corruption Strategy summarises the Council's position, building on the content of a number of corporate policy statements incorporated in the Council's Constitution, namely:
- Members Code of Conduct;
 - Officers Code of Conduct;
 - Whistleblowing Policy;
 - Financial Regulations; and,
 - Contract Standing Orders.
- 2.33 Procedures are available to all council managers and staff, which provide guidance on what actions they need to take in the event of becoming aware, or suspicious of, a fraud or an act of corruption being committed against the Council, either internally or externally by individuals or organisations.
- 2.34 Individual fraud cases are normally handled by the Audit & Investigations Team who mainly deal with fraud encountered in areas such as benefits schemes (e.g. Council Tax support etc.), council tenancies, blue badges and/or social care payments. Quarterly updates are provided to the Council's Audit & Governance Committee. Although the Council administers Housing Benefit, most Housing Benefit Fraud is investigated by DWP officers, and the Council makes referrals as necessary.
- 2.35 We have no knowledge of any actual, suspected or alleged fraud affecting the Authority, which would cause a material misstatement in the financial statement's either through fraudulent financial reporting and/or misstatements resulting from misappropriation of assets for 2016/2017. An incident of fraud was uncovered during a review of the Planning Department's S106 data system in May 2016, whereby Section 106 contributions for two developments, totalling £42,000, were fraudulently diverted into the personal bank account of a now former employee. The former employee was charged with offences under the Fraud Act and sentenced to two years imprisonment in August 2016. The transactions related to the 2015/16 financial year and have since been reported.

Anti Bribery and Corruption

- 2.36 All members of staff have a responsibility to declare any offer of a gift, hospitality, benefit or service, even if the offer is not accepted. Each member of staff is responsible for bringing any offer to the attention of their manager and for recording their offers, both accepted and declined. When an offer is received, employees need to record this in the Gifts and Hospitality Register.

Managing Finances

- 2.37 The Council complies with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Council appointed an Interim Director of Finance in September 2016 to fulfil Section 151 responsibilities; prior to this the role was fulfilled by the Head of Finance.
- 2.38 The Section 151 Officer is a qualified and suitably experienced accountant who is responsible for the proper administration of the Council's financial affairs, and for ensuring the lawfulness and financial prudence of financial transactions. The Interim Director of Finance is a regular attendee of the Corporate Management Team meeting, with responsibility for leading and advising on the strategic financial decisions impacting on the Council's delivery of its objectives, ensuring continuing effective financial controls, risk management and leadership and management of the Council's Finance Service.

3 INTERNAL AUDIT AND EXTERNAL AUDIT ASSURANCE

- 3.1 The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service and its external auditors (Ernst & Young). The role of Internal Audit is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively.
- 3.2 The role of External Audit is to review the financial statements, obtain evidence that they are materially correct and provide an opinion as to whether these represent a true and fair view of the financial position of the Council. In addition, External Audit also audit some grant claims and provide a value for money opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the Council secures economy, efficiency and effectiveness.

Internal Audit

- 3.3 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards which have been developed specifically for the Public Sector by CIPFA. Compliance with these standards is externally assessed on a cyclical basis and is due to be undertaken in 2017/18. During 2016/17, a self-assessment of compliance was undertaken and no significant areas of non-compliance were found.
- 3.4 One of the assurance statements the Council receives is the annual opinion of the Chief Auditor in respect of the control framework. The opinion of the Chief Auditor in respect of audit work completed in 2016/17 is that **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited, are suitably designed and applied effectively.
- 3.5 Those audits which received limited or no assurance opinions, are set out below:
- Information Governance
 - Subject Access Requests
 - Corporate Governance Framework
 - Electronic Document & Records Management
 - Nursing & Residential Care Packages

3.6 Those key financial systems and processes which received limited assurance, are as follows:

- General ledger,
- Bank & Cash Reconciliations
- Accounts receivable
- Accounts payable

External Audit

3.7 The Council's external auditor for the 2015/16 accounts Ernst & Young (EY), issued an adverse value for money conclusion on 17 November 2016. This means that they had concerns over the Council's arrangements for securing financial resilience and for how it secures value for money in its use of resources.

3.8 Although they did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about, they found that some of the basic financial controls were not working as expected. In particular, the regular completion of reconciliations was not timely. This increased the risk of fraud errors remaining undetected.

3.9 They highlighted that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making. Furthermore EY commented that planned action had not been taken to achieve sustainable savings during 2015/2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2016/17 budget.

3.10 EY made statutory recommendations in February 2017 under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 by way of a letter calling for sustainable resource deployment in relation to the immediate and medium term financial position of the Council and the need for robust budget monitoring. The Council formally considered and approved an officer response to these recommendations at its February 2017 meeting and progress towards addressing the recommendations is being monitored by the Audit & Governance Committee.

Audit Opinion

3.11 EY issued an unqualified opinion on the Council's 2015/16 financial statements on 17 November 2016. This means that they believe the 2015/16 financial statements (as amended following audit) gave a true and fair view of the financial position of the Council and of its expenditure and income for that year. EY's audit of the financial statements identified various adjustments to the draft accounts which the Council agreed to make. Some adjustments were not material and were impractical to make and this was reported to the Committee. The adjustments did not affect the usable resources as reported in the draft accounts. The audit raised recommendations to improve controls over bank and housing rent account year end reconciliation procedures and IT controls over applications and infrastructure. The Council has been addressing these recommendations.

Annual Governance Statement

- 3.11 EY reviewed the Annual Governance Statement for 2015/16 and concluded that it was sound, consistent with the principles of the CIPFA/SOLACE Framework and correlated with their understanding of the governance arrangements of the Council.

Whole of Government Accounts

- 3.12 EY review and report to the Department of Communities & Local Government (DCLG) and the National Audit Office on the Council's Whole of Government Accounts return. The extent of their review is specified by the National Audit Office. EY reported to the Audit & Governance Committee in January that they had completed this work (and agreed the final return).

4.0 KEY GOVERNANCE CHALLENGES

- 4.1 We continue to monitor and manage our service delivery as part of good governance within the Council. Whilst some actions reported in the 2015/16 Annual Governance Statement have been addressed during 2015/16, with no significant residual issues, the majority remain as work in progress:
- i. A financial sustainability plan was submitted to Government on 14 October 2016, setting out the process for achieving sustainability. A lawful budget was set for the 2017/18 financial year at the meeting of Council on 21 February 2017 but it required significant use of reserves and one off measures. It therefore included a requirement to identify actions to address the remaining financial gap in 2017/18 to 2019/20 by the second quarter of the 2017/18 financial year. Officers have proposed recommendations to the Policy Committee in July 2017 to address these requirements.
 - ii. Work is ongoing to further develop the financial support to the Council. The Budget Managers Handbook has been completed and made available to budget holders. The service provided by Corporate Finance is under review to ensure the Council's needs are met.
 - iii. The Council developed a Learning and Improvement Plan for Children's Services following the Ofsted Inspection in June 2016 when the Council's Children's Services were judged by Ofsted to be 'inadequate' (see section 5). The progress and performance against the plan is monitored by the independently chaired Children's Services Improvement Board on a monthly basis. The Board receives a comprehensive performance dataset and highlight report (with RAG status) focused on the 18 outcome areas, as well as an update of the Plan setting out the current position.
 - iv. The Council has put in place a governance structure and provided operational expertise and resource for Health and Safety.
 - v. During 2016/17 the Council introduced and monitored arrangements to ensure an efficient and effective handover for senior management, particularly related to the role of Managing Director during 2016/17. This culminated in the appointment of a new Chief Executive (as Head of Paid Service) in March 2017. The Interim Managing Director's contract ended at the end of March and the Director of Environment & Neighbourhood Services agreed to take on the role of Acting Chief Executive for the short period between then and the arrival of the new Chief Executive in June 2017.

- vi. The Adult Social Care Transformation (ASC) programme continues to evolve in line with service priorities and the financial challenges of the Council. In 2016/17 the Programme delivered approximately £1.4 million savings. For 2017/18, the programme will be aligned to the new ASC strategy and will form part of the overarching delivery plan. In addition the service will continue to maximise any synergies with the Better Care Fund to ensure that best use of limited resources is made and solutions to address the challenges faced across the health and social care landscape are developed.
- vii. Resource panels have been established in Adult and Children's Services to manage demand and ensure appropriate service provision, delivering services within statutory requirements and operating within budget.
- viii. Key information governance issues have been addressed and continue to be implemented. The Council's IT policies have been updated and rolled out, and the Protocol Policy, which is soon to be rolled out, will for the first time introduce a dynamic IT policy system into the Council's compliance regime. Automatic Document Marking for all emails was rolled out in March 2017. Projects to meet the next step of Payment Card Industry Data Security Standards and connect to the health service over their N3 network are ongoing.
- ix. A project gateway approach for all ICT and digital projects has been introduced via the Digital and ICT Board and a review of the governance arrangements. This is working well. Towards the end of 2016, a Delivery Unit was set up in Corporate Support Services which is developing a Council-wide Change Programme. This incorporates robust governance arrangements for programme and project management across the Council.
- x. Following the S106 fraud (paragraph 2.35,) new processes have been introduced to improve control over income. In addition, a new S106 data system has been installed. In due course, it is anticipated that the new system can link directly to Oracle Fusion, the Council's main finance system, as this will be the most efficient way of monitoring receipts.
- xi. Work has been undertaken to deal with changes to the IR35 Regulations from 6 April 2017, which altered the way tax and National Insurance was paid if someone was contracted to work for a client through an intermediary (commonly affecting agency and interim staff engaged by the Council). IR35 could significantly alter the costs of some placements and could drive a renegotiation of charge rates. Positions potentially affected by the change were identified and managers worked with HR to make an assessment of whether or not workers were within the scope of the Regulations.

5.0 SIGNIFICANT GOVERNANCE ISSUES

- 5.1 As part of continuing efforts to improve governance arrangements the following issues, as highlighted in this year's Annual Governance Statement, have been identified for improvement.

Children's Services

- 5.2 In August 2016, Ofsted issued an inspection report on services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the Local Safeguarding Children Board. It concluded that children's services in Reading were inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The inspection found that children are left too long in situations of unknown and acute risk. The report also found leadership, management and governance to be inadequate and that instability in the senior leadership team had impeded progress in addressing identified weaknesses in services for children and families.
- 5.3 The Council accepted the findings of the Inspection and developed an Improvement Plan as a response to it, supported by the appointment of a Commissioner for Children's Services. The Council also reports performance against the actions in the Improvement Plan, to the Adult, Children and Education Committee, three times a year.
- 5.4 Following the Ofsted Inspection, the Council re-organised its Children's Services Leadership Team. A new operating model for Children's Social Care had been implemented in August 2016. This included an increase in the overall establishment of social work posts, to create an effective and affordable children's services structure for Reading, which will enable the delivery of safe and effective services to meet local need.
- 5.5 Moving forward a key objective within the Learning and Improvement Plan is to increase the number of permanent (compared to agency) social care staff across the service. The Directorate is reviewing its workforce development strategy, including its approach to recruitment and retention in Reading's Children's Services, to secure a permanent and competent children's services workforce to deliver responsive and safe services.
- 5.6 To address the collective need for cost avoidance and improvements to the Directorate a project has been initiated to create a single co-located Access to Resources Team (ART). The objective is the realignment of functions across Children's Services and Commissioning into a single team with a clear governance and accountability structure that addresses permanence for children within the financial constraint of the Local Authority whilst delivering value of spend across Children's Services. The project commenced on 1st April 2017.

Interim & Agency Staff

- 5.7 During 2016/17 the Council made particularly significant use of interim & agency Staff, including several roles within the Corporate Management Team, The Council is in the process of replacing as many of these interim staff with permanently employed staff as possible, as quickly as practicable. This will reduce costs and deliver more stability in leadership and at practice level.

Financial Challenge

- 5.8 The Council has developed a financial strategy, which allowed a legal budget to be set for 2017/18. However, this is achieved in part through the reliance on £11m reserves, which necessitates using all but critical reserves. This means that the S151 Officer concluded that reserves are no longer adequate and has recommended that these reserves be rebuilt over the medium term to a more sustainable level. The Budget Report identifies there is a residual gap in the baseline budget in 2018/19 and 2019/20 currently estimated as £18.7m, which needs to be closed through the development of budget proposals by quarter 2 of 2017. £13.7m of this gap is in 2018/19.
- 5.9 Savings proposals for 2017/18 in particular have been through a process to ensure directors, CMT and lead members can be assured of their deliverability. However, the level of detail of savings plans does vary, as does the use of profiling for budgets. Regarding one off solutions, it is agreed that these should be avoided wherever possible. Agreed savings are supported by a delivery plan, and until the saving is delivered, responsible officers are required to report monthly on the delivery plan on a RAG basis. A revised and strengthened monitoring process was put in place from 1st April 2017, which will ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.
- 5.10 Delivery of a robust Medium Term Financial Strategy for the period 2017/18 to 2019/20 requires a number of success factors:
- i) Thorough review of underpinning assumptions to ensure that they are prudent;
 - ii) Identification of new proposals for delivering savings, income or efficiencies;
 - iii) Commitment from councillors and officers to accept and deliver robust proposals;
 - iv) A culture of sound financial management that recognises that each £ of expenditure must deliver full value and that every £ of income must be collected.

Internal Controls

5.11 During 2016/17 Internal Audit expressed limited assurance over particular and individual systems of internal controls which resulted in a number of systems improvements to further strengthen financial and operational controls:

- *General Ledger* - There is a lack of clear documented business processes and identification of responsibilities that identify and describe the operation of some of the feeder systems and the requirements for data input on a manual or spreadsheet basis. The input of unstructured or poor quality data from feeder systems (particularly the linked AP system) increases the need for remedial action in the General Ledger in the form of journal activity. The creation and approval of journals is a single person process and there are poor audit trails to support some transactions.
- *Accounts Payable* - The Council is not actively managing its procurement of goods and services through the Accounts Payable system. In part this creates an unnecessary level of administrative delay by not effectively managing its supplier database. There is no formal accreditation process for the majority of suppliers who are chosen by the manager making the order. The data on the system is mainly unstandardized and of a poor quality and obstructs timely analysis of procurement options and management reporting on and analysis of procurement activity. Resources are unnecessarily utilised to support a system that incorporates a large amount of "one off" purchasing activity in terms of purchase orders and suppliers, which in turn generates an unnecessarily high volume of low value transactions that puts time pressures on paying suppliers. The Council is considering how to effectively streamline these processes and make them more robust.
- *Bank & Cash Reconciliations* - The regular completion of reconciliations was not timely in 2016/2017, there is no centrally held list of the control account reconciliations and no process in place to ensure these are completed in a timely way. The bank account reconciliation had not been kept up to date and unreconciled items need to be cleared. The Interim Director of Finance has confirmed that the Finance Service is committed to bringing the bank account reconciliation up-to-date and for it to be completed on a monthly basis going forward. Lessons are being drawn out to ensure that the reconciliations for 2017/18 can progress in a timely manner.
- *Accounts Receivable* - Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance, as Income & Recovery staff also have to act as intermediaries when accounts are queried by customers. There are different procedures in place for the monitoring and chasing of unpaid invoices with no apparent consistency, priority or direction as to the work of Income & Recovery staff and in particular the order that accounts are worked on.
- *Nursing & Residential Care Packages* - There needs to be an improvement in audit trails to better evidence placement decisions made by the Adult Funding Panel and to improve procedures to ensure care packages are reviewed annually to comply with statutory review processes. The Adult Social Care Transformation Team has been working to improve the function of the Adult Funding Panel process.

- *Information Governance & Data Protection* - The audit highlighted a need to improve governance structures to evidence the effective management of information governance and data protection to meet evidence based accreditation programmes like PCIDSS³ for credit card use and N3⁴ for Health Service connectivity. The Head of Customer Services has confirmed that action is being taken to improve governance in this area including revised policies and procedures, enforced document marking, identification of Information Asset Owners and staff training.
- *Subject Access Requests* - Under the Data Protection Act 1998, individuals have a right to access information held about them by any organisation that processes personal data. There was a lack of a consistent policy and procedure which could be applied to subject access requests. The Council's Employment and Information Solicitor has confirmed that different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Services. A new policy and procedure has been implemented and key officers are being trained by Legal Services.
- *Electronic Document & Records Management* - The Council uses an Electronic Document Records Management system which offers considerable savings in paper handling and associated processes. Current internal processes to collect and manage the transportation of paper documents for scanning 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. 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.
- *Corporate Governance* - a review was conducted of the Council's governance arrangements, including consideration of the ownership, completeness and currency of documentation that the Council is required to hold, publicise and periodically review in relation to its governance arrangements. A number of corporate governance processes were found to be in need of improvement, with a number of key documents out of date and not communicated to staff on commencing employment with the Council or on a regular basis during their employment.
- *Risk Management* - While risk management techniques are deployed, they have been less than robust at the strategic level throughout 2016/17, and need to be improved going forward. Risks have always been managed, but risk registers need to be updated more frequently at directorate and Corporate Management Team level.

Compliance

- 5.12 A theme through a number of the significant governance issues is a lack of compliance. That is, the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not followed leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption &/or poor value for money with the consequent negative reputational impact. During 2017/18 in addition to improving systems and processes themselves, attention will be paid to professional practice and compliance to drive up standards.

³PCI DSS is the Payment Card Industry Data Security Standard, that was set up to help businesses process card payments securely and reduce card fraud.

⁴N3 is the National Network for the NHS. Public health intelligence teams based in local authorities need to be connected to N3 in order to fulfil their function.

6 CONCLUSION AND PRIORITIES FOR IMPROVEMENT

- 6.1 The annual review of governance provides evidence of how effective our governance framework is and as a result, we have put in place an implementation plan shown in appendix A. Over the next year we will be taking steps to continue to improve what we do, especially focussed on the significant governance issues.
- 6.2 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:.....

Peter Sloman, Chief Executive

Signed:.....

Councillor Jo Lovelock, Leader of Council

On behalf of the members and officers of Reading Borough Council

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
1.	Prepare and agree a robust and deliverable Medium Term Financial Strategy for the period 2017/18 to 2019/20.	Development of a robust MTFS for 2017/18 to 2019/20	Revised MTFS being presented to Policy Committee on 17 July 2017, with further work on robustness and delivery planned.	July 2017	Reports prepared for Committee showing balanced positions for 2017/18 and 2018/19. More work required to balance 2019/20	Director of Finance
2.	Prepare and deliver a robust savings monitoring programme to ensure that savings are delivered and/or adjusted according to a strong governance process.	Implementation of a more robust budget and savings monitoring regime overseen by the Corporate Programme Delivery Group	Corporate Programme Delivery Group now oversees robust savings monitoring regime. Changes to the proposals are monitored and controlled.	May 2017	Implemented and now embedding	Head of Customer Services
3.	Put in place a robust regime for the reconciliation of control accounts on an ongoing basis.	EY recommended that a centrally held list of reconciliations should be kept, so this should be implemented by creating (and keeping up to date) such a list	Most reconciliations have been done to 31 March 2017, but the list has not yet been established	List in place and status recorded of all reconciliations by 31 Aug 2017	In progress - list being started	Head of Finance (with Chief Technical Accountant)

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
4.	Ensure that Children's Services has an appropriate level of resources and that there are processes in place to monitor the resource allocated to the service and the achievement of service improvements required.	<p>Additional resources have been added to the Finance Team supporting Children's Services this includes the appointment of the Interim Directorate Accountant from the end of November 2016, secondment of the Senior Analyst to the Team from March 2017, and now access to an Interim Senior Analyst. This was to enable improved monitoring of the Children's Services budgets. As well as overall improvements to monitor budgets and improving the relationship between Children's Services and Finance.</p> <p>Key monitoring piece of work is LAC Modelling and the development of the MOSAIC system.</p>	<p>DCEEH DMT have a clearer understanding of the Children's Services budgets and the implementation of the MTFS for Children's Services was completed with the full involvement of DMT.</p> <p>The accounts closure process has impacted the process of the introduction of further improvements. Now closure has been completed the improvements can gather pace again.</p>	<p>June</p> <p>September 2017</p>	<p>Partly achieved, further improvements depend upon Team resourcing</p> <p>Not yet started</p>	Director of Finance

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
5.	Further develop the financial culture of the Council.	<p>A revised budget management handbook will be made available and it is planned to have some training sessions to launch and embed it.</p> <p>CMT will further scrutinise financial information and seek to lead by example in terms of the culture.</p>	<p>Revised handbook was published in April 2017.</p> <p>Training sessions are being planned for September 2017.</p> <p>CMT already scrutinises finance and performance information, but will undertake more intense investigation to ensure that expenditure is delivered in line with the budget.</p>	<p>April 2017</p> <p>September 2017</p> <p>June 2017 (first monitoring for 2017/18)</p>	<p>Complete</p> <p>In planning</p> <p>Commenced</p>	Director of Finance
6.	Children's Services: Meet the objectives within the Learning and Improvement plan for Children's Services following the Ofsted Inspection in June 2016.	A detailed action plan has been prepared, that is monitored by ACE Committee	Actions are in various states of progress - see most recent report to ACE	Various to 31/3/18 and beyond	In progress	Director of Children's, Education & Early Help services
7.	Replacement of agency and interim staff with permanently employed staff.	Staff in post on permanent appointments wherever possible	Recruitment Drive underway in Children's Services to attract and retain SW and management staff. In other areas, initial scoping work has been done and there would be little in the way of realisable savings.	30 September 2017	In progress	Head of Legal and Democratic Services

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8a.	Internal Controls: <i>General Ledger</i> – detailed action plan in response to Internal Audit findings to be completed and delivered.	Action Plan has been drafted for review setting out in detail how each recommendation will be addressed in the short and medium term	Actions contained within the action are being progressed; the highest priority recommendations are being addressed in the shortest timescale	August 2017 for high priority October 2017 for medium and low priority	Actions underway; none yet complete	Financial Systems Manager
8b.	Internal Controls: <i>Accounts Payable</i> – detailed action plan in response to Internal Audit findings to be completed and delivered.	<ol style="list-style-type: none"> 1. Specialist Payments Team Change Manager to be appointed. 2. Change Manager to review AP Audit Management Action Plan and complete Management Response, Response Person and Target Date plus create detailed supporting implementation plan that addresses all points raised and integrates solutions with introduction of upcoming supplier portal 	<p>Interim Accounts Payable Change Manager Appointed</p> <p>Documents reviewed by Change Manager and commented</p> <p>Summary top level run through completed with Accounts Payable team</p> <p>Balance of actions o/s</p>	 5 June 2017 8 June 2017 9 June 2017	 Actions commenced, but further actions to be completed within four months	 Accounts Payable Change Manager

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8c.	Internal Controls: <i>Bank Reconciliation</i> - regular completion of timely reconciliations throughout the year	<p>A revised properly structured procedure will be put in place to complete the bank reconciliation, with proper "walk through" possible</p> <p>Bank account reconciliation completed in timely way and reviewed by a senior officer on a monthly basis, within the month</p>	<p>Considerable work has been done to identify the weaknesses of the existing process (substantially by the Treasury & VAT officer, under the guidance of the Interim Chief Accountant</p> <p>This has identified the need to change some of the processes, and a revised process will now be put in place</p>	Process in place from July with suitable "back entries" for months up to July 2017	Work commenced and in Progress	Head of Finance
8d.	Internal Controls: <i>Information Governance & data protection</i> Improve governance structures to mitigate risk of breach of data protection legislation	Revised procedures, improved training and awareness	Ongoing training to staff, and improved breach reporting procedures has meant that more mitigation is in place. Work is underway to ensure that the Council is compliant with the new General Data Protection Regulation (GDPR) when it comes into force in May 2018	Dec 17	In progress	Head of Legal & Democratic Services

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8e.	Internal Controls: <i>Subject Access Requests</i> Under the Data Protection Act 1998, individuals have a right to access information held about them. A consistent policy and procedure should be applied to subject access requests.	Different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Service A new policy and procedure has been implemented and key officers are being trained by Legal Services	Training has been delivered to key service areas and teams who are likely to come in contact with SARs.	31 March 17	Complete	Head of Legal & Democratic Services
8f.	Internal Controls: <i>Electronic Document & Records Management</i> - Internal processes to collect and manage the transportation of paper documents for scanning must provide sufficient guarantees that documents will be safely accounted for and protect the Council from the risk of data loss.	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	A range of process and procedure improvements have been implemented to increase in internal controls and safeguards. Choice of courier used is to be reviewed. Individual information Asset Owners will need to periodically assure themselves that arrangements for transfer of documents are appropriate for the nature of the data they include.	31 Dec 2017	In Progress	Head of Customer Services -

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8g.	Internal Controls: <i>Accounts receivable</i> All services raise invoices promptly and provide sufficient details on invoices to improve collection performance	<p>Refreshed procedures are being written up to accurately reflect the procedures we have in place for raising, monitoring and chasing of unpaid invoices.</p> <p>These procedures will be re-launched and shared with other service areas, to ensure the quality of information provided on invoices is improved.</p>	<p>We are currently working on a proposal to recommend with the validation from internal audit, a significant change to the way invoices are being raised currently. Whereby directorates/services would forward details of potential invoices to Income & Recovery for the team to then raise centrally.</p> <p>This could have several potential advantages for the Council and could improve the efficiency and effectiveness of income collection and recovery. This proposal is to be further investigated and presented to CMT for discussion in the near future.</p>	31 August 2017	In progress	Head of Customer Services/Head of Finance

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8h.	<p>Internal Controls: <i>Nursing & residential care packages</i> > Improve audit trails to provide better evidence of placement decisions made by the Adult Funding Panel.</p>	<p>Alternative support options are consider and tried in some cases before requests for long term placements are made, an example being the rehab beds at the Willows. There is a clear audit trail for those individuals presented at panel, out of panel decisions also have an audit trial - these decisions relate mainly to hospital discharges. Evidence for placement and justification for decision is clearly recorded. The panel has representation from commissioning who contribute to the decision making process.</p>	<p>These are clearly recorded; an audit of the panel proformas and decision log will be completed to ensure compliance with the process annually.</p>	Ongoing	Green	Director of Adult Services
	<p>Improve procedures to ensure care packages are reviewed annually to comply with statutory review process</p>	<p>Reviews are recorded in mosaic, this generates a review date. Managers run reports from Mosaic to monitor performance and compliance.</p>	<p>Review project in place to support compliance with reviews. Reports run for managers to review evidence of performance.</p>	Ongoing	Amber	

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8i.	Internal Controls: <i>Corporate Governance</i> Improve a number of corporate governance processes, update key documents and communicate to staff on starting employment with the Council or on a regular basis during their employment.	The officers code of conduct will be reviewed and updated to ensure it reflects current practice and requirements Review Code of Corporate Governance Use of NetConsent to roll out key policies and procedures	Code of Conduct currently being updated (June 2017). It will be considered at CMT before going on to LJF and Personnel Committee for formal approval.	30 September 2017	On going	Head of Legal and Democratic Services
8j.	Internal Controls: <i>Strengthen and embed the processes for the management of risk.</i> Current deployment is not robust enough for risk management to be a key influence in decision making	Develop the current directorate risk registers specifying the owner of each action	Risk action plan updated for 2017/18. Directorate risk registers programmed in for quarterly discussion at DMTs. Strategic risk register programmed in for quarterly review at CMT. Level 4 Risk Management training, supplied by Council's insurers being scheduled for senior officers.	1 st April 2017 31 Dec 2017	Complete Ongoing	Director of Finance

Annual Governance Statement 2016/17 Implementation Plan						
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer
8k.	Internal Controls: <i>Compliance</i> An appropriate set of governance arrangements exist yet these are not followed rigorously which then allows weaknesses in internal controls.	Attention will be paid to professional practice and compliance to drive up standards, as well as cultural change efforts in terms of the operation of the council.	Through the development of the AGS and actions plans such as this one, plus an appropriate focus on discipline and good governance then improvements will be made. More formal interventions in terms of organisational development will be required in due course.	May 2017 September 2017	Developing and ongoing Requires planning	Director of Finance
9.	Develop a clear & consistent strategy or procedure for advising new and existing staff of their responsibility to declare interests and register gifts of hospitality.	Designation of officers in each Directorate to hold registers. Recommunication of expectations on staff.	Each Director will be asked to nominate an individual in their area to hold the register. There will be communication and NetConsent approval to remind all staff of what to declare, why and to whom.	31 October 2017	ongoing	Head of Legal, HR & Democratic services
10.	Align performance reporting processes to ensure CMT is fully sighted on organisational health and performance.	New framework in place and embedded with regular review meetings scheduled for 2017/18	Regular meetings are in place for reporting and performance however, it is proposed to review and refresh framework during 17/18	End July 2017	ongoing	Head of Customer Services

**READING BOROUGH COUNCIL
HEAD OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	6
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2017.

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 exposure until resolved.
Limited	 AMBER	Limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.
No assurance	 RED	There is no assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with high impact on residual risk exposure until resolved.

3.2 Grading of recommendations

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

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

- 3.2.2 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.

- 3.2.3 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 General Ledger



- 4.1.1 The general ledger is classified as a key system by the Council's external auditors and requires an annual internal audit review. As part of this year's review we primarily focused on journal control, authorisation, accuracy and timeliness of posting.
- 4.1.2 Journals are used to affect the transfer of funds between codes in order to ensure the Council's accounts are complete and correct. Also at the end of the financial year, adjustments may need to be made to reflect correct amounts under accrual¹ basis of accounting journal entries to adjust account balances to reflect correct amounts.
- 4.1.3 Our review of Journal Processing identified a number of areas with scope for improvement as well as the high number of transactions, both value and volume, surrounding the opening and closing of the accounts and amendment to transactions. There are also a high number of manual interventions to load information into the General Ledger.
- 4.1.4 There are no formal processes or procedures to ensure that an audit trail is maintained for the source of the journals. Records of journal transactions are available, but there is no set policy for storage and protection of the original records used for manual or spreadsheet transactions in a centralised secure area.
- 4.1.5 The journal process is a single person process with no authorisation required on Oracle Fusion. Although there are legitimate circumstances where Finance officers (in particular) undertake journal transfers independently of a specific request there is no separation of duties at the time of processing.
- 4.1.6 The highest priority risks identified related to the need to document processes for all areas of operation, maintain audit trails to support activity and evidence management review and authorisation.

Managers Response: Actions contained within the action are being progressed; the highest priority recommendations are being addressed in the shortest timescale.

¹ Accruals are adjustments for 1) revenues that have been earned but are not yet recorded in the accounts, and 2) expenses that have been incurred but are not yet recorded in the accounts. The accruals need to be added via adjusting entries so that the financial statements report these amounts.

4.2 Accounts Payable



- 4.2.1 As with the general ledger, Accounts Payable is also subject to an annual review to support the work of the Council's external auditor.
- 4.2.2 Our audit identified inefficient processes and highlighted that the accounts payable function is incurring an unnecessary level of administrative delay, by not managing its supplier database. Invoices are processed manually, including printing off electronic invoices received by email and supplier set up is a time consuming manual process given the volume of new suppliers set up daily on the system.
- 4.2.3 Supplier categorisation also needs to be improved to provide better quality management information on categories of spend and to limit the number of suppliers on the system to a manageable level. There is no formal accreditation process for the majority of suppliers, who are chosen by the manager making the order.
- 4.2.4 There are currently over 13,500 suppliers on the system and a breakdown by supplier activity indicated that 43% of the active supplier database was one off suppliers and this rose to 82% having processed five or less orders in the six month period between April and September 2016.
- 4.2.5 The Council formally launched its Procure-to-Pay policy on 1st April 2016, with a stated aim of "no PO, no Pay". However, approximately 35% of orders are still being raised after receipt of the invoice and this has not been addressed through the business process. This is replicated when it comes to the prompt receipting of goods received that impose delays on processing payments. This impacts the accuracy of management financial information in respect of budgeting and accounting for expenditure in a timely fashion. It is also a technical breach of financial regulations to fail to raise a purchase order for goods and services in advance of being invoiced for them.
- 4.2.6 It is acknowledged that many of the issues outlined are as a result of organisational culture and currently this cannot be altered by issuing instructions on their own without some form of enforcement activity. The Accounts Payable system is not linked to procurement as a whole therefore managers are often free to pick their own suppliers and raise purchase orders in respect of goods and services that they have often not formally procured.

Managers Response: A specialist Payments Team Change Manager has been appointed to implement the actions arising from the audit and to create a detailed supporting implementation plan that addresses all points raised and integrates solutions with the introduction of upcoming supplier portal.

4.3 Accounts Receivable



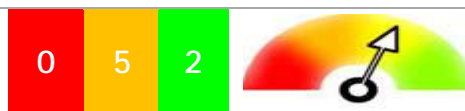
- 4.3.1 The Income & Assessment team in Corporate Support Services is responsible for the higher level management and control of the Accounts Payable system², with service areas responsible themselves for identifying and raising debtor accounts and then monitor and wherever necessary follow up unpaid invoices.
- 4.3.2 As at the end of February 2017³ there were a total of 5,280 unpaid invoices with a total of more than £11m, although this reduces to £4.4m outstanding (4,946 invoices) if sums due from other local authorities, schools and colleges, as well as other public organisations are disregarded. £2.5m of this was more than 5 months old, although the majority of this related to the current and previous calendar year(s).
- 4.3.3 There are different procedures in place for the monitoring and chasing of debt, however some are out of date and incomplete and are not located on the intranet to provide advice and guidance for users.
- 4.3.4 Staff in the central team are working diligently to follow up unpaid invoices and recover payment from debtors, although there is no apparent consistency, priority or direction as to their work, and in particular the order that accounts are worked on. Payments in respect of debtor invoices previously raised are automatically matched each day against debtor accounts. Those receipts which do not have a valid reference, for whatever reason, are posted to a suspense account. These are generally being investigated regularly and quickly cleared in most instances.
- 4.3.5 One common theme that emerged was that invoices are not always being raised promptly by service areas and that the level of detail on invoices is sometimes inadequate, which in turn generates queries by the debtor which then results in the Income & Recovery staff to having to act as intermediaries. These are important issues that if addressed, could improve collection performance.

Managers Response: Significant and alternative approaches are being reviewed, whereby directorates/services would forward details of potential invoices to the Income & Recovery for the team to raise centrally. This could have several potential advantages for the Council and could improve the efficiency and effectiveness of income collection and recovery. This proposal is to be further investigated and presented to CMT for discussion in the near future.

² This audit focused on the debtors function within Academy system and did not review other income collection systems in operation across the Council.

³ Position on completion of the audit

4.4 Bed and Breakfast Placements



- 4.4.1 The aim of the audit was to ensure that best value is being obtained, appropriate authorisation is given for the placement, payment is made for accommodation used and accommodation is fit for purpose. We did not review the homelessness strategy and/or policy as part of this audit.
- 4.4.2 Regular budget and performance meetings are held where key performance indicators and budgets are reviewed. Placements are actively monitored and there is evidence to demonstrate that options are explored and every effort is made to limit the time families spend in bed & breakfast accommodation. It is however noted that this is not always feasible due to the lack of other available accommodation and as a consequence the number of people in B&B in excess of 6 weeks is increasing.
- 4.4.3 Rates for B&B placements are negotiated on a placement by placement basis and although we recognise that there is an awareness of B&B rates within the team and that direct negotiation with landlords can achieve preferential rates, we did recommend that consideration is given to running a procurement exercise and/or benchmarking to demonstrate that value for money is being achieved.
- 4.4.4 Whilst there are no statutory requirements that B&B accommodation has to meet, the Council does conduct initial and ongoing inspections on properties, although record keeping in relation to this could be improved to clearly document that accommodation has been checked and is of a suitable standard. Out of borough properties are not inspected by Environmental Health and no assurance is obtained from the Local Authority in which the property resides that they have inspected it either.
- 4.4.5 Recommendations were also made to improve the record keeping within Mosaic for B&B placements made by Children's Services. Mosaic should accurately reflect the current situation for Children's Services clients in B&B accommodation, including closing purchase orders once clients have left and updating Mosaic to reflect the current position for each case.

Managers Response: Benchmarking exercise to be completed and reported to Housing Project Steering Group. Procurement exercise to be investigated and decision made on completing an exercise with action plan as appropriate.

Children's Services accepts the findings and are currently working with business support and mosaic colleagues to design a workflow which will be implemented.

4.5

E-tendering

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- 4.5.1 The objective of this audit was to review arrangements for e-tendering, to ensure the tendering process takes place securely in line with RBC contract procedure rules and general legal requirements surrounding procurement of goods and services by public bodies.
- 4.5.2 There is satisfactory control over the procurement process within the e-tendering software, with a clear audit trail maintained for all activity. All communication is electronic and stored on the system, with the security of data and access to the software programme satisfactorily controlled.
- 4.5.3 The processes followed on the IT system were compliant with legal requirements and RBC Financial Regulations in respect of procuring goods and services.
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4.6 S106 - Follow Up Review

- 4.6.1 Following the criminal investigation last summer and subsequent audit, a follow up review has been undertaken to assess whether the audit recommendations had been implemented.
- 6.6.2 Since this time last year considerable work has been done to address the principal control weaknesses in the receipting of S106 contributions, although further work is still in hand. In particular a new post has been created to lead on the monitoring of S106 requirements and contributions, a new management system, Exacom, has been procured to manage and account for S106 agreements and the main systems and procedures have been documented. However whilst there has been progress in developing new systems, the existing Acumen system has (had to) continued to be used, which means that some of the control weaknesses associated with that system remain, in particular the lack of a regular reconciliation back to Oracle Fusion of income due and received.
- 6.6.3 Exacom will provide a much improved system that should allow reconciliation to Fusion, and Planning are aiming to change the process whereby the Oracle codes linking to the S106 obligation will be set up at the start of the process.

4.7 Governance Review

4.7.1 A review was conducted of the ownership, completeness and currency of documentation that the Council is required to hold, publicise and periodically review in relation to its own governance arrangements. This was achieved by benchmarking current governance documents against the CIPFA/SOLACE delivering good governance in local government: framework (2016 edition).

4.7.2 The Council has in place, in most areas, an appropriate set of governance arrangements yet these are not always followed leading to weaknesses in internal controls. There are also some important governance processes across the Council which require strengthening. In particular, some key policies and documents are out of date and are not being communicated to staff on commencing employment with the Council or on a regular basis during their employment. A summary of the key issues we are identified are provided below:

- The existing Local Code of Corporate Governance for RBC has not been updated since 2002.
- The Officer Code of Conduct for RBC had not been updated for some while and refers to pay scales dated April 1999. There is also no reference to the Nolan Principles⁴. It is understood a revision is due to take place in the future for approval by the Personnel Committee and circulation to all staff;
- The current induction programme for new members of staff does not include guidance to certain key policies (including the Code of Conduct);
- There is a lack of clear and up to date policies and procedures covering important governance issues, such as declaring interests, gifts and hospitality for new or existing staff, the anti-fraud and an anti-money laundering policy, an anti-corruption statement and associated documents;
- A number of important policies are not easily and consistently accessible, up to date or in cases even listed on the Council's website, such as Freedom of Information, a formal Communication Strategy etc;
- Fraud risks are not currently reflected on risk registers; in addition the directorate risk register for Corporate Support Services was not finalised in 2016/17;

Manager's Response: The officer's code of conduct will be reviewed and updated to ensure it reflects current practice and requirements. NetConsent is to be used to roll out key policies and procedures. The 'due diligence group, will monitor implementation of recommendations arising from the audit and from those reported in the annual governance statement,

⁴ Committee on Standards in Public Life - The Seven Principles of Public Life, also known as the "Nolan principles"

5. AUDIT REVIEWS 2017/2018

- 5.1 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
eTendering system (C/Forward)	Q1	Mar-17	May-17	Jun-17
MOSAIC / Oracle Fusion end of year reconciliation (follow up)	Q1	May-17		
Child Exploitation & Missing Children	Q1	Apr-17	Jun 17	
Financial Assessments for Adult Care	Q1	Apr-17		
Public Health Grant	Q1	May 17		
Corporate Buildings H&S Statutory Compliance Regimes (c/forward)	Q1	Apr 17*		
Sec 106 Agreements (follow up)	Q1	May 17	Jun 17	Jun 17
Corporate Governance Overview	Q1	Apr-17	Jun-17	Jun 17
Safeguarding (Adults)	Q1			
Direct Payments/Personal Budgets**	Q1	Jun-17		
Information Governance & Data Protection (follow up)	Q2			
Payroll	Q2			
Local Transport Plan Capital Settlement (Grant Certification)	Q2			
Bank & Cash Rec	Q2			
MASH (Multi-Agency Safeguarding Hub)	Q2			
Pothole action fund	Q2	Jun-17		
NHS CHC	Q2			
EDRM (follow up)	Q2			
Deputyship and Appointeeship	Q2	Oct-17		
Children's Services Improvement Plan	Q2			
Emmer Green Primary School	Q2			
Council Wide Savings	Q2			
Bus Subsidy Grant	Q2			
Business Rates	Q2			

* Currently delayed until the summer.

** added following a request by the Interim Director of Finance and external auditor.

Audit Title	Timing	Start Date	Draft Report	Final Report
Redlands Primary School	Q3			
St Michaels Primary School	Q3			
Commercial property acquisitions and management	Q3			
The Ridgeway Primary School	Q3			
Blagdon Nursery School	Q3	Dec-17		
Homes for Reading	Q3			
Whitley Park Primary School	Q3	Nov-17		
The Hill Primary School	Q3			
Corporate Governance Overview	Q3			
General Ledger	Q3			
Geoffrey Field Junior School	Q3	Nov-17		
Oxford Road Community School	Q3			
Arts & Theatres income collection	Q3			
Sundry Debtors	Q3			
Foster care (inc follow up)	Q4	Jul-17		
Creditors (Accounts Payable)	Q4			
Network Infrastructure Security	Q4			
Right to Buy (follow up)	Q4			
Troubled Families Grant Sign Off	Q4			
Entitlement & Assessment	Q4			
Access to records (follow up)	Q4			

6. CONTRIBUTION TO STRATEGIC AIMS

- 6.1 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.

7. COMMUNITY ENGAGEMENT AND INFORMATION

- 7.1 N/A

8. LEGAL IMPLICATIONS

- 8.1 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.
- 8.2 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.
- 8.3 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”.
- 8.4 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.

9. FINANCIAL IMPLICATIONS

- 9.1 N/A

10. BACKGROUND PAPERS

- 10.1 N/A

**READING BOROUGH COUNCIL
INTERIM DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	7
TITLE:	Corporate (Strategic) Risk Register		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
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1. EXECUTIVE SUMMARY

- 1.1 The primary purpose of this report is to update the status of the Council's 2017/18 Corporate Risk Register, in line with the requirements of the Council's risk management strategy.
- 1.2 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in Jan 2017.
- 1.3 The following documents are appended:
- Appendix 1 - the Council's Corporate (Strategic) Risk Register.

2. RECOMMENDED ACTION

- 2.1 The committee are requested to consider the Council's strategic risks as at of Jun 17 (end of Q1).

2. KEY ISSUES

2.1 Risk management is a key part of corporate governance. Good risk management will help identify and deal with key corporate risks facing the Council in the pursuit of its goals and is a key part of good management, not simply a compliance exercise. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving the Council's outcomes.

2.2 The Corporate Risk Register in appendix 1 was developed to provide a concise, focused and high level overview of corporate risks that can be easily communicated to all staff, councilors and stakeholders. It should, however, always be supplemented by the more detailed directorate/service/project risk registers. Arrows are used to indicate direction of change in any scores since the previous quarter.

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

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

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

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

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

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

- 4.5 The inclusion of risks within any level of risk register does not necessarily mean there is a problem. On the contrary, it reflects the fact that officers are aware of potential risks and have devised strategies for the implementation of mitigating controls.
- 4.6 Each entry within the register is scored to provide an assessment of the residual level of risk. All risks have been scored based on an assessment of their impact and likelihood. These assessments are made at two points, before any actions are in place (inherent risk) and after identified controls are in place (residual risk).
- 4.7 Whatever level of residual risk remains it is essential that the controls identified are appropriate, working effectively and kept under review.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 Internal Audit 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.

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”.
- 7.4 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.

8. FINANCIAL IMPLICATIONS

8.1 N/A

9. BACKGROUND PAPERS

9.1 Appendix 1 - the Council's Corporate (Strategic) Risk Register.

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
1	Failure to develop and keep within approved budget framework.	4	5	20	<p>2017/18 revenue budget and savings reviewed over the period March to July 2017 to improve robustness and challenge budget assumptions.</p> <p>2018/19 and 2019/20 budget assumptions and savings proposals developed over the period March to July 2017. Proposals for change assessed for confidence in deliverability and for resource requirements.</p> <p>Moving towards revised budgets for 2017 - 2020 that are realistic and deliverable. Key date is Policy Committee in July 2017 when the proposals will be considered.</p> <p>More robust monitoring arrangements are developed and will be used to carefully monitor the delivery of the savings proposals.</p> <p>Corporate Performance Delivery Group meeting fortnightly to review performance and delivery</p>	July 2017	4	4	16	➔	CX/Finance Director
2	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 to again be reminded of HR guidance on stress management and about the Employee Assistance Programme.</p> <p>CMT to review and develop cultural and organisational change programme. This will need to be properly resourced and communicated</p>	Ongoing	4	4	16	➔	Head of Legal

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
3	Risk of breach of data protection legislation, resulting in loss of data, unlawful sharing of data leading to reputational damage and financial penalties.	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. Need to test application of training by officers</p> <p>Incident management procedures in place to mitigate loss or breach of data</p> <p>Need identified to update data protection suite of policies</p>	Ongoing	5	4	20	➔	Head of Legal/ Head of Customer Services
	Failure to achieve and maintain accreditation to connect to NHS networks, preventing data sharing, leading to failure to deliver efficiency savings within Adults and Children's services.				<p>Information governance officer appointed to assist with implementation of new policies and ongoing work advising officers. Information Asset Owners need to be identified and trained.</p> <p>Self-assessment against the proprietary information security standards for organisations that handle branded credit cards from the major card schemes is in progress.</p> <p>As part of the Health Interoperability Project to enable data sharing between GP's, A&E, Ambulance Service, NHS, and other Berkshire Local Authorities the Council is required to accredit to standards set out by the NHS in order to allow connection to the NHS network.</p>	Ongoing					
	Inadequate preparation for new GDPR (General Data Protection Regulation) in force in May 2018, which introduce sweeping (more onerous and significantly more involved) changes to how organisations must handle personal data.				<p>A programme of work has been identified and this will require engagement by all Services to take the action necessary to meet standards for Information Governance and Data Protection compliance across the whole Council.</p> <p>Creation and implementation of a programme and plan to assess new requirements under GDPR.</p>	Ongoing					

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
4	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	A rolling program of condition surveys that has informed a prioritised program of works. July Policy Committee will receive a further report in relation to the work completed and revised programme for 17/18. Proactive planning monitored on a monthly basis by Land and Property Group.	Ongoing					
					Training is in place in relation to FLASH responsibilities and annual audit of FLASH items in high risk properties.	Ongoing					
					A number of Business Continuity plans have been updated and plans continue to be reviewed as services relocate and changes to buildings are made. .	Ongoing					
					Review of staff accommodation and asset disposal proposals presented to July 2016 Policy Committee. Approval gained to rationalise estate and reduce the number of properties. Further feasibility work commenced in relation to Phase 2. Phase 1a work to complete in Spring 17	Ongoing					
					Royal Berkshire Fire and Rescue Services has audited 90 per cent of the Council's blocks of flats, including our high rise blocks, with communal areas and have not raised any significant issues. Formal fire risk assessments are carried out in our high rise blocks every other year by the Council using a qualified fire risk assessor - these will now be conducted annually for high rise blocks . A block inspector regularly checks all blocks and housing officers are on site most days to ensure constant monitoring. From this year every flat within the blocks will have their smoke alarm tested every year and tenants are encouraged to check them weekly. An independent external review of Housing fire safety measures and systems in high rise blocks is being commissioned . Work is underway to prepare for new regulation (issued in draft) in respect of mobility scooters and specialist	Ongoing	4	2	8	➔	Director (DENS)

					<p>housing. RBFRS will undertake additional checks in high rise blocks. Internally the service will QA fire risk assessments against best practice.</p> <p>Corporate and wider public buildings are being checked for high risk cladding.</p>						
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Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
5	Safeguarding (children). Risk of death or injury to children, through inappropriate care or attention.	5	4	20	<p>Monthly audit activity undertaken by all managers to ensure practise on cases to safeguard children is of a high standard</p> <p>Policies, procedures and processes refreshed and implement into day to day practise and available for social workers on electronic system</p> <p>Weekly and monthly monitoring of performance data by team to ensure compliance to safeguarding activity and national and local key performance indicators</p> <p>Monthly audit of supervision sessions between a manager and social worker to ensure robust oversight of cases</p> <p>Ensure all cases are allocated to suitably qualified and experienced social workers who are registered with the HCPC</p> <p>Escalation process in place across the partnership to enable appropriate challenge of Children's Social Care Services where disagreements are evident on case work</p> <p>Performance appraisals in place to ensure all social care staff understand their roles and responsibilities, and to identify support and training needs to improve safeguarding practise</p> <p>Implement robust quality assurance framework across Children's Services</p> <p>Ensure all new staff receive robust induction</p> <p>Implement robust performance management framework through all levels of the service</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Complete</p> <p>Ongoing</p> <p>Ongoing</p> <p>Complete</p> <p>Complete</p> <p>Ongoing</p> <p>Complete</p> <p>Ongoing</p>	5	3	15	➔	Director (DCEEHS)

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
6	Health & Safety Training has not been completed by staff and managers leading to a risk of injury and litigation.	4	4	16	<p>Managers address training needs as part of appraisal process and through 1to1s. Annual H&S audits require managers to review teams' health and safety training,</p> <p>Audit of Health and Safety training to identify gaps</p> <p>A plan to ensure that all H&S training records will be recorded on iTrent will be developed (presently only those that are co-ordinated through L&WD are recorded) in 2017. Level 1 training is already mandatory and forms part of induction for new staff. An approach will be developed Net Consent/Learning Pool as a tool to ensure appropriate and refresher H&S training is embedded in the organisation (refresher/knowledge check training to be developed to be implemented by March 2018).</p> <p>Discussions with Learning and Development Team to agree a system to monitor training and refreshers. Options include using Net consent and Itrent to record training undertaken and when refresher is required.</p> <p>Approved Corporate Health and Safety Strategy.</p>	<p>Complete</p> <p>Ongoing</p> <p>Mar 18</p> <p>Ongoing</p> <p>Complete</p>	4	3	12	➔	CMT
7	Failure to close the gap in school attainment for pupil premium groups	4	5	20	<p>School Partnership adviser meetings termly with headteachers and governors</p> <p>Categorisation process established within the school improvement team function</p> <p>Use of subject specific advisers to improve the quality of teaching in key skills</p> <p>Early Years adviser and Early Years team work with schools and providers to ensure a positive start to a child's education</p> <p>Reading First Partnership - local support for Reading schools to support the improvement of a schools' overall effectiveness</p>	Ongoing	3	4	12	➔	Director (DCEEHS)

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
8	There was a lack of robust process governing CHC application locally meaning that individuals might not be given the appropriate funding for their care	5	4	20	<p>Concerns have been raised with LGA and NHSE.</p> <p>Scrutiny task and Finish group due to ACE committee report in June 2017</p> <p>Internal Audit engaged</p> <p>Workshops have agreed an improvement action plan, which has been developed between RBC and CCGs. Improvements to processes across both organisations is in situ and will be review regularly with a report going to ACE committee in June 2017.</p>	Jun 17	4	3	12	↓	Director DACHS
9	Safeguarding (Adults) - Risk of death or injury to young people or adults through inappropriate care or attention.	5	4	20	<p>PAN Berkshire P&P were launched on 1st April 2016. Local Guidance and further procedures/pathways are being developed. Local Procedures reviewed and relaunched.</p> <p>Safeguarding team continues to deliver training at L1. Workshops for all sectors of social care staff, learning lunches and attend team meetings.</p> <p>Levels 2 & 3 face to face safeguarding training has been re commissioned with training dates throughout the year.</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>Complete</p> <p>Ongoing</p> <p>Complete</p> <p>Complete</p> <p>Ongoing</p>	5	2	10	→	Director (DACHS)

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
10	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>Full assurance on 16/17 BCF plan was provided by NHSE on 1st July 2016. Section 75 agreements are in place and accepted by CCG Boards and Health and Wellbeing Board. 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 Delivery Group and HWB. This is in line with peer review recommendations.</p> <p>Currently still awaiting the guidance for 17/18, and no deadlines available from NHSE, assumed to be end of March17 To the best of our knowledge there is government commitment to continue to 2020, but BCF now funds essential services so reductions or withdrawal would be critical impact</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>	Complete Expected June 17	5	3	15	➔	Director (DACHS)
11	Risk of failure to fully comply with Procurement regulation and legislation, leading to reputational and financial damage	4	4	16	<p>Corporate Procurement Board has accountability for the oversight and quality assurance function delivered by Corporate Procurement team</p> <p>This incorporates compliance with Transparency requirements.</p> <p>CPT also engaged on contract review and re negotiation</p>	1/4ly report to CMT from CPB	4	3	12	NEW	Corp Proc Board

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
12	Successful cyber-attack leading to either a) data theft, loss or hijack, b) disruption of network or applications; or c) reputational damage.	4	5	20	<ul style="list-style-type: none"> Staff undertake mandatory Cyber Security and Cyber Crime training available on Learning Pool Security awareness events to continue across council briefing Senior Management, staff and Councillors. All ICT partners connected to the Councils Networks adhere to the 10 Cyber Security Principles set by CSEG Northgate confirm all critical patches are applied in 14 days. Services review Business Continuity Plans for manual process delivery in the event of a major incident occurring Northgate/the Council put in place Incident Response Plans for likely, foreseeable events (Ransomware, Ddos, Hacking, Infection via Connected Partner Networks etc). DMARC and DKIM standards to eliminate Email Phishing is escalated as a priority for implementation. Northgate to provide solution to further protect sensitive data held on servers in internet facing DMZ by masking IP addresses. Need for additional security related investment reviewed to keep pace with changing threat landscape (e.g. Continuous Third Party Penetration Test Scanning, Network Access Control). 	Ongoing Ongoing Ongoing Ongoing As part of annual reviews Sept 17 Mar 18 Mar 18	3	4	12	NEW	Head of Customer Services
13	Insufficient funds identified for council change programme	5	4	20	Resource requirements to deliver the savings proposals are being developed in parallel, with sums bid for within the budget setting process. Sources of funding (e.g. capital receipts) being assessed Resources will be debated alongside the proposals at the Policy Committee in July 2017	Sept 2017	4	3	12	NEW	Head of Customer Services

Ref No.	Risk Description	Inherent Risk			Mitigation required	Due Date	Residual Risk			DoT	Risk Owner
		IMP	LH	SCORE			IMP	LH	SCORE		
14	Governance policies/instructions are not followed leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption &/or poor value for money with the consequent negative reputational impact.	5	4	20	<p>Follow up on Audit Recommendations to ensure that they are all dealt with fully so that systems, processes and compliance are improved</p> <p>Employee code of conduct to be refreshed and relaunched Declarations, gifts/hospitalities procedures & processes to be reviewed/updated & relaunched.</p> <p>The current induction programme for new members of staff to include guidance to certain key governance policies (including the Code of Conduct);</p> <p>Staff code of conduct to be issued with contracts of employment</p> <p>anti-fraud and an anti-money laundering policy corruption statement</p> <p>Local Code of Corporate Governance for RBC to be updated to conform to CIPFA/SOLACE guidelines.</p> <p>Strategic risk register to be kept up to date and reviewed promptly.</p> <p>Roll out of net consent for policy management.</p>	March 2018	4	3	12	NEW	Monitoring Officer

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE /POLICY COMMITTEE		
DATE:	18 JULY/ 17 JULY 2017	AGENDA ITEM:	8
TITLE:	BUDGET MONITORING 2017/18		
LEAD COUNCILLOR:	COUNCILLORS LOVELOCK/ PAGE	PORTFOLIO:	FINANCE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	PETER LEWIS	TEL:	01189372058 (x72058)
JOB TITLE:	STRATEGIC DIRECTOR OF FINANCE	E-MAIL:	Peter.Lewis@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the budget monitoring position for the Council to the end of May 2017.

2. RECOMMENDED ACTION

- 2.1 To note that based on the position at the end of May 2017 budget monitoring forecasts an overspend of around £1.216m and that plans to address this position (if it persists) will be presented to the Committee in September with the July monitoring report.

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	983	662	321	1.1%
Childrens, Education & Early Help Services/	420	0	420	1.0%
Adults Care and Health Services inc. Public Health	1523	852	671	1.8%
Corporate Support Services	184	(180)	4	0.0%
Directorate Sub total	3,110	1,334	1,416	
Treasury	(200)	0	(200)	-0.2%
Total	2,910	1,334	1,216	1.0%

3.2 Environment & Neighbourhood Services

Based on the information currently available, the directorate is forecasting an overspend against 2017/18 budget of £321k, which is the result of a range of budget variances across the services within the directorate.

The Management Team recognises the seriousness of the current financial situation and will ensure that spending is controlled in such a way as to address the current overspend. Officers are actively reviewing opportunities to mitigate the pressures, including reviewing income streams, and will report back to the next meeting detailed plans to address the overspend.

3.3 Children, Education & Early Help Services

The Directorate is currently projecting an overspend of £420k for the year, which is wholly attributable to external placement of looked after children (LAC) placements. Further work is to be undertaken by the Directorate to mitigate this overspend within year, and these measures will be reported to the next meeting.

The pressure has arisen from increasing LAC numbers since the budget was set, and since the start of the new financial year. In the budget setting process a contingency for 5 new Independent Fostering Placements, was included which amounted to £215k. However placements have increased by 10, and the variance includes the net impact of 3 relatively expensive Residential Placements and 2 additional Independent Fostering Placements.

During the year, investment in the Access to Resources Team to improve the Commissioning of Services will assist in reducing this overspend. In addition the current in house foster carer recruitment will also assist in the reduction of placement costs if there are disruptions to current external placements. An exercise is to be undertaken to further review placements and reduce costs where appropriate.

3.4 Adult Care & Health Services

DACHS Directorate has a projected overspend of £1.523m, which all sits within Adult Services. £0.852m of remedial plans, including reducing inflation and service efficiencies, have so far been identified, which brings the forecast net overspend down to £0.671m. Further plans are being considered and investigated to reduce the net overspend, including demand management and contract management and these measures will be reported in more detail next time.

Within Adult Services there continues to be considerable pressure on care costs and current predicted overspend by primary support reason is Mental Health (£600k), Learning Disability (£161k), OP/PD (£169k) and Social Support (£75k). The overspend occurs across all service groups in Community Services, Residential and Nursing placements. These figures assume that the full savings of £4.067m will be delivered in this financial year and assumes that demographic growth and transitions can be managed within budget (and broadly follow assumptions).

3.5 Corporate Support Services

Following a review of the CSS budgets with budget managers, the directorate is forecasting a minor overspend of £4K based on the position at the end of May.

Whilst this is the overall position, there are underlying pressures on the corporate budget of £150k because the saving around digitisation is under on-going development and there is some pressure on the Finance staffing budget of £20k, due to needing interims to cover vacant posts at this critical time.

Along with other minor adverse variances of £14k, the budget pressure of £184k is mostly offset by a non-recurrent saving on the election budget.

4. TREASURY MANAGEMENT

- 4.1 Following the review of budgets (being reported elsewhere on the Policy Committee Agenda) it has been possible to reduce the budget to £10m, and currently a possible underspend of £200k is forecast (though there remain several volatile and uncertain factors impacting the budget which may impact during the remainder of the year).

5. FORECAST GENERAL FUND BALANCE

- 5.1 Based upon the draft accounts for 2016/17, the General Fund Balance at the end of 2016/17 was £5.2m. As indicated in the table above, assuming remedial action highlighted is carried out, there is a forecast overspend on service revenue budgets of £1.416m.
- 5.2 The pressure on service directorate budgets is likely to be offset by a slightly favourable treasury position (see para 4.1), so there is an overall £1.216m over spend forecast. These will take the General Fund Balance below the minimum forecast, and officers are therefore developing remedial plans to address this projected overspend. Should these plans go beyond management actions and require councillor approval they will be presented to the next meeting in September, as given the wider work on the medium term financial plan, reported elsewhere on the agenda, we cannot afford to overspend the 2016/17 budget.

6. CAPITAL PROGRAMME 2017/18

- 6.1 To the end of May £2.5m of the c.£121m programme had been spent. Capital spending is normally weighted to the latter part of the year and a full detailed review of the position has yet to be completed

7. HRA

- 6.1 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.
- 6.2 An initial review of the likely HRA capital financing position for 2017/18 has identified those costs should be around £400k under spent, and an initial consideration of the prospect for rent income, suggests that actual income

should be at least £300k 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 income¹ generation proposals included in the 2017/18 budget are subject to a monthly review. The expanded RAG status in terms of progress is summarised below:

	£000	%
Blue (fully delivered)	5,370	39
Green (on track)	3,342	24
Amber (<10% off track)	3,012	22
Red (>10% off track)	2,034	15
Grey (undeliverable)	20	0
Total	13,778	100

9.2 The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to those shown above.

Financial RAG

-  = 100% of savings delivered, and verified by Finance (Directorate/Programme Accountant)
-  = On track to deliver 100% of savings target
-  = Up to 10% at risk, however corrective action in place to deliver 100%
-  = Above 10% of savings at risk, or plans not yet developed and approved, or resource issues
-  = Removal of Savings

10. COUNCIL TAX & BUSINESS RATE INCOME

10.1 We have set targets for tax collection, and the end of May 2017 position is:

Council Tax	2017/18 £000	Previous Year's Arrears £000	Total £000
Target	18,667	570	19,237
Actual	18,589	657	19,246
Variance	-78	87	9

10.2 For 2017/18 as a whole the minimum target for Council Tax is 96.5%, (2016/17 collection rate 96.8%). At the end of May 2017, collection for the year was 37.86% compared to a target of 38.18%, and collection is slightly behind 2016/17 (38.16% by end of May 2016).

10.3 Business Rates Income to the end of May 2017

Business Rates	2017/18 £000	2017/18 %
Target	23,212	18.00%
Actual	24,138	19.08%
Variance	926 above	1.08%

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of May 2016, 17.91% of rates had been collected.

11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 31 May 2017 stands at £4.717m in comparison to the 31st March figure of £3.861m. This shows an increase of £0.856m, and we note that £2.652m of the balance as at 31 May 2017 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. The Council’s constitution envisages remedial action is implemented when there are adverse budget variances

16. EQUALITY IMPACT ASSESSMENT

- 16.1 None arising directly from the report. An Equality Impact Assessments was undertaken for the 2017/18 budget as a whole.

17. BACKGROUND PAPERS

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

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 JULY 2017	AGENDA ITEM:	9
TITLE:	TREASURY OUTTURN REPORT FOR 2016/17 & 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:	Alan.Cross@reading.gov.uk

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 2016/17. A short presentation will be made at the Committee to highlight key treasury management issues.
- 1.2 The opportunity is also taken to briefly cover in this report some current treasury and related issues likely to impact the Council during 2017/18; in the context of the Council's present financial plan and revised budget considered by Policy Committee.

2. RECOMMENDED ACTION

- 2.1 That the committee considers the annual Treasury Outturn Report for 2016/17.

3. POLICY CONTEXT

- 3.1 The Council is required to have a Treasury Management 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 Treasury Outturn Report

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.

Treasury Management Outturn Report 2016/17

Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end of each financial year. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

The Council's treasury management strategy for 2016/17 was approved in February 2016. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI inflation rising from 0.3% year on year in April 2016 to 2.3% year on year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening US labour market, the Federal Reserve increased US interest rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields (the interest rate on government borrowing) fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was some reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016 (and there was market speculation about the possibility of negative interest rates). The yield on the 10-

year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields 20-50 year yields remained flat at around 1.6%.

After recovering from an initial sharp drop after the referendum, stock markets rallied, (though displayed some volatility at the beginning of November following the US presidential election result). The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum (after which the Council also invested in 2 commercial properties in Reading) but had mostly recovered by the end of March.

Money market rates for overnight and one week periods have remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Council in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Council's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local Council unsecured investments, in a stressed scenario.

Local Context

On 31 March 2017, the Council had £353.4m of Borrowing, (an increase of £35m over 31/3/2016) and £27.2m of Investments (£15m of which are longer term), (an increase of £15.2m over 31/3/2016). The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which increased from £466.4m to £493.0m over the year while usable reserves and working capital are the underlying resources available for investment (which from the balance sheet fell by £8.5m).

As is evident from these figures, the Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and minimise net interest costs.

These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.16	2016/17	31.3.17
	Actual	Movement	Actual
	£m	£m	£m
General Fund CFR	273.0	30.0	303.0
HRA CFR	193.4	- 3.4	190.0
Total CFR	466.4	26.6	493.0
Less: Other debt liabilities *	- 31.8	0.8	- 31.0
Borrowing CFR	433.7	28.3	462.0
Less: External Borrowing	318.4	36.1	354.5
Less: Investments	12.0	15.2	27.2
Other Balances (Working capital & Earmarked Reserves)	103.3	- 23.0	80.3

* finance leases & PFI liabilities that form part of the Council's total debt

External borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the debt repaid, mainly through the minimum revenue provision. Although investments also rose (arising from a strategic decision to increase the CCLA property fund investment and the year end short term cash flow situation, there was a decrease in both reserves and working capital (the latter due to the timing of receipts and payments).

The treasury management position as at 31 March 2017 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.16	2016/17	31.3.17	31.3.17
	Balance	Movement	Balance	Rate
	£m	£m	£m	%
PWLB	273.9	- 6.5	267.4	3.59
LOBO & Other Long-term borrowing	30.0	-	30.0	4.18
Short-term borrowing	21.0	35.0	56.0	0.37
Total borrowing	324.9	28.5	353.4	3.12
Long-term investments	12.0	3.0	15.0	
Short-term investments	-	12.2	12.2	0.29
Cash and cash equivalents	8.3	1.4	9.7	
Total investments	20.3	4.4	24.7	0.29
Net borrowing	304.6	24.1	328.7	

Note: the figures in the table are mainly from the balance sheet in the Council's draft statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

The increase in Borrowing CFR in table 1 has translated into a rise in short term borrowing, which has also risen (as for cashflow reasons there has been an increase in investment balances).

Borrowing Activity

At 31st March 2017, the Council held £353.4m of loans, an increase of £35m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Rate %	31.3.17 WAM* years
Public Works Loan Board	273.9	(6.5)	267.4	3.58	28.5
Banks (LOBO & Other Long Term)	30	(5)	25	4.18	20.7
Local authorities (short-term)	14.5	41.5	56	0.37	0.3
Total borrowing	318.4	35	353.4		

*Weighted average maturity

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.

To meet these objectives, no new long term borrowing was undertaken in 2016/17, while existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose did not significant enough value in borrowing in advance for future years' planned expenditure and therefore none was taken.

The Council continues to holds £25m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2016/17. However, Barclays Bank informed the Council that it had revoked its right to exercise their options in future, and £5m has therefore been reclassified as a long term fixed rate bank loans.

Investment Activity

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Council's investment balance ranged between £12 and £70.4 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	31.3.16	2016/17	31.3.17	31.3.17	31.3.17
	Balance	Movement	Balance	Rate	WAM*
	£m	£m	£m	%	days
Money Market Funds	-	10.3	12.2	0.26	1
Bank Deposits	-	1.9	1.9	0.15	1
Other Pooled Funds	12.0	3.0	15.0	4.83	30
(CCLA Property Fund)					
Total investments	12.0	15.2	29.1		

**Weighted average maturity - all the short term lending in year was overnight; a strategic decision was taken early in the year to increase the CCLA Property Fund Investment*

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

To meet these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council kept to a minimum bank and building society deposits and held its short term cash in money market funds.

As a result, investment credit risk was improved. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below. To reduce bail in exposure we would need to move to covered bonds, but at the current time don't normally hold enough cash for that to be a viable choice.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)
31.03.2016	5.67	A	100%	1
30.06.2016	4.68	A+	100%	1
30.09.2016	4.67	A+	100%	1
31.12.2016	4.77	A+	100%	1
31.03.2017	4.91	A+	100%	1
Similar LAs	4.77	A+	65%	119
All LAs	4.30	AA-	60%	47

**Weighted average maturity*

The Council's best performing investments in 2016/17 were its £15m (by 31 March) of externally managed pooled property funds with CCLA. These generated an average total return of £0.65m (4.34%). This income return helped support the budget for services during the year. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. In light of their strong performance and the Council's latest cash flow forecasts, investment in this fund has been for the 2017/18 financial year.

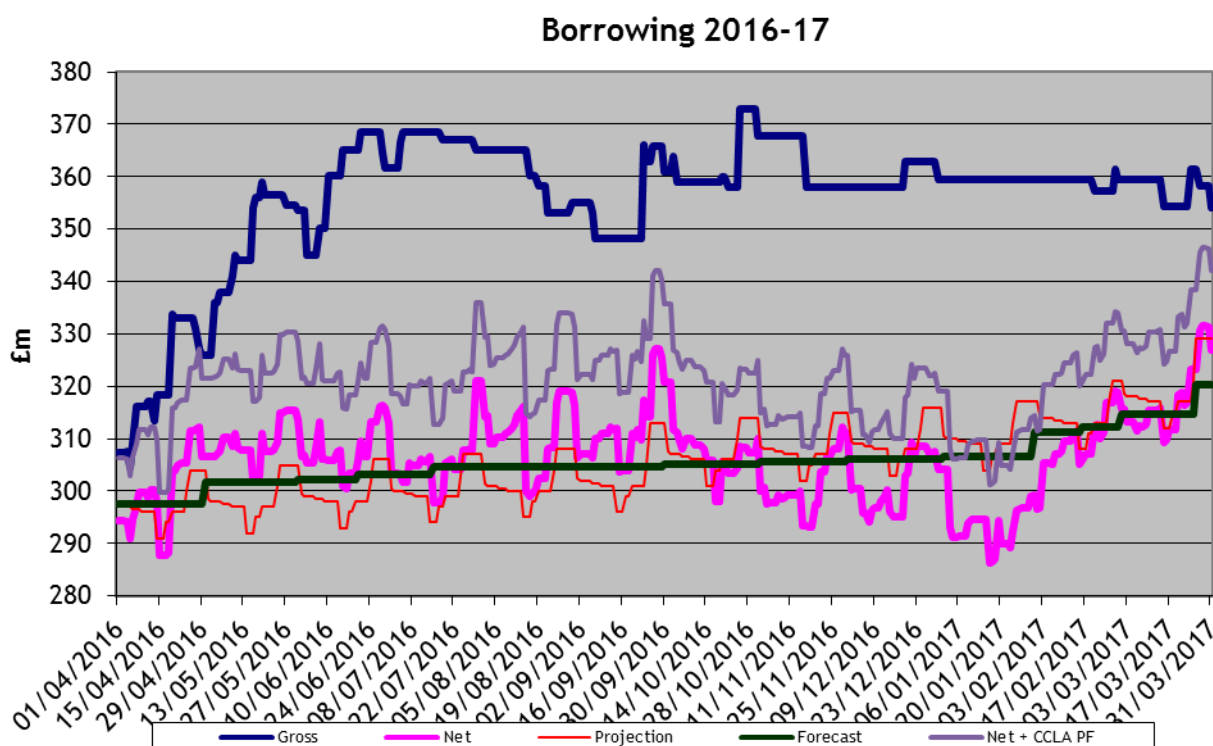
Other Investment Activity (Commercial Property)

Although not classed as a treasury management activity and therefore not covered by the CIPFA Code, the Council also purchased £24m of investments in directly owned property during the year. As a consequence (after revaluation and other adjustments), the Investment Property on the Council's Balance Sheet increased from £29m to £51.3m during the year.

Except for the CCLA Property Fund investment, our direct property investment generated a higher return than that earned on treasury investments, but returns reflect the additional risks to the Council of holding such investments.

Performance Report

The Council primarily measures the financial performance of its treasury management activities in terms of its impact on the revenue budget. The net General Fund Revenue Budget was £9.3m and at the year end this was underspent by £0.5m, primarily arising from the better returns on the CCLA Property Fund, lower than forecast borrowing financed capital in 2015/16, and the low interest rates on short term borrowing in the year.



Another way of looking at performance is to consider the treasury activity during the year. Generally this shows that in the early part of the financial year, when initially there was a high cash demand (no doubt in the main to settle some 31/3/16 creditors), the Council took rather too much temporary borrowing, as from late May onwards until the last weeks of the year we generally had well over £20m cash in hand (measured by the gap between the top blue line measuring gross borrowing and second purple "Net + CCLA" line. In 2017/18, we have sought to manage the cash position more tightly, avoiding having excess cash in a very low interest rate environment.

Compliance Report

All treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Limit	Complied
Any single organisation, except UK Government	£15m	£1.9m	£15m	✓
Money Market Funds (Including Pooled Funds)	£50.2m Aggregate £20m in one fund	£10.2m	£20m each fund	✓

Other investments permitted by the approved 2016/17 TMSS were not used

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Operational Boundary	2016/17 Authorised Limit	Complied
Borrowing	372.3	353.4	400	410	✓
PFI & finance leases	31.8	31.0	40	40	✓
Total debt	404.1	384.4	440	450	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2016/17.

Treasury Management Indicators

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.17 Actual	2016/17 Target	Complied
Portfolio average credit score	4.91	6.0	✓

Liquidity: The Council has within its treasury strategy indicated we will normally hold at least £10m short term cash at any time. This was met after the first few days of the financial year.

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 was:

	31.3.17 Actual	2016/17 Limit	Complied
Upper limit on fixed interest rate exposure	89.7%	120%	✓
Upper limit on variable interest rate exposure	10.3%	50%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. The in year maxima were 104.2% fixed and 11.5% variable, both within the limits set.

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 were:

	31.3.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	17.6%	25%	0%	✓
12 months and within 24 months	1.4%	25%	0%	✓
24 months and within 5 years	4.0%	25%	0%	✓
5 years and within 10 years	6.3%	25%	0%	✓
10 years and above	70.7%	100%	40%	✓

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. The percentages above assume LOBOs run to maturity; allowing for the possibility of LOBOs with an option date within 1 year being called, increases the under 12 month percentage to 23.3%.

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

	2016/17	2017/18	2018/19
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£20m	£15m	£15m
Complied	✓	✓	✓

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

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 JULY 2017	AGENDA ITEM:	10
TITLE:	HOMES FOR READING LTD - ARRANGEMENTS		
LEAD COUNCILLOR:	CLLR LOVELOCK	AREA COVERED:	LEADER (& COMPANY BOARD MEMBER)
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
AUTHOR:	ALAN CROSS	TEL:	2058 / 9372058
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

1. PURPOSE AND SUMMARY OF REPORT

- 1.1 To provide the Committee with information about the arrangements the Council has established in relation to Homes for Reading Ltd (HfR), and ask the Committee to identify any information it needs to fulfil its scrutiny function in relation to Homes for Reading Ltd, the Council's wholly owned company that has been set up to purchase and manage a portfolio of c.500 private sector rented properties over the next 5 years.

2. RECOMMENDATION

- 2.1 Audit & Governance Committee are requested to note the set up arrangements associated with Homes for Reading Ltd.
- 2.2 Audit & Governance Committee is requested to note its duty to "provide oversight of governance arrangements and the overall financial position in relation to the company".
- 2.3 Audit & Governance Committee is requested to identify any information it needs to fulfil this responsibility.

3. BACKGROUND & PROCESS

- 3.1 During 2015/16 officers researched and made contact with other councils who had or were set(ing) up a housing company. In particular, the possibility of setting up a company that could buy property in the private sector and rent it out was explored. Fairly early in the process specialist legal and property advice was sought from both Trowers & Hamlin and Savills in respect of the legal and financial aspects of the

business case respectively. Both organisations had detailed knowledge and experience of advising a number of Councils about the formation and management of commercial housing companies (and working in partnership with each other). This activity culminated in a report to Council in March 2016, attached at Appendix A. (Confidential papers were also provided to that Council meeting setting out the then business case; these are not attached but remain available for inspection by councillors). **The Council report envisaged that primarily matter related to HfR would be considered by Policy Committee but that Audit & Governance Committee should “provide oversight of governance arrangements and the overall financial position in relation to the company”.**

- 3.2 Council agreed to establish the company and it was formally incorporated shortly after the meeting. During 2016/17 we continued to develop the proposal, which needed to be modified following taxation and other changes. Councillor (non-executive) Directors and officer Executive Directors (the Head of Housing & Neighbourhoods & the Chief Valuer) were appointed and subsequently two independent non-executive directors were appointed (both with considerable expertise) were appointed. A company Managing Director was appointed, and Company Secretarial Services were established. The basic infrastructure (bank accounts and procedures) was put in place to run the company.
- 3.3 In March 2017 Policy Committee received a further report (Appendix B), which set out the final business case (which is confidential). Annex C sets out an extract from the business case showing in graphical form the Council’s forecast financial position, both over the first 6 years, during which time the company will be building its property portfolio. Both graphs show that (with some initial challenges) the proposed operation should generate a profit throughout almost all the 30 planning horizon. The March committee report also formally approved and authorised a funding agreement between the Council and HfR.
- 3.4 The basic business case is that the Council finances HfR using a mix of debt and equity (normally in a 55% loans/45% shares split). HfR pays the Council a high enough interest rate on the debt element of the finance to meet the Council’s full borrowing costs on the whole finance, (as both purchase of shares and loans such as this are treated as capital expenditure, and the Council borrows money to finance its investment in the company). Policy Committee also approved a funding agreement with HfR.
- 3.5 Since the meeting the company has begun to look for properties to purchase, and a few offers have been accepted. The formal funding agreement, as agreed by Policy will shortly be completed and the company will begin to trade. Initially at least, the Company will purchase services to operate on a day to day basis from the Council. The arrangements provide for a proportion of the company’s property to be let at below market value, although initially property will need to be let in the private sector (at market rates).

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 HfR will contribute to the service priorities set out in the Council’s Corporate Plan 2015-18; in particular the aim of providing homes for those in most need.
- 4.2 HfR will increase access to safe and suitable housing for homeless households and more widely will help to improve stock condition and promote best practice in the private rented sector.

- 4.3 In due course HfR will let some of its properties at a discounted rent aligned to the Local Housing Allowance (LHA, the level of Housing Benefit payments) and, but the proportion will depend upon how many need to be let at market rent the financial model to remain cost neutral (or positive) to the Council.

5. FINANCIAL IMPLICATIONS

- 5.1 None, directly from this report, though the forecast financial implications to the Council from operating HfR are outlined in Appendix C.
- 5.2 As part of the Internal Audit Plan, there will be a review of the initial operating period of the company towards the end of the present financial year. This report enables the Committee to identify any matters the review might consider.
- 5.3 In time, the company, provided it is successful will have the potential to return a profit to the Council's General Fund through a dividend payment.

6. LEGAL IMPLICATIONS

- 6.1 None directly from this report, though there have been legal issues as reported to Council Policy Committee in the appendices, and there is on-going ILegal work as HfR purchases properties.

7. COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

- 7.1 None directly from the report.

8. BACKGROUND PAPERS

- 8.1 Internal Audit Plan

Appendices

A - Public Report to Council March 2016 (exc. Appendices)

B - Public Report to Policy Committee March 2017 (exc. Appendices)

C - Edited Extract from HfR Business Plan - Council Financial Implications

READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	COUNCIL		
DATE:	22 MARCH 2016	AGENDA ITEM:	8
TITLE:	PROPOSAL TO ESTABLISH A COUNCIL OWNED HOUSING COMPANY		
LEAD COUNCILLOR:	CLLR RICHARD DAVIES	PORTFOLIO:	HOUSING
SERVICE:	HOUSING AND NEIGHBOURHOODS	WARDS:	ALL
LEAD OFFICER:	SARAH GEE	TEL:	0118 9372973
JOB TITLE:	HEAD OF HOUSING AND NEIGHBOURHOOD SERVICES	E-MAIL:	Sarah.Gee@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report sets out the business case to create a housing company which will be wholly owned by the Council. The vision is ambitious, with the aim of the company purchasing a total of 500 existing (and potentially new) residential properties to rent over 5 years. The modelling is predicated on there being no overall cost to the Council and as many homes as possible being provided at sub-market rent to homeless households, subsidised by letting a proportion at market rent.
- 1.2 The driver for providing rental properties at discounted market rent levels is to help those households currently in temporary accommodation, in particular, those families living in unsuitable and inappropriate bed and breakfast accommodation. However, it should be noted that the housing company is not a replacement or substitute for the Council's general needs housing stock and is intended to address a broader range of the housing market in Reading.
- 1.3 The housing 'offer' from the company will be separate and different to that of the Council. The housing company will essentially offer responsibly managed private rented accommodation. The company will be like any other new private company in that it will need to be financially viable, operate in line with an agreed business plan and meet all its statutory obligations.
- 1.4 Initially it is proposed that the housing company will acquire a range of property in or near Reading which it will provide as rented residential accommodation. Additionally, the company will also be structured to enable it to develop new housing in the future, both for rent and sale. This will enable the company, and in turn the Council, help people respond to the many challenges they face in the current housing market in the Reading area.
- 1.5 The housing company will be fully financed by the Council through a combination of loan and equity funding. However, the overriding principle of the financial

modelling is that there will be no overall cost to the Council of financing the housing company. In addition, the Council may benefit from any future dividends (profits after tax) from the company and any growth in the value of the property portfolio.

- 1.6 The Council is able to lend funds to the company in order for the company to purchase flats and houses. The housing company lets these and the rental income will be sufficient to cover both the company costs (conveyancing, housing management, repairs and so on) and also the cost of borrowing (interest on the loan).
- 1.7 Based on present market conditions and experience of other authorities, it is proposed that the company will purchase up to 100 existing (and potentially new) residential properties to rent in year 1 and to continue this pattern for the next 4 years with a total portfolio at the end of year 5 of 500 homes. The financial modelling has been developed on this basis.
- 1.8 A proportion of this property will be let at a discounted rent aligned with the Local Housing Allowance (LHA, the maximum level of Housing Benefit payments) and, in order for the model to remain cost neutral to the Council, a proportion will be let at full market rent. Based on the detailed financial modelling carried out for the company it is currently anticipated that the maximum proportion of the homes able to be provided at discounted market rent levels is 40%. Should the need for discounted market rent properties reduce in the coming years, then the housing company will have the potential to return a profit to the Council's General Fund from letting a greater number of properties at full market rent.
- 1.9 Creating the company and purchasing existing property offers the Council a relatively swift remedy to contribute towards tackling the very current problem of households in inappropriate accommodation and the risk of escalating temporary housing costs adding to the Council's budget pressures.
- 1.10 The Council has taken both legal and financial advice from specialist consultants to ensure that it has the powers and capability to create and fund the company in line with legislation and Government policies, to assist the Council in developing robust governance arrangements, and to develop a financial model underpinning proposals. Discussions have been held with other Councils who have already established companies to benefit from their experiences and to ensure a sound understanding of the practicalities of managing the company's activities. Finally, market research has been undertaken with local Reading-based property agents to better understand both the sale and rental housing markets in Reading.
- 1.11 As a company wholly owned by the Council it is imperative that an appropriate governance structure is put in place to ensure the sound and robust management of the company alongside protection of the Council's financial and reputational investment in the company. It is proposed that the Shareholder function of the Council is primarily executed through Policy Committee, and that Directors of the Board would be initially appointed at the Council AGM. The Board of Directors will be responsible for strategic direction and oversight of performance, financial and operational management of the Company within the parameters agreed with the Shareholder. It is proposed that the Board would comprise four councillors; the General Manager of the company (when appointed) and two senior officers of the Council; and in addition that two independent non-executive directors are appointed to bring commercial housing and finance experience to the board.

1.12 The following paper and accompanying appendices set out in detail the business case and proposal for creating the company, including the legal, financial, governance and management aspects of the company.

1.13 The following appendices are attached: -

Appendix 1: Shareholder Agreement

Appendix 2: Articles of Association

2. RECOMMENDED ACTION

Council is recommended to approve:

- 2.1 The development of a local housing company, limited by shares and wholly owned by the Council, to procure accommodation to provide homes for homeless households and meet wider housing needs including the provision of market rented accommodation;
- 2.2 The proposed governance arrangements for the Housing Company including the shareholder agreement set out in Appendix 1;
- 2.3 The incorporation of the Housing Company based on the Articles of Association set out at Appendix 2, and
 - a) That Sarah Gee, Head of Housing & Neighbourhoods is appointed as the founding director of the company in order to enable the company to be registered (as this requires at least one named director) and basics to be established (such as setting up banking arrangements).
 - b) That the Head of Legal and Democratic Services, in consultation with the Lead Councillor for Housing and the Director of Environment and Neighbourhood Services, are authorised to:-
 - i) commence the incorporation of the housing company;
 - ii) select the company name in order to do so (which will be subject to availability at Companies House) and;
 - iii) complete all necessary documentation as listed in the report at paragraph 4.18.
- 2.4 The draft Heads of Terms for the Facility Agreement for the Council to provide loan and equity finance to the Housing Company (as set out in the report at Section 9 and considered earlier on today's agenda in closed session); and that the Head of Finance, in consultation with the Leadership (and Chair of Audit & Governance Committee) is authorised to finalise the Facility Agreement and to enable up to £30m to be lent to the Housing Company during 2016/17.
- 2.5 That Policy Committee will be responsible for the Council's function as shareholder, and that substantive Directors of the company be appointed at the Council AGM and the position of Councillor directors be considered at the Council's AGM each subsequent year.
- 2.6 That Council approves up to £30m additional capital expenditure to be incurred in 2016/17 to purchase shares in, and make loan advances (secured on property) to the Housing Company and authorises the Head of Finance to make the necessary payments.

- 2.7 That the Director of Environment and Neighbourhood Services and Head of Finance are authorised to agree prices for services provided by the Council (such as housing management), between the Council and the housing company.

3. POLICY CONTEXT

- 3.1 Reading's buoyant economy means that housing is in high demand across all tenures. Demand for affordable housing in Reading significantly outstrips supply and private rents are now generally well above Local Housing Allowance (LHA - housing benefit eligible) levels. Landlord concern about the impact of Universal Credit, combined with the rising market, has led to a reduced willingness to let to housing benefit claimants.
- 3.2 There is a limited supply of affordable housing and also low turnover in existing social housing stock. The combination of increasing demand and a lack of move-on housing has created a bottle neck with temporary accommodation being full and turnover slow. Regrettably the Council has been forced to increase the use of Bed and Breakfast but this is unsettling and disruptive for homeless households and is unsuitable for long periods of time. Furthermore, the use of B&B accommodation is very expensive for the Council.
- 3.3 Over the last year, officers have explored various ways to increase the level of affordable housing and in particular, focussed on the Council commencing its own house-building programme within the Council's Housing Revenue Account (HRA). Officers commissioned professional consultants to help explore a range of different delivery options.
- 3.4 However, in addition to pursuing a Council house building programme delivered within the Council's HRA, officers have also scoped the potential of a Council-owned company to meet a broader range of local housing needs, including providing accommodation for homeless households.
- 3.5 The Housing Act 1996 sets out a Local Authority's responsibilities in respect of homeless households who approach the Local Authority for assistance. The legislation specifies that all Local Authorities have a duty to provide accommodation to applicants who are homeless, eligible for assistance, in priority need and not intentionally homeless. The power now exists as a result of the Localism Act 2011 for a Local Authority to bring this duty to an end by a 'suitable offer' of private rented sector (PRS) accommodation and household consent for the duty to end in this way is no longer required. Reading Borough Council is now implementing this power and can therefore fulfil its duty to homeless households through an offer of accommodation provided through the proposed housing company.

4.0 THE PROPOSAL

- 4.1 This proposal sets out the business case for creating a housing company, wholly owned by the Council, which will acquire a portfolio of properties (existing and potentially new) to provide as privately rented accommodation. However, a proportion of these properties will be made available at a rent comparable to Local Housing Allowance levels (LHA, which is the maximum amount housing benefit will be paid up to) to ensure they are affordable for local people.

4.2 Key objectives of the Housing Company will be: -

- To purchase a portfolio of property of sufficient size to significantly help reduce the amount of homeless households currently in temporary accommodation by providing good quality and well managed accommodation.
- To remain financially viable and operate efficiently to ensure it receives sufficient rental income to meet all of its costs including financing, housing management, property maintenance and administration.
- To provide an efficient housing management service to its tenants which will need to be clearly differentiated from that provided for the Council's own stock.
- To maintain property to a suitable standard to meet tenant's reasonable expectations and to protect and enhance the financial investment in the properties.

4.3 Initially, it is anticipated that at least 100 properties will be acquired during the first year and 500 homes over 5 years. To achieve financial viability only a proportion of properties can be let at rents comparable with LHA levels. The remaining properties will need to be let at full market rent to ensure the company can cover its costs/liabilities, remaining cost neutral to the General Fund. The current financial modelling is based on a 60%/40% split of market rent and discounted market rent properties although this may change over time as market conditions and other parameters vary.

4.4 In establishing the business case officers have taken specialist legal and property advice from both Trowers & Hamlin and Savills in respect of the legal and financial aspects of the business case respectively. Both organisations have detailed knowledge and experience of advising a number of Councils about the formation and management of commercial housing companies. Officers have also researched and spoken to other councils who have already established or are setting up similar companies.

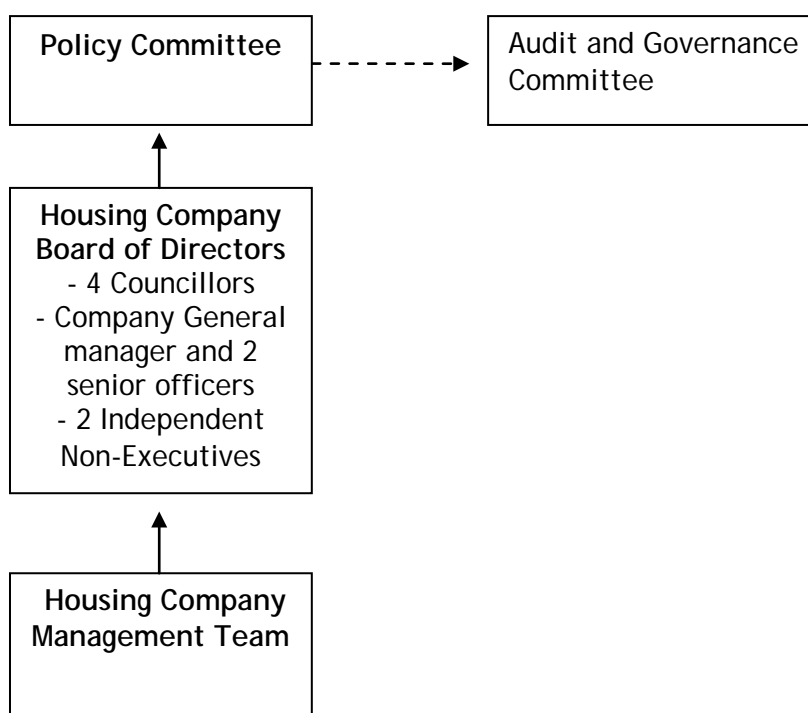
Governance Arrangements and Company Structure

4.5 The Council will hold 100% of the shares in the housing company and as such will have full ownership. This enables the Council to retain control of the company.

4.6 As a company wholly owned by the Council it is imperative that an appropriate governance structure is put in place to ensure the sound and robust management of the company alongside protection of the Council's financial and reputational investment in the company. However, the governance must not hinder the company and must allow it to act swiftly and pro-actively which is essential if it is to compete in acquiring properties in the open market. As sole shareholder, the Council would appoint (and can change) the directors to the company and would approve key decisions and the Company's business plan as set out in the shareholder agreement.

4.7 In order to meet the requirements as set out above it is proposed that the governance arrangements are as per the model below:

FIGURE 1: PROPOSED GOVERNANCE STRUCTURE



Shareholder Function

- 4.8 It is proposed that the Shareholder function of the Council is primarily executed through Policy Committee, and that Directors of the Board would be initially appointed at the Council AGM and member representatives will be confirmed at the AGM each subsequent year. The appointment of all other directors will need to be agreed through Policy Committee. Additionally Audit and Governance Committee could provide oversight of governance arrangements and the overall financial position in relation to the company. Regular reports on company performance, finance and activity will be submitted to Policy Committee and any matters reserved for shareholders will need to be decided through Policy Committee.

Board of Directors

- 4.9 The Board of Directors will be responsible for providing strategic direction and setting operational parameters, as well as overseeing and scrutinising operational and financial performance to ensure that business plan targets are met, within the parameters agreed with the Shareholder. To ensure accountability, a clear decision making framework will be required that sets out matters which will be determined by the Board of Directors and delegated authority which will allow the General Manager to make decisions in relation to the day to day activities of the company. In particular, this must allow the company to act swiftly and pro-actively in property acquisition within an agreed purchasing strategy in order that the company can compete in the open market. A performance and financial management framework with clear targets and milestones will also need to be developed.
- 4.10 To ensure that the housing company can operate efficiently and effectively it will be important to have the appropriate balance of skills and experience and, in particular, the right business and commercial financial acumen. The company will be engaged in

both property acquisition and ensuring that landlord responsibilities are fulfilled in the management of the stock and provision of services to tenants.

- 4.11 It is proposed that the Housing Company Board of Directors will consist of a minimum of the following:

- 4 elected members, to include one representative from the main opposition party
- The General Manager of the housing company and 2 senior officers of the Council and
- 2 independent Non-Executive Directors.

The Non-Executive Directors will be recruited to bring commercial housing and finance experience to the board of directors (and they would be expected to attend Board meetings). The Board of Directors would delegate some functions to an operational management team that would include the company manager and officer representatives on the board.

- 4.12 At least one director needs to be appointed in order to enable the company to be registered and basics to be established (such as setting up banking arrangements). The report therefore seeks approval to appoint the Head of Housing & Neighbourhoods as a director of the company to facilitate this. As proposed above further directors would then be appointed at the Council's May AGM.

- 4.13 Any elected member or Council officer appointed as a company director would not normally be remunerated (although it may be appropriate for Non-Executive Directors to receive modest remuneration). Advice received is that the Council's Chief Finance (section 151) Officer and Monitoring Officer should not be appointed as Directors to ensure a clear separation of their roles in their advice to the Council. Equally there will need to be clear separation between all officers on the Board of Directors and officers providing advice to the Shareholder on behalf of the Council.

- 4.14 Consideration will need to be given to ensuring that key expertises (such as Financial and Legal advice) are available to advise both the Council as shareholder and the company.

Company Resources

- 4.15 It is anticipated that many of the services which will be required will be contracted out with housing management, repairs and maintenance, legal services for property acquisition and accounting services provided by local authority staff (and re-charged to the company). On this basis it is proposed that a General Manager is recruited to manage the company, with some additional resources in internal departments. As the property portfolio grows then additional staffing may be required.

- 4.16 To avoid the burden and costs of setting up systems for the company to employ staff directly (for example payroll, pension etc.), it is proposed that initially the Council will employ the General Manager (and any other staff required) and second them to the housing company initially until the company is more established.

- 4.17 The individual engaged to manage the housing company will need the appropriate skills and knowledge to be able to carry out the following duties:

- Lead the development of a Purchasing Strategy
- Continually monitor and understand the Reading property market and recommend appropriate actions to Directors

- Co-ordinate and oversee the acquisition of a portfolio of properties to let as private rented accommodation, working with internal and external partners
- Control costs and performance in respect of improvements works, initial lettings, and ongoing maintenance (via contract with RBC Housing Building Maintenance)
- Client the housing management contract
- Closely manage and monitor the company's operational finances
- Identify opportunities to maximise the housing company's potential
- Ensure all the statutory requirements for the company are met - audited accounts, VAT returns, Companies House returns, insurance renewals etc. (with RBC Legal and Finance colleagues)
- Prepare and present regular reports to company directors covering property portfolio, housing management, property maintenance, financials (both actuals to date and forward forecasts)

Documentation required in establishing the housing company

4.18 The following documentation is required to complete the establishment of the housing company and associated governance arrangements.

1. Memorandum of Association and Articles - setting out the remit and rules governing the running of the company.
2. Shareholder Agreement - this will be a key document as it will capture how the Council/Shareholder will exercise its control over the housing company.
3. Loan Agreements - these set out the details of the funding arrangements between the Council and the housing company.
4. Director Appointments - the identity and role of the council officers who will be appointed as directors to the housing company will need to be agreed. Non-Executive Directors with the appropriate skills will need to be recruited.
5. Appointment of Company Secretary and (if necessary) External Auditor.
6. Business Plan - the business plan will need to be developed to cover a rolling 5-year period of investment activity and will outline the company's planned operations. The Business Plan will be reviewed and agreed annually and covers the following: -
 - Company objectives (as established in the Shareholder Agreement)
 - Governance arrangements
 - Operational plans
 - Financial model and assumptions
 - Rents, sales and development assumptions
 - Fees, on-costs and tax
 - Funding profile and sensitivity analysis
7. Operational Policies including: -
 - Rent setting
 - Letting policy
 - Rent arrears and debt recovery
 - Other general policies e.g.: Health and Safety, data protection

8. Insurances including:
 - Buildings insurance (LA housing stock is not generally insured)
 - Directors insurance
 9. Property purchasing strategy - this sets out the specific criteria for the purchase of property
- 4.19 Key documents are appended to the report to support the proposal to develop a housing company wholly owned by the local authority and in the recommendations Council is asked to agree:
- a) the proposed governance arrangements for the Housing Company including the shareholder agreement set out in Appendix 1;
 - b) the incorporation of the Housing Company based on the Articles of Association set out at Appendix 2
 - c) the draft Heads of Terms for the Facility Agreement for the Council to provide loan and equity finance to the Housing Company to be considered in closed session at Council.
- 4.20 The report seeks delegations to finalise the Facility Agreement and to complete all other necessary documents, policies and procedures (as detailed above) and to select the company name.

The property market

- 4.21 The Reading property market is currently very buoyant with sale values and rents both showing growth over time. Reading's economic growth and its proximity to London (with both current and future transport links) have attracted numerous investment buyers. There are many, and continually changing, complexities about the housing market in Reading and the housing company will need to be fully conversant with the market conditions and have a clear strategy for the purchase and letting of property.
- 4.22 In researching the housing company, consultation has taken place with local agents. This has given the authority a better understanding of the local housing market and about a range of issues including property values, market rents, availability of property, rental yields (measures the relationship between annual rent and property cost), demand for and pace of sales and lettings, whether these proposals would impact the market, competition and so on. This information will influence the purchasing strategy for the housing company and market intelligence has been used in the financial modelling for the company.
- 4.23 A purchasing strategy will be developed and agreed which will set out a phased approach to the acquisition of properties taking into account market availability, demand and financial viability.

Property Management

- 4.24 The Housing Company will need to provide housing management and property maintenance services to its tenants. The Company Directors will need to keep under review if it would be cost-effective for the Housing Company to employ its own staff. Consideration has also been given to the company contracting with an external provider (using an established private lettings agency service) or using the services of Reading Borough Council's housing management and maintenance teams.

- 4.25 Taking into account a range of factors including quality of service, costs, ability to deliver and knowledge of tenant requirements it is currently proposed that the company will initially contract with RBC to provide these services. As detailed in the Legal section of this report, the Housing Company is subject to the Public Contract Regulations in relation to procurement. However, as a wholly owned subsidiary of the Council, the housing company would be able to apply the 'Teckal' exemption in terms of any contracts between the Council and the housing company, therefore these contracts would not be subject to the EU procurement regime.
- 4.26 In terms of housing management, it is currently intended that Reading Borough Council will provide the following functions to the company:
- a. Lettings and allocations including:
 - Devising a lettings and rent policy
 - Advertising of property
 - Vetting of potential tenants
 - Allocating properties and deposit management.
 - b. Housing Management including:
 - Property inspections
 - Day to day management of the properties
 - Tenancy sustainment support
 - Management of anti-social behaviour cases
 - Enforcement action and possession proceedings for breach of tenancy
 - c. Property Services including:
 - Advice on property condition before purchase
 - Reactive day to day repairs
 - Planned and cyclical programmes of maintenance
 - Works between lets
 - d. Rent Recovery including:
 - Setting up of rent accounts
 - Tenancy Sign up
 - Payment options for rent payments
 - Recovery of rent arrears
 - Debt and money advice
 - Possession proceedings for issues including rent arrears

Tenancy Agreement - terms

- 4.27 Tenants of the housing company would be given an Assured Short-hold Tenancy unlike RBC tenants who are initially on an introductory tenancy which becomes secure after 12 months. An assured shorthold tenancy is equivalent to the terms of occupation offered in the private sector.
- 4.28 The properties to be let at LHA rent levels will be utilised for the prevention of homelessness and to make appropriate offers of accommodation allowing the Council to discharge its statutory housing duties.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 This proposal will contribute to the service priorities set out in the Council's Corporate Plan 2015-18:

- Providing homes for those in most need.

- 5.2 The proposal will increase access to safe and suitable housing for homeless households and more widely will help to improve stock condition in the private rented sector.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 There is no requirement in legislation or in guidance to consult with other agencies or stakeholders on the establishment of a housing company. However, it will be important that members, council staff, applicants, tenants and the wider community understand the role and offer provided by the housing company and how this differs from the provision of Council housing. Information and housing policies will be published in plain English. A communications strategy will need to be developed in due course.

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) does not indicate that recommendations will have a disproportionate impact on any protected group.

8. LEGAL IMPLICATIONS

Specialist legal advisors Trowers and Hamlins have provided legal advice including documentation in respect of the proposal.

Powers to form the Housing Company

- 8.1 The Council can rely upon the general power of competence within the Localism Act 2011 to form the housing company for operating a business to let homes at market rent or to provide homes for market sale.
- 8.2 Section 1 of the Localism Act 2011 provides local authorities with the power to do anything an individual may do, subject to a number of limitations. This is referred to as the 'general power of competence'. A local authority may exercise the general power of competence for its own purpose, for a commercial purpose and/or for the benefit of others i.e. this includes the setting up of a housing company. In exercising this power, a local authority is still subject to its general duties (such as the fiduciary duties it owes to its rate and local tax payers) and to the public law requirements to exercise the general power of competence for a proper purpose.

Powers to fund the Housing Company

- 8.3 The housing company will need significant funding to purchase a portfolio of properties in the open market. Therefore, as well as the Council having the powers to form the housing company it must also be able to provide it with the necessary loan and equity funding.
- 8.4 The Council has the power to borrow under the Local Government Act 2003 for the purposes of the prudent management of their financial affairs, or in connection with any of their functions. The borrowing must be prudent and comply with the Prudential Code.
- 8.5 As outlined, the Council intends to borrow monies and in turn support the housing company through the provision of loans and subscription to share capital. This is covered by Section 24 of the Local Government Act 1988 (the 1988 Act) as this constitutes financial assistance under the terms of the 1988 Act. Section 24 of the 1988 Act also specifically allows the Council to provide financial assistance in connection with the provision of privately let accommodation.
- 8.6 If the Council exercises its powers under this section, then under Section 25 of the 1988 Act it must also obtain the consent of the Secretary of State to do so. If this consent is not obtained, then any financial assistance given will be void. The Secretary of State has set out pre-approved consents in the "General Consents 2010" (July 2011) and the "General Consents 2014" (April 2014). The General Consents 2010 contains Consent C. and the Council can provide financial assistance to the housing company under this provision.
- 8.7 Any housing made available for sale by the housing company would not be covered by the 1988 Act, however the Council can rely upon the general power of competence to fund the Housing Company for the purpose of the company operating a business to provide homes for market sale. In the short term it is not the intention to provide homes for sale, however, it is proposed to set the housing company up so it has the option to do this in the future.

Power to transfer land to the Housing Company

- 8.8 It may in the future be appropriate for the company to develop new homes using Council owned land. The Council is entitled to dispose of land held by it in its General Fund provided it complies with Section 123 of the Local Government Act 1972 and it is entitled to dispose of land held in its Housing Revenue Account providing it complies with section 32/43 of the Housing Act 1985. Although these consents for HRA land normally require the consent of the Secretary of State, there are some useful general consents that have been issued. However, these powers concerning the disposal of land from the Council to the housing company are complex and as such, site specific advice will be sought in the future for any disposal.

Company structure

- 8.9 Trowers & Hamlin has advised that a company limited by shares (CLS) is the appropriate form of vehicle for the housing company for a number of reasons, including:
 - a CLS is the most common corporate vehicle used in England for profit distributing bodies and is a very tried and tested model;

- the Council may look (in the longer term) to receive a return out of the profits of the housing company and the CLS model is a typical form of commercial vehicle established with a view to making a profit;
- the ability for the Council to invest in the company by way of share equity as well as loan debt;
- the general power of competence, being used for a commercial purpose as is intended here, does not allow for local authorities to participate directly in a limited liability partnership, which would be the other most obvious corporate form for a body established with a view to profit.

8.10 The company will be set up in accordance with the Companies Act 2006, including the appointment to the Board of the company. The Memorandum and Articles of Association and any other relevant document for the setting up of such a company are in a form approved by the Head of Legal and Democratic Services. The statutory duties for directors of a company are set out in sections 171 - 177 of the Companies Act 2006. The statutory duties are in summary:

- i. The duty to act within powers,
- ii. The duty to promote the success of the company,
- iii. The duty to exercise independent judgement,
- iv. The duty to exercise reasonable skill and care,
- v. The duty to avoid conflicts of interest,
- vi. The duty not to accept benefits from third parties,
- vii. The duty to declare an interest in a proposed transaction or arrangement with the organisation.

8.11 The common law directors' duties and the statement of general directors' duties set out in the Companies Act 2006 are not exhaustive in terms of the duties that are owed by a director to an organisation.

8.12 Board members will also be subject to other duties set out elsewhere in law, including a large number of very important legal obligations around making investments, disposing of land, health and safety requirements, and employment laws, to name but a few. In particular, there are very important responsibilities on directors in the event that an insolvency situation seems likely. There are serious consequences for directors (including personal liability) in situations which fall within the statutory definitions of wrongful trading or fraudulent trading.

Fiduciary duties

8.13 The Council's fiduciary duties can be briefly summarised as acting as a trustee of tax and public sector income on behalf of its rates and tax payers. The Council in effect holds money but does not own it and spends that money on behalf of its business rate and council tax payers. Taking these fiduciary duties into consideration, the Council will need to ensure that it achieves an appropriate return for the lending it provides

and that it has minimised the risks and potential costs to it if the housing company becomes insolvent and/or defaults on any loans. Ultimately, should the company be unable to repay the loan in full at the point that it ceases to trade and its assets are liquidated, then any residual loss will sit with the shareholders.

Procurement

- 8.14 The housing company will be a body required to follow the Public Contracts Regulations 2015 (PCR). However, as a wholly owned subsidiary of the Council, the housing company will be able to take advantage of the "Teckal" exemption set out in the PCR and as such, any contracts let between the Council and the housing company (e.g. in relation to housing management services) would not be subject to the EU procurement regime.

State Aid Compliance

- 8.15 Trowers & Hamlin and Savills have provided initial advice on how the lending to the housing company should be structured so it is not unlawful State Aid. Effectively, if the Council is acting in a way that a private lender and/or investor would in similar circumstances in a market economy, for example by providing a loan on commercial terms and at a commercial interest rate, properly taking into account risks and/or was making an equity investment on the terms and for the return which a private investor would do, then such activity will not constitute unlawful State Aid within the meaning of Article 107 of the Treaty on the Functioning of the European Union (TFEU).
- 8.16 However, when the Council establishes the detailed loan arrangements with the housing company it will at that time need to obtain an independent report which analyses the relevant risk in relation to the loan and also confirm that the interest rate applied is consistent with that which a private lender would require in the same circumstances and that the non-financial element of the loan complies with the terms and conditions which a private lender is likely to require.
- 8.17 State Aid will need to be continually kept under review to ensure that the support from the Council is able to continue to be provided throughout the loan period.

9. FINANCIAL IMPLICATIONS

- 9.1 The financial model for the housing company has been developed by consultant advisors Savills with officers providing and agreeing assumptions. The modelling is predicated on there being no overall cost to the Council and as many homes as possible being provided at rents similar to LHA levels, so the company provides accommodation that might be used instead of bed & breakfast for homeless households.
- 9.2 The business case assumes the Council incurs additional capital expenditure in either buying shares in, or making loan advances to the housing company. The interest charges on the loan advances will be sufficient over the life of the company's business plan (and agreed loan period) to at least meet the Council's financing and administrative costs in borrowing money to make these advances. The Council is able to lend funds to the housing company using the powers outlined in the Legal section and as long as the arrangements are deemed to be State-Aid compliant (i.e. effectively this means they do not provide a hidden subsidy to the company). The alternative of directly sourcing external private funding would be significantly more

challenging, time consuming and would pass significant influence and potentially control over the housing company's business activities and decisions to the lenders.

- 9.8 As indicated in the budget report to February's Council meeting, the Council expects to start 2016/17 with just over £300m of actual borrowing, and this was expected to rise to around £350-£360m during 2016/17. This proposal will increase that to around £380m. This is below both the authorised limit and operational boundaries for borrowing agreed by the Council in February during 2016/17, but the further rise in following years will necessitate a need to change these. The current estimated changes needed will be as follows:
- 9.9 **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing (as agreed in February)	400	400	400	400
Borrowing (as now required with Housing Company)	400	400	440	480
Revised Total Debt (inc. other liabilities)	440	440	480	520

- 9.10 **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 Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing (as agreed in February)	410	410	410	410
Borrowing (as now required with Housing Company)	410	410	450	490
Revised Total Debt (inc. other)	450	450	460	450

liabilities				
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Value for Money (VFM)

- 9.11 See above - the proposal is cost neutral to the authority but will provide a supply of accommodation for homeless households thus contributing to a reduction in expenditure on bed and breakfast accommodation.
- 9.12 Unlike other options to accommodate homeless households, such as the Rent Guarantee Scheme and leasing property in the market, provision of housing through a housing company will be at no net cost to the authority as the company will operate on a commercial basis, cross-subsidising sub-market rent with the provision of full market rent.

Risk Assessment.

- 9.13 Investing in property does present a number of risks and also opportunities to the housing company and the Council. The more significant factors are outlined below and in particular the risks are identified along with the proposed mitigation.

RISKS

Risk 1) The housing company is unable to meet its interest payments to the Council and in turn the Council is not receiving sufficient return to meet its own financing costs.

- 9.14 Mitigation - With strong financial monitoring and forecasting this situation should not arise, however, if it did the company could realise capital from the sale of a property to cover the shortfall. This situation is not ideal but it would give the company time to then address the root problem of why it was unable to meet its interest payments.

Risk 2) The reason why the company could not meet its interest payments would mean either its running costs are too high e.g. higher management or maintenance costs or alternatively rental income is lower than expected i.e. higher void or bad debt levels or potentially rents not increasing in line with cost inflation.

- 9.15 Mitigation
- Establish clear management and maintenance contracts from the start so costs are agreed.
 - Careful selection of properties for purchase to avoid those with excessive maintenance liabilities and re-profile planned maintenance works if required.
 - Take robust housing management action to recover bad debts or better advertising, marketing and lettings action to fill voids.
 - If the rental market in Reading goes into decline and rents do not increase in line with costs, then this will require a re-alignment of the company's strategy which may include starting to sell properties and reduce the size of the portfolio.
- 9.16 It is anticipated that the company will hold properties for a significant time and therefore, over the longer period, property prices will grow and so there should be sufficient value to cover any additional costs as well as cover the Council's original loan and equity investment. Based on an average annual growth increase of 2%, the value of the property stock would increase by 50% over approximately 22 years.

Historical data shows property values have increased by 345% over the last 20 years, 1995 – 2015. Current predictions are that Reading property values will increase significantly over next 5 years, however a 2% inflation allowance has been used in the modelling as it is a very prudent assumption.

Risk 3) Property values fall which may occur in a recession.

- 9.17 Mitigation - In the short term the forecast is for strong growth in property values in Reading (between now and 2020). This should insulate the company against any future decline in values. Furthermore, a reduction in the value of the stock only becomes a problem if it falls below the original purchase price and if the company actually has to sell properties. This business case is viewed as a long term investment and so any short term drops in property values should be seen in the context that property values generally increase over the long term.
- 9.18 Part of the company's management responsibility will be to continually monitor the property market and its property portfolio (and costs and incomes) to forecast any changes and adjust its strategy to manage any difficult periods or indeed, take advantage of opportunities.

Risk 4) there is a risk associated with more dispersed stock and the increased management burden of managing isolated properties in non-estate areas, particularly in flatted blocks.

- 9.19 Mitigation: This will need to be considered in the acquisition strategy and lettings policy.

OPPORTUNITIES

Opportunity 1) - property growth

- 9.20 The major opportunity for the Council/company is that as indicated above, with 2% average property growth, the Council's equity investment (not the loan) would double in approximately 18 years providing a very good return.

Opportunity 2) - generating profit

- 9.21 Presently, the aim of the company is to remain viable but instead of maximising profits it will be to maximise the number of properties provided for discounted market rent. However, the Council/company may decide to change the priority and it could become to maximise profits for the Council. Therefore, by prioritising the number of properties let at full market rent this can drive a profit (after tax) for the Council. Several other Councils have specifically set their companies up to do this.

Opportunity 3) - flexibility and control over the portfolio

- 9.22 Over time, the housing challenges local people face may change, however, with the Council/company having complete control over a portfolio of property it can change the use of that property to help people meet those future difficulties. For example, the demand for the discounted market rent properties may have fallen and property values may have increased significantly so that the company may choose to sell properties back to the HRA at a discounted level. Having complete control over the stock (because the Council is the sole funder) is a significant advantage over other

arrangements where external funding is used and those cases the funder has the control and the Council/company is contracted to lease payments.

Opportunity 4) - ability to develop new homes/diversify

- 9.23 As previously mentioned, the company will be set up to do a number of things. Therefore, in the future it could develop housing either in the private sector or for mixed tenure developments. It could also be used to go into joint venture arrangements with other partners etc. The company offers the Council a commercial vehicle to consider future opportunities.

10. BACKGROUND PAPERS

Appendix 1: Shareholder Agreement

Appendix 2: Articles of Association

READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES
AND DIRECTOR OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	13 MARCH 2017	AGENDA ITEM:	10
TITLE:	HOMES FOR READING: MOBILISATION, FUNDING AND BUSINESS PLAN		
LEAD COUNCILLOR:	CLLR TONY PAGE	PORTFOLIO:	LEADERSHIP
SERVICE:	HOUSING/FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	ALAN CROSS	TEL:	0118 9372058
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In March 2016 Council agreed to create a housing company wholly owned by the Council with the aim of the company purchasing, over a 5 year period, 500 existing (and potentially new) residential properties to rent. The financial modelling was predicated on there being no overall cost to the Council and a proportion of the homes (as an aggregate over the life of the business plan) being provided at sub-market rent to homeless households, subsidised by letting the remainder at market rent.
- 1.2 This report updates the Committee on the progress made in setting up Homes for Reading Limited as a wholly owned company and Policy Committee is asked to approve the Financial Business Plan attached to this report. The Business Plan sets out the structure of the arrangements between the Council (RBC) and Homes for Reading (HfR); describes the assumptions underpinning the business model; and considers financial viability and risk exposure in that context. The Business Plan has informed the terms of the facility agreement between the Council and HfR which deals with lending money to the company. Both the Business Plan and the funding agreement are the subject of a State Aid report by Savills Financial Consultants which confirms that the proposed loan arrangements reflect a normal commercial arrangement for this type of business.
- 1.3 The report clearly sets out the financial implications of the Business Plan and funding arrangements and highlights some of the potential risks of such property investment. Homes for Reading's Board of Directors have approved a detailed Risk Register setting out the risks to the company and their proposed mitigation.
- 1.7 The following appendices are attached: -
- Appendix 1: Shareholder Agreement (revised)
- Appendix 2: Memorandum and Articles of Association (revised)

In a separate similar PART 2 Report there were 4 further appendices which are relevant to the overall consideration of this item.

- Appendix 3: HfR Business Plan
 Appendix 4: State Aid Report (Savills Financial Consultants)
 Appendix 5: Summary of Facility Agreement Terms
 Appendix 6: HfR Risk Register

These Appendices 3-6 in the Part 2 report are not for disclosure.

2.	<p>RECOMMENDED ACTION</p> <p>Policy Committee is asked to:</p>
2.1	<p>Approve the revised Shareholder Agreement (Appendix 1).</p>
2.2	<p>Approve the revised Memorandum and Articles of Association (Appendix 2).</p>
2.3	<p>Approve the Business Plan for HfR Ltd (as provided on the Committee agenda in closed session).</p>
2.4	<p>Note the revised principal terms of the proposed Facility Agreement to enable the Council to lend money to HfR Ltd and note the contents of the State Aid Report (as provided earlier on the Committee agenda in closed session).</p>
2.5	<p>Note the HfR Ltd Risk Register (as provided on the Committee agenda in closed session).</p>
2.6	<p>Approve the appointment of Non-Executive Directors (as detailed at paragraph 4.9) and note the amendment to the Memorandum and Articles of Association to extend the appointment of all Directors of HfR Ltd to 3 years (paragraph 4.10 of the report).</p>
2.7	<p>Approve the remuneration of the HfR Managing Director in line with the Council's pay policy at Head of Service/Director Grade.</p>
2.8	<p>(1) Authority to Allot</p> <p>That, in accordance with section 551 of the Companies Act 2006 (CA 2006), the Directors (Directors) of HfR be generally and unconditionally authorised to allot shares in the Company <u>to the Council</u> up to an aggregate nominal amount of £10,000,000 provided that this authority shall, unless renewed, varied or revoked by the Company, expire on 31 March 2018 save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted and the Directors may allot shares in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. (This authority is in addition to the October Policy Committee authority to allocate £5,000,000 shares).</p> <p>(2) Disapplication of Pre-Emption Rights</p> <p>That, subject to the passing of resolution 1 and in accordance with section 570 of the CA 2006, the Directors be generally empowered to allot equity securities (as defined in section 560 of the CA 2006) pursuant to the authority conferred by resolution 1, as if section 561(1) of the CA 2006 did not apply to any such allotment, provided that this power shall:</p>

be limited to the allotment of equity securities up to an aggregate nominal amount of £15,000,000; and expire on 31 March 2018 (unless renewed, varied or revoked by the Company prior to or on that date), save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

- 2.9 That the Director of Finance and the Head of Legal and Democratic Services, in consultation with the Deputy Leader and Chair of Audit & Governance Committee) are authorised to act on behalf of the Council in agreeing arrangements with HfR Ltd save for those matters specifically reserved to Policy Committee in the Shareholder Agreement.

3. POLICY CONTEXT AND BACKGROUND

- 3.1 In March 2016 Council agreed to create a housing company wholly owned by the Council with the aim of the company purchasing 500 existing (and potentially new) residential properties to rent. The modelling was predicated on there being no overall cost to the Council and a proportion of the homes (as an aggregate over the life of the business plan) being provided at sub-market rent to homeless households, subsidised by letting the remainder at market rent.
- 3.2 The Council further approved a delegation to the Head of Finance, in consultation with the Leadership (and Chair of Audit & Governance Committee) to finalise the Facility Agreement and to enable up to £30m capital expenditure to be incurred to purchase shares in and make loan advances (secured on property) to the Housing Company.
- 3.3 Policy Committee appointed the initial Board of Directors on 25th May 2016 comprising four elected members and two senior officers. In October 2016 Committee further agreed arrangements for the initial capitalisation of the company, prior to purchasing its first property, and in particular authorised the board to allot up to 5,000,000 shares. By the end of 2017/18 it should be necessary to allot almost 15,000,000 shares to realise the business plan. Committee are therefore asked to provide authority to allot an additional 10,000,000 £1 shares in this report. 2.9 above provides a general delegation for the formal business arrangements between HfR and the Council to be conducted, essentially authorising the Council's most senior finance and legal officers to act on its behalf in consultation with appropriate councillors (recognising conflicts of interest of councillors who are also directors).
- 3.4 'Homes for Reading Limited' was incorporated as a Private Limited Company on 6th April 2016 and Directors have now been registered at Company's House. The HfR Board met for the first time on 29th June 2016 and the Board is currently meeting monthly to agree policy and process with the HfR Executive Management Team formed from the Managing Director and the two senior Council officers. A Company Secretary has also been appointed to advise on compliance and statutory responsibilities.
- 3.5 To date excellent progress has been made in developing the company and putting in place the necessary resources, systems, policies and procedures to ensure that mobilisation is thorough and that HfR is given the best chance of successfully

achieving its goals in what is a challenging market place. The work plan includes a wide range of activity from ensuring that HfR has appropriate insurance cover in place for its commercial activity to appointing an online marketing company or agreeing a performance reporting framework. The Company expects to commence acquisitions early in the new financial year once the facility agreement and associated documentation is finalised and company systems are fully established.

- 3.6 As previously reported it has been agreed that to avoid the burden and costs of setting up systems for the company to employ staff directly, the Council will employ the Managing Director and second them to HfR initially until the company is more established. Other services required by the company will all be contracted out in the first instance through Service Level Agreements (SLAs) with Council and external service providers as necessary. As the property portfolio grows, additional resources may be required and employed directly by the company. Service Level Agreements (SLA) are now in place with RBC service providers for legal, financial, housing management, property maintenance and valuation support. These are supplemented by operational processes in respect of acquisition, lettings, management and maintenance.
- 3.7 HfR is starting to look outward and is developing a communications strategy and web site. Ongoing market research as well as starting to build relationships with local agents and developers ensures that we are on track to commence property acquisitions this Spring 2017.

4.0 THE PROPOSAL

HfR Business Plan

- 4.1 The Council has been working with advisors from Trowers and Hamlins (Legal advisors) and Savills Financial Consultants (the finance arm of a property company) on the development of the HfR Business Plan. The final draft Business Plan has recently been approved by the HfR Board.
- 4.2 The Shareholder Agreement for HfR sets out matters requiring shareholder consent and this includes consent to adopt or amend the company's annual Business Plan. This therefore requires that Policy Committee approve the final Business Plan before HfR began to trade (i.e. purchase properties and rent them).
- 4.3 The essential features of the Business Plan are that the Council will purchase shares and make loan advances to HfR in the approximate ratio of 45:55 to enable HfR to acquire residential property. Both share purchases and such loan advances are capital expenditure and so approved by Council in February (as part of the budget). Whilst the Council will manage the day to day cash flows associated with such advances within its normal day to day treasury business, ultimately it will be funding those advances using borrowed money.
- 4.4 HfR pays a commercial rate of interest above the Council's borrowing levels such that the overall interest payments should be sufficient to meet the Council's debt financing costs on both the loan and share capital advances. The expectation is that the company has an operating profit from year 2 subject to being able to acquire properties at the rate assumed in the business plan (2 per week on average), and being able to manage them to the cost and income profile assumed, which is dependent on market forces and other variables.

- 4.5 On commercial and governance advice HfR appointed Centrus financial advisors to independently review the proposed loan arrangements and Business Plan on the company's behalf, with a focus on the terms of the facility agreement (a legal document that sets out the arrangements). After some amendments to the initial draft were agreed, in early February, Centrus were able to advise HfR "that the facility agreement is now in a form that is reasonable to enter into." As detailed below, Savills have also provided State Aid advice to the Council in respect of the arrangements (as amended).

Facility Agreement

- 4.6 Section 5 of the Business Plan summarises the funding arrangements at high level and a precis of the proposed terms of the Facility Agreement was provided as part of the Part 2 report. The State Aid report provides a review and summary of the proposed loan facility agreement in Section 4 and states that the proposed facility is reasonably market standard. (i.e. it would be lawful for the Council to provide loan finance to HfR on the proposed terms).

Resourcing

i) Appointment of Directors

- 4.7 The Board of Directors is responsible for providing strategic direction, as well as overseeing and scrutinising the operational and financial performance of the company to ensure that business plan targets are met, within the parameters agreed with the Shareholder. The company will be engaged in both property acquisition and ensuring that landlord responsibilities are fulfilled in the management of the stock and provision of services to tenants and so the right balance of skills, experience and commercial financial acumen are critical. It was agreed by Council that the Board membership should include two independent Non-Executive Directors to bring commercial housing and finance experience.
- 4.8 The present HfR Board of Directors is currently Councillors Richard Davies, Sarah Hacker, Ed Hopper and Jo Lovelock; Sarah Gee (Head of Housing and Neighbourhood Services); and Bruce Tindall (Chief Valuer). Policy Committee appointed officer and councillor directors in May 2016 and subsequently two Non-Executive Directors have been recruited and Policy Committee approval is sought in order to confirm their appointment.
- 4.9 HfR was successful in attracting an extremely high calibre of candidates for Non-Executive Director roles. Two directors have now been selected and the Board consider that they will bring significant commercial property and financial experience to the company. Darrell Mercer is currently the Chief Executive Officer of A2 Dominion with considerable sector experience both of the private rented sector and residential development. His extensive career in housing includes time at the Housing Corporation. John Higgins is a Chartered Accountant and currently Interim Head of Strategic Finance at East Thames Housing Group one of the largest providers of affordable housing in east London and Essex. Remuneration for NEDs has been agreed by the Board, and is allowed for in the business plan.
- 4.10 Directors have currently been appointed for the period of the Municipal Year 2016/17. It is proposed to amend the Memorandum and Articles of Association to extend this period to an initial appointment of three years - for elected members this will be subject to the Annual General Meeting of the Council confirming their appointment.

ii) Appointment of Managing Director

- 4.11 A Managing Director for the company has been recruited, whose key task is to work with other officers and the Board to move the company from planning to operation. Alex Jaques is a chartered surveyor with over 15 years experience of managing residential property portfolios in the private sector. The Shareholder Agreement requires that the remuneration package for the HfR Managing Director be approved by the Shareholder and Committee is asked to approve the remuneration of the Managing Director in line with the Council's pay policy at Head of Service/Director Grade. (In line with normal arrangements for such posts the precise placement on the scale will be agreed by the Director of Environment & Neighbourhood Services). It is not currently proposed that the Managing Director is a member of the company board (though she attends the Company's board meeting as does the Council's Head of Finance, as an observer).

Shareholder Agreement and Memorandum and Articles of Association

- 4.12 RBC will hold all of shares in HfR and as such retains full control of the company. The governance structure in place ensures robust management of the company and protection of the Council's financial and reputational investment.
- 4.13 The final proposed Memorandum and Articles of Association (Appendix 2) and Shareholder Agreement (Appendix 1) are attached and set out how the company will be run and the decisions reserved for shareholders. The shareholder function is primarily executed through Policy Committee. Additionally the Audit and Governance Committee has been authorised to provides oversight of the arrangements and financial position in relation to the company.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 This proposal will contribute to the service priorities set out in the Council's Corporate Plan 2015-18:
- Providing homes for those in most need.
- 5.2 The proposal will increase access to safe and suitable housing for homeless households and more widely will help to improve stock condition and promote best practice in the private rented sector.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 There is no requirement in legislation or in guidance to consult with other agencies or stakeholders on the establishment of a housing company. However, it will be important that members, council staff, applicants, tenants and the wider community understand the role and offer provided by the housing company and how this differs from the provision of Council housing. Information and housing policies will be published in plain English. A communications strategy will need to be developed in due course.

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) does not indicate that recommendations will have a disproportionate impact on any protected group.

8. LEGAL IMPLICATIONS

8.1 Specialist legal advisors Trowers and Hamblins have provided legal advice including documentation in respect of powers to form and to fund the housing company. This was set out in some detail in the report to Council in March 2016.

8.2 The Housing and Planning White Paper 'Fixing Our Broken Housing Market' published in early February has the potential to impact on both the local housing market and the company's Business Plan. Further analysis will be required and the impact will be subject to the final primary and secondary legislation once enacted. There is reference to the Right to Buy being applied to affordable homes developed by local authority housing companies but there is little detail to enable any potential impact on the HfR proposed business model at this stage. It is also proposed to regulate lettings fees in the private rented sector.

9. FINANCIAL IMPLICATIONS

9.1 The financial model for HfR has been developed by Savills Financial Services with officers providing and agreeing assumptions. As previously noted, the modelling is predicated on there being no overall cost to the Council, which intends to borrow money and in turn support the housing company through the provision of loans and subscription to share capital. Both the loans (which will be for more than one year) and share capital will be accounted for as capital expenditure.

9.2 The interest rate on the loans to the company will be set such that the interest paid by the company is forecast to be at least as much as the interest the Council will need to pay on borrowing it undertakes to finance the share & loan finance over the life of the business plan. The treasury risks of the company (as a start up) and Council are different, so whilst in theory it would be possible to achieve this by always undertaking matching borrowing when HfR needs money to buy property, in practice a better overall financial position is likely to be achieved by managing the Council's position in the context of the treasury strategy overall (agreed at Council in February).

State Aid

9.3 Savills have additionally provided advice on State aid compliance and their report is intended to enable the Council to satisfy itself in respect of both this matter and compliance with UK transfer pricing rules. The Market Economy Operator Principle (MEOP) is a concept that has been developed by the European Commission to determine whether a transaction entered into by a public body gives an advantage to a particular economic undertaking and therefore falls within the State Aid regime. In broad terms, MEOP says that an economic transaction carried out by a public body does not constitute State Aid if it is carried out in line with normal

market conditions. In other words, “does the beneficiary get an advantage they would not normally get from the market?”. For example, if a Council was to provide a loan to a company on commercial terms and at a commercial interest rate, properly taking into account the associated risks, on terms and for a return that a private investor would, then such activity would normally be considered to constitute lawful State Aid. The proposed arrangements meet this requirement.

- 9.4 It is recommended practice for councils to satisfy themselves on this issue by obtaining an independent report setting out that a notional private lender/investor would in the same circumstances make a loan/invest on the terms which the council proposes. In particular, the loan arrangement must comply with prevailing market terms - i.e. be commercial in nature and contain provisions which a private lender would require, have a commercial interest rate which properly reflects the risk and security, and other factors which a private/commercial lender would take into account in calculating an appropriate interest rate.
- 9.5 The intention of this report is to satisfy the Council, (HMRC & regulators) in this respect and on related Corporation Tax issues.

Value for Money (VFM)

- 9.6 See above - the proposal is cost neutral to the authority but will provide a supply of accommodation for homeless households thus contributing to a reduction in expenditure on bed and breakfast accommodation.
- 9.7 Unlike other options to accommodate homeless households, such as the Rent Guarantee Scheme and leasing property in the market, provision of housing through a housing company will be at no net cost to the authority as the company will operate on a commercial basis, cross-subsidising sub-market rent with the provision of full market rent.

Risk Assessment

- 9.8 Investing in property presents a number of significant risks and also opportunities to the housing company and the Council. The HfR Risk Register is based on the Council model and identifies 27 risks, 10 of which are red and 13 amber before mitigation. After mitigation HfR will manage 13 amber risks. These will be regularly reviewed and updated by HfR Executive Management Team and the HfR Board. Any start up business carries risks and the first year of operation will be most challenging for HfR. Many of the risks are outside the direct control of the company, but where HfR can influence matters it will focus on managing and minimizing risk.
- 9.9 The current residential property market can be characterised as uncertain. In addition to taxation and stamp duty changes, World and UK economic considerations have all had a significant impact on the UK property market over the last year. Many commentators have offered opinion, but it is clear that the impact of the UK leaving the EU is uncertain and likely to be so for several years. The fundamentals of housing in the region remain the same - high demand and a historic lack of supply. HfR continue to monitor the market and will revise assumptions as we start to move towards our first acquisitions.
- 9.10 The key variables which can impact on the viability of the company are market driven and these are not always predictable:

- i) Market rent yield (the relationship between market rent achievable on a property and it's market value). Yields will fall if for instance
 - Rents fall (with no commensurate fall in sales values)
 - Sales prices rise but rents don't rise at the same rate
- ii) Interest rates/Council funding costs rise - and therefore the cost to the company.
- iii) Rate of acquisition of properties - this impacts the ability to cover a fixed cost base.
 - If there are insufficient properties available to purchase above threshold yield - risk re rate of acquisition and ability to cover fixed costs.

Other factors include:

- iv) Performance - control of operating costs. This is controllable to a considerable extent but could be impacted by market forces, for instance, if insufficient demand impacted void periods.
 - v) Legislative and policy risks. For example
 - The current Housing White Paper proposes that affordable homes developed by a Council Housing Company should also be subject to the Right to Buy. There is little detail available as yet.
 - The Government are considering the need for additional disincentives for buy-to-let investors (further to increasing SDLT).
- 9.11 If the company cannot meet its interest payments to the Council and in turn the Council is not receiving sufficient return to meet its own financing costs, if it did the company could realise capital from the sale of a property to cover the shortfall. This situation is not ideal as the company would be a forced seller with a tenanted portfolio - but it would give the company time to then address the root problem of why it was unable to meet its interest payments. However, the Council would be exposed if property values had fallen since purchase - so that sale proceeds would not cover the Council's borrowing and initial investment. As part of the funding arrangements HfR is expected to achieve a property value to loan ratio within 3 years that provides a buffer, and ensure that only the shareholding value remains at risk.
- 9.12 Likewise should the rental market in Reading goes into decline and rents do not increase in line with costs, then this will require a re-alignment of the company's strategy which may include starting to sell properties and reduce the size of the portfolio.
- 9.13 It is anticipated that the company will hold properties for a significant time and therefore, over the longer period, property prices are expected to grow and so there should be sufficient value to cover any additional costs as well as cover the Council's original loan and equity investment. Reading property values are currently expected to increase significantly over the next 5 years. In this context, the Council needs to be able to take a long-term view of the proposal.
- 9.14 Furthermore, a reduction in the value of the stock only becomes a significant problem if it falls below the original purchase price, and is accompanied by significant reductions in rent levels achievable, and if the company actually has to sell properties. This business case is viewed as a long term investment and so any

short term drops in property values should be seen in the context that property values generally increase over the long term.

- 9.15 Part of the company's management responsibility will be to continually monitor the property market and its property portfolio (and costs and incomes) to forecast any changes and adjust its strategy to manage any difficult periods or indeed, take advantage of opportunities. In this context the Company would be expected to report to the Council as shareholder if it foresaw significant risk of problems emerging from a changing property market.
- 9.16 As well as shareholder risks above, the company will carry operational risks of managing a housing portfolio; in many ways these will be similar to those the Council already carries as HRA landlord.

10. BACKGROUND PAPERS

- i) PROPOSAL TO ESTABLISH A COUNCIL OWNED HOUSING COMPANY: Report to Council - 22 March 2016
- ii) APPOINTMENT/NOMINATIONS TO OTHER BODIES FOR THE MUNICIPAL YEAR 2016-17: report to Policy Committee - 25 May 2016
- iii) HFR - BOARD AUTHORITY TO ALLOT SHARES: Report to Policy Committee - 31 October 2016
- iv) Financial model (which is confidential).

Introduction

As outlined in section 4, whilst HfR is a separate legal entity, it will be entirely owned and funded by the Council. As a result, the financial implications for the Council are primarily based on a comparison of:

- The net rental income generated by the properties which are bought by HfR
- The revenue cost to the Council of providing funding to HfR to acquire the properties

On the basis that sufficient rental income will be generated, then the funding arrangements between the Council and HfR will need to be set up in the most efficient way, subject to HMRC and state aid¹ regulatory requirements.

The {business plan} set out financial forecasts for HfR based on the acquisition, rental and funding assumptions set out in this business plan. This section now looks at the financial implications for the Council as funders of HfR, based on those assumptions.

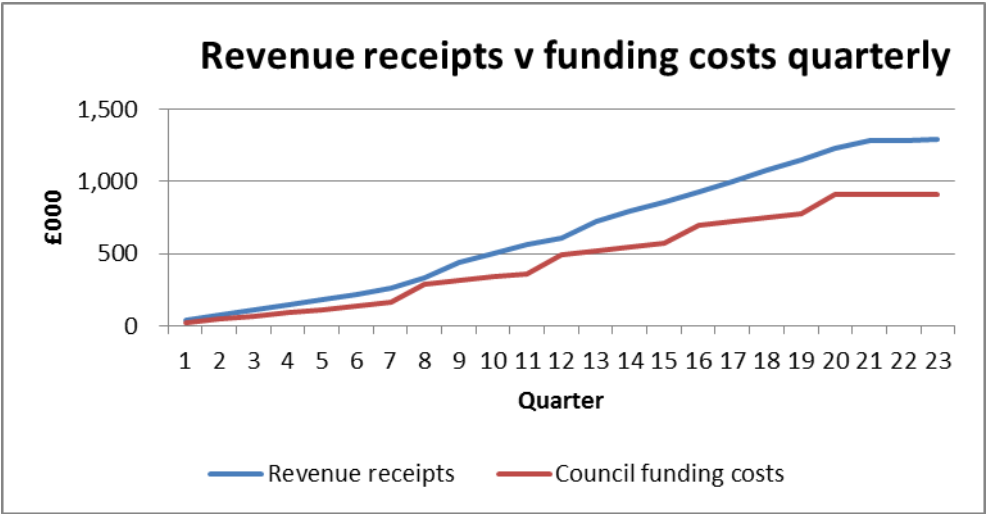
Cost of funding HfR

The base viability assessment has assumed that the cost to the Council of funding HfR over the 5 year acquisition period, is based on the following principles:

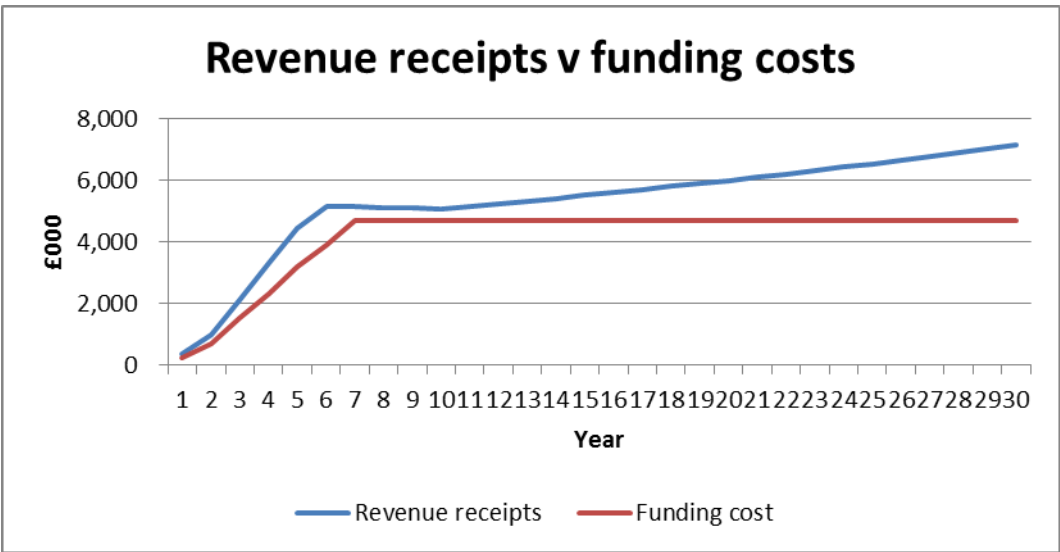
- New borrowing is drawn down by the Council
- Initially, as the portfolio is built up short term funding is drawn down
- As the portfolio builds up, short term borrowing is re-financed in tranches into longer term funding

¹ In essence, "State Aid" rules prevent the Council providing subsidised funding to HfR as a private company, so the company pays the council a higher interest rate than the Council can borrow at, and HMRC will need to be assured that the interest rate charged to the company is not artificially high (for taxation reasons). Independent advice has been received to confirm the proposed approach complies with both requirements.

Based on current (March 2017) PWLB interest rates, base case assumptions are 1.2% interest {paid by the Council} for short term funding and 2.9% {paid by RBC} for long term funding. Over the first six years the financial modelling shows



And over the planned 30 year life of the business plan the picture is as below



As these graphs indicate, apart from in the initial year the position appears to be cash positive; however, this does rely on building up the portfolio reasonably quickly.

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 JULY 2017	AGENDA ITEM:	11
TITLE:	PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24) RECOMMENDATIONS REPORTED AT BUDGET COUNCIL		
LEAD COUNCILLOR:	COUNCILLORS LOVELOCK/ PAGE	PORTFOLIO:	FINANCE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	PETER LEWIS	TEL:	01189372058 (x72058)
JOB TITLE:	DIRECTOR OF FINANCE	E-MAIL:	peter.lewis@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report provides a further progress report on the implementation of actions in response to the letter issued by EY. The Council's external auditor and reported at February Council.

2. RECOMMENDED ACTION

- 2.1 A&G Committee is asked to note progress to date in implementing the S24 recommendations made by the External Auditor in February 2017.

3. BACKGROUND & PROCESS

- 3.1 On 2 February the Council received a letter from Ernst & Young LLP in its capacity as appointed auditor making recommendations under Section 24 of the Local Audit and Accountability Act 2014. The law requires such letters to be considered at a Council meeting and the letter was considered as part of the budget report (as it largely related to corporate finance level issues), and Council considered and endorsed an officer response.
- 3.2 In responding to EY, we said "The progress of this change programme will be reported to Policy Committee and Audit and Governance, so that progress can be monitored effectively, including oversight by the External Auditor". We have yet to report to Policy Committee explicitly on progress though some reports to that Committee (on the Medium Term Financial Strategy for example) have contributed to the implementation as indicated below.
- 3.3 The table below sets out the recommendation, the current response and details of the current position.

Recommended Action	Original Management Response	Current Position end of March 2017
<p>1. Funding for the 2016/17 £7.6m overspend must be identified as a matter of urgency.</p> <p>2. The unfunded savings required to balance the 2017/18 budget (£1.6m) must be identified before the budget is approved on 21 February 2017.</p> <p>3. The £10.4m identified savings in the Council's report 'Budget Proposals 2017-2020 narrow the budget gap' must in all cases be supported by detailed plans showing exactly how they will be achieved.</p>	Agreed	<p>Recommendations met at Budget Council in February 2017 which set out in detail revised estimates of the 2016/17 "probable" position, and the 2017/18 budget and the proposals for funding both years. Draft 2016/17 accounts have been produced which used £12.6m reserves and £1.5m capital receipts (indirectly). An updated MTFS is to be presented to Policy Committee (17 July) with a reduced (from £11m) call on reserves or other one off measures of £4.5m in 2017/18. Detailed plans are in place for 2017/18 savings and for monitoring them, so these three actions have now been completed.</p>
<p>4. The remaining savings required for the years 2018/19 (£3m) and 2019/20 (£3.3m) must be identified as part of the February budget review in relation to the medium term financial position and savings plan.</p>	Agreed	<p>The budget report in February identified that the estimated savings in 2018/19 were then £13.7m and £5m in 2019/20. Following the Administration member and officer workshops, reported in April, an updated MTFS will be presented to Policy Committee on 17 July. Work is to be on-going to develop further robust & deliverable budget proposals principally for the 2019/20 year where a £5.3m budget gap remains. The commitment to bring forward deliverable proposals by quarter 2 has been met, though the work over three years is on-going.</p>
<p>5. Savings included in the 2017/18 budget must be fully supported by detailed savings plans that are profiled across the financial year. One off, non-recurrent, solutions should be avoided.</p>	<p>Partly agreed: It is agreed that further work will be undertaken to review these processes and improvement made wherever necessary to the supporting plans to the 2017/18 budget by 31/3/17, but the process to ensure detailed savings plans will be put in place for the development of ongoing budget proposals.</p>	<p>As reported to Council, the then Interim Director of Finance completed a resilience review as part of concluding the budget which led to a £7.7m savings contingency (£2.3m of which is not specifically allocated) funded by reserves. As part of the work above, the 2017/18 budget has been reviewed, and through the tightening of assumptions, updating for the 2016/17 outturn, the budget gap being funded by reserves has been reduced from £11.1m to £4.5m, and more robust monitoring put in place. The</p>

		focus is now on the delivery of the revised budget, including correcting adverse budget variances identified in monitoring, and actions arising directly from the recommendation are now complete.
6. Robust budget monitoring arrangements need to be put in place to ensure that any adverse variance is identified in sufficient time to allow remedial action to be taken.	Agreed: As identified in the Budget Report Appendix 4, the need for strengthening monitoring arrangements has been identified. An improved process will be established by 31/3/17 to ensure enhanced and robust monitoring is in place for the full year 2017/18 and beyond. This revised process will include ownership by the Corporate Management Team and further Member governance. Some initial improvements are due to be presented to CMT before the end of February.	As reported last time, for the most significant savings proposals, the CMT is meeting as the Corporate Programme Delivery Group, each fortnight, to review progress against delivery of the savings programme and deal with challenges accordingly. In addition, each Head of Service is required to prepare (with assistance from their service accountant) a monthly monitoring report. The detailed report is considered by Directorate Management Teams for each Directorate and the Corporate Management Team via budget reports. Lead Councillors are being regularly briefed on the budget position in their area. In accordance with the timetable monitoring information is then presented to Policy Committee three times a year and to Audit & Governance Committee. The use of a reporting template at Officer level has been enforced more strongly since February, with the intention of improving monitoring in all service areas.
7. Regular reports on savings achieved against profile should be produced to enable trends to be identified.	Agreed in principle: When budget savings are agreed at Council / Policy Committee, they are incorporated in budgets (as well as savings to be delivered being captured in the processes outlined above). We will strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.	As reported in April there is now a process in place (described above) to monitor the delivery of savings. In summary the output is included in the budget monitoring report. We need to ensure that these arrangements continue to be delivered throughout the financial year.
8. Regular reports on savings achieved against profile should be produced to enable trends to be identified.	Agreed in principle: When budget savings are agreed at Council/Policy Committee, they are incorporated in budgets (as well as savings to be delivered being	Covered by 7 above

	captured in the processes outlined above). We will strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.	
9. The Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed.	Agreed	An initial central list of reconciliations has now been created and some monitoring has begun. We continue to make progress and . expect this process to be fully in place by the September A&G meeting.
10. The bank account reconciliation should be brought up to date and completed on a monthly basis with brought forward unreconciled items cleared.	Agreed	Significant progress has been made on this reconciliation for 2016/17. This work has identified the need for a significantly revised process for 2017/18, on which work has recently begun.
11. Children's Services - It is vital for the successful completion of the red rated actions in the improvement plan that the Council's financial position becomes sustainable and that the Council decides on and delivers the appropriate level of resources to be allocated to this service in February 2017. The Council must ensure there are processes in place to monitor the resource allocated to the service and the achievement of the service improvements required.	There has been a considerable amount of work undertaken between Finance and Children's Services, to establish the appropriate level of budget for 2017/18. Significant additional monies to address the known budget pressures and to provide contingency against budget proposals previously agreed by Policy Committee which are now considered to be at high risk of delivery in 2017/18, have been fully provided for within the budget setting process. This means the 2017/18 baseline is higher than the actual spend in 2016/17, as this is currently deemed to be the necessary level of resource required to ensure Children's Services can meet the necessary improvement plan, and is recognised to be significantly higher than our statistical neighbours. It is expected that Children's Services will need to redesign services to ensure maximum efficiency, with which corporate support will assist and therefore we would expect the required resources from 2018/19 to reduce so we become more	<p>The Children's Services Action Plan is reported through to ACE Committee, where it is robustly monitored, hence it is not replicated here .</p> <p>Finance support to Children's Services has been strengthened.</p>

	aligned to statistical neighbours. However further work is required to achieve this through the Change Programme which is due to launch in March 2017.	
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- 3.4 In summary, the actions in response the first five recommendations are complete, the “process design” work on the sixth to eight is complete, but to be fully delivered the process needs to occur throughout the year, and the last three recommendations are “work in progress”.

4 Contribution to Strategic Aims

- 4.1 Progressing the recommendations will principally support the financial sustainability strategic aim as well as addressing the qualified value for money opinion that was issued by EY on 2016 for 2015/16.

5 Community Engagement and Information and Legal Implications

- 5.1 None directly from this report.

6 Financial Implications

- 6.1 As indicated above.

7 Background Papers

- 7.1 S24 letter & response (in February Council Report)
7.2 MTFS & Budget Monitoring Reports to July Policy Committee

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

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 JULY 2017	AGENDA ITEM:	12
TITLE:	ACCOUNTS 2016/17 & EXTERNAL AUDITOR UPDATE		
LEAD COUNCILLOR:	CLLR STEVENS	AREA COVERED:	CHAIR OF AUDIT & GOVERNANCE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
AUTHOR:	ALAN CROSS	TEL:	2058 / 9372058
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

1. PURPOSE AND SUMMARY OF REPORT

- 1.1 The Council is required in accordance with the Accounts & Audit Regulations, to publish its draft accounts by 30 June, and the External Auditors, EY, have just started their review of the accounts. They are due to report their conclusions on the accounts and their value for money opinion to the Committee at the end of September. This report advises the committee of the publication of the accounts.
- 1.2 EY, have also provided a progress report for the committee, and this report introduces their report, and comments where necessary on the content.

2. RECOMMENDATION

- 2.1 Audit & Governance Committee are requested to note the publication of the 2016/17 Draft Accounts.
- 2.2 Audit & Governance Committee are requested to consider EY's progress report.

3. BACKGROUND & PROCESS

3.1 Financial Accounts

Following the end of the financial year, the Council's Finance Team have prepared draft financial accounts for 2016/17.

3.2 , Whilst as at 30 June 2017 the key statements (Income & Expenditure and Balance Sheet) were complete, some others (notably the cashflow statement) and some notes to the accounts were not completed as was intended, partly due to a simultaneous focus on the development of the Council's Medium Term Financial Strategy. Those gaps were addressed during the first week of July, and the final draft accounts that the auditor will audit has been published at <http://www.reading.gov.uk/statementofaccounts>.

3.3 The financial position at the year end is set out separately on this agenda in an updated version of the report that was presented to the Policy Committee on 12 June 2017.

3.4 EY Progress Report

EY's progress report is attached. The report explains that EY have met regularly with both the Interim Director of Finance and key finance staff, and much of their interim work has been completed.

3.5 However, as indicated in the report the EY work has identified some issues.

(a) Bank reconciliation - the Committee will be aware that the Council has had issues with its overall bank reconciliation process for some time. Whilst officers believe sufficient work has been done to establish that these issue are not linked to any loss of Council funds, it has not been possible to produce a fully balanced reconciliation. Considerable work has been undertaken to review processes, and a revised and more robust process is being put in place. The work to date has identified that the way some of the Council's systems work makes audit trails quite difficult to follow.. A revised, simpler, easier to follow process needs to be put in place and our focus is now on that .

(b) Control Account Reconciliations - the Council's discipline over control account reconciliations has been lacking. Much work has been undertaken to produce a schedule of reconciliations for monitoring and many are up to date. More work is now needed to complete all of the reconciliations and put in place arrangements to do the necessary monitoring.

(c) Journal Control - both Internal & External Audit have commented on the control over journals. Most journals are completed by staff within the Finance function, though some staff across the rest of the Council have some access to the journal system. Journals move money around the accounts, and during the closing of accounts a very large number of journals are carried out (some impacting both the year being closed and the following financial year). Following an Internal Audit report a process was agreed for the review of journals, focused on a high level verification (by the Head of Finance) of which staff were doing higher value journals, and a more detailed review of a sample

of journals by another team member. A key issue that arose during the year was that the report to facilitate the intended review was not produced. It has, however, recently been produced and reviewed. No issues that would materially impact the accounts have been identified; i.e. all journals with an aggregate value in excess of £50k appear to have been completed by an appropriate officer and the basic rationale for the journal appears reasonable. More detailed sampling checks are not yet complete. Looking ahead we also intend to do some work to consider alternative ways of improving control on a routine basis

- 3.6 It is recognised that, inasmuch as the above issues were present throughout 2016/17, EY have indicated that they will impact their testing processes and audit work.

4 CONTRIBUTION TO STRATEGIC AIMS

The preparation of the statement of accounts each year, shows the financial position of the Council, and is therefore closely linked to the strategic aim of financial stability.

5. FINANCIAL IMPLICATIONS

- 5.1 There is likely to be an additional audit fee reflecting the extra testing required by EY. In addition, some of the issues within the report will need to be addressed by taking on additional support to fix them.

6. LEGAL IMPLICATIONS

- 6.1 The process being followed is broadly in line with the Accounts & Audit Regulations, though for reasons indicated some work has been running slightly later than expected and required.

7. COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

- 7.1 None directly from the report.

8. BACKGROUND PAPERS

- 8.1 None.

Reading Borough Council

Audit and Governance Committee Progress Report

July 2017



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

18 July 2017

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 2016/17 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

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

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

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

This 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.

2016/17 Audit

Audit Plan

We presented our 2016/17 audit plan to the Audit and Governance Committee in January 2017. 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 controls 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.

We meet fortnightly with the Interim Director of Finance and his team. These meetings have proved beneficial and have kept us informed of the financial position of the Council and progress on the issues and recommendations in our 2015/16 Audit Results Report.

We are in the process of completing our interim work and are reporting our queries and findings on a tracker to Officers on a weekly basis. This enables both Officers and auditors to track progress on issues and queries.

Our interim work has identified a number of control deficiencies:

- Work has been underway on the 2016/17 bank reconciliation but we have not yet been given a version to review. We understand that there remain some reconciling items to resolve. We are due to receive and start of our review on 22 June 2017. We would expect the bank reconciliation to be completed and reviewed on a monthly basis;
- A number of the 2016/17 control accounts are still being worked on. We found that communication between council departments has allowed differences to remain and not being resolved on a timely basis. We would expect control accounts to be completed and reviewed on a monthly basis; and
- During 2016/17 there were no effective controls in place over the value, preparation and processing of journals. Journals are used to move financial information around the ledger and if they are not properly managed errors can arise. The impact of this is that we have no assurance over the accuracy and appropriateness of journals.

These deficiencies have been discussed with the Interim Director of Finance and his team.

We have also experienced delays in obtaining information from certain departments in the Council and this has delayed our work. This has been a particular issue for our payroll work.

The control deficiencies identified will have an impact on our work as we will not be able to rely on controls and will need to take a substantive approach. The nature of the deficiencies and the reduced level of materiality, reported in our Audit Plan, will require higher volumes of testing. We are preparing our testing plans and will discuss these with the Interim Director of Finance and additional work resulting from this and any fee impact. The delays in obtaining information and chasing up information requests also require additional work and will result in a fee impact.

We agreed a number of months ago that it would be efficient for the audit if we could have read only access to the Council's financial ledger system. Whilst this was readily agreed with the Finance Team we require some training to enable us to navigate around the system efficiently. There have been delays in us receiving this training and it was

delivered on 12 June 2017. The knowledge and read only access to the financial ledger system we now have should improve the effectiveness of the audit.

We have also been discussing with Internal Audit the fraud in Adult Social Care that was reported to the Audit & Governance Committee in April 2017, to help us understand the potential impact of the fraud on this item of account. We will discuss with the Interim Director of Finance if there is any impact on our testing strategy.

Our understanding of the IT environment is important in determining our overall audit strategy which is important in performing effective and efficient audits. Based on our work to date we haven't identified any risk factors that may give rise to risks of material statements in the financial statements. We followed up on our prior year findings related to the Academy system which were reported as part of our prior year IT management letter and have determined that most of the findings have been addressed.

As previously reported we issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 on 2 February 2017. We are monitoring the action that the Council is taking in response to our recommendations

We have started our Housing Benefit (HB) work and the initial workbooks have been prepared by the Council and we are now reviewing them. For items that we have discussed and agreed with the HB Team that require additional testing we have provided the workbooks for completion. We will report progress on the claim as part of our regular meetings with Officers.

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 2016/17 Audit and Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	April 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	January 2017	Completed
Testing of routine processes and controls	Feb – April 2017	Progress Report	April 2017	Completed
Update review of progress	May – July 2017	Progress Report	July 17	Completed
Year-end audit	July - September 2017	<p>Audit results report to those charged with governance.</p> <p>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).</p> <p>Whole of Government Accounts Submission to NAO based on their group audit instructions.</p> <p>Audit Completion certificate.</p>	September 2017	<p>Not yet due</p> <p>Work is planned to start the week commencing 17 July and aim to complete our audit work by 18 August 2017.</p>
Reporting	October 2017	Annual Audit letter	October 2017	Not yet due
Housing benefit	June - October 2017	Certification of claim	November 2017	Not yet due
Grant claims report	December 2017	Grant claims report	December 2017	Not yet due

EY | Assurance | Tax | Transactions | Advisory

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