Peter Sloman
Chief Executive

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Reading RG1 2LU
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To: Councillors Stevens (Chairman),
Duveen, Lovelock, McElligott, McKenna,
Page, Rodda, Steele and Terry

Our Ref:
Your Ref:

Direct: ☎ 0118 937 2153
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17 January 2018

Your contact is: Michael Popham - Committee Services

NOTICE OF MEETING – AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2018

A meeting of the Audit & Governance Committee will be held on Thursday 25 January 2018 at **6.30pm** in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

AGENDA

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

WEBCASTING NOTICE

Please note that this meeting may be filmed for live or subsequent broadcast via the Council's website. At the start of the meeting the Chair will confirm if all or part of the meeting is being filmed. You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during a webcast will be retained in accordance with the Council's published policy.

Members of the public seated in the public gallery will not ordinarily be filmed by the automated camera system. However, please be aware that by moving forward of the pillar, or in the unlikely event of a technical malfunction or other unforeseen circumstances, your image may be captured. **Therefore, by entering the meeting room, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes**.

Members of the public who participate in the meeting will be filmed, unless they have given prior notice that they do not consent to this.

Please speak to a member of staff if you have any queries or concerns.

AUDIT AND GOVERNANCE COMMITTEE MINUTES – 21 NOVEMBER 2017

Present:	Councillors Stevens (Chairman), Duveen, Lovelock, McElligott, McKenna, Page, Steele & Terry.
Apologies:	Councillor Rodda.

Also in attendance:

Alan Cross	Head of Finance
Maria Grindley	Director and Engagement Lead, EY LLP
Paul Harrington	Chief Auditor
Peter Lewis	Strategic Finance Director
Kevin Parker	Principal Auditor
Peter Sloman	Chief Executive

18. MINUTES

The Minutes of the meeting of 28 September 2017 were confirmed as a correct record and signed by the Chairman.

19. ANNUAL GOVERNANCE STATEMENT 2016/2017 – UPDATED ACTION PLAN

Further to Minute 17 of the meeting held on 28 September 2017, the Strategic Finance Director submitted a report on the 2016/17 Annual Governance Statement (AGS), which had attached the updated action plan. The Council was required to prepare and publish an AGS each year as an accompaniment to the authority's financial statements. 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 updated the Committee on the further progress being made against the action plan, the details were appended. Overall, 10 headline actions had been identified, all of which had been or were in the process of being implemented. Discussions were underway with the Chief Auditor to identify how he could, in future, offer assurance to the Committee about progress being made and when it would be appropriate to sign off the actions as being completed.

Resolved: That the updated action plan associated with the annual governance statement for 2016/17 be noted.

20. ACCOUNTS 2016/17

Further to Minute 12 of the meeting held on 28 September 2017, Peter Lewis, Strategic Finance Director, submitted a report on why it had not been possible to sign off the accounts as a true and fair view of the Council's finances at that time and the action being taken to remedy the situation. Since the previous meeting, significant effort had been committed to addressing the deficiencies in the accounts and the report summarised the actions taken to date and those planned. In undertaking these actions, attention was also being paid to preparations for the completion of the 2017/18 accounts, which must be undertaken by 31 May 2018 with the audit completed by 31 July 2018.

While there remained strong commitment within the Finance Team to delivering improved accounts for audit, it was recognised that to move from the current situation to unqualified accounts within this accounting year would be challenging. The report stated that action had been undertaken to bolster significantly the resources dedicated to the task of improving the accounts. Other actions had also been initiated to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. The table in the report briefly set out the actions underway or planned at the current time.

Resolved: That the actions underway or planned to rectify the deficiencies in the 2016/17 accounts and ensure that they were not repeated in 2017/18, as described in the table below paragraph 3.3 of the report, be endorsed.

21. TREASURY MANAGEMENT 2017/18 ACTIVITY TO SEPTEMBER

Alan Cross, Head of Finance, submitted a report setting out information about the Council's treasury activities to the end of September 2017. The report explained the action being taken under the Treasury Management Strategy to minimise net borrowing costs; to ensure money was available and securely invested whilst being flexible to respond to changes in interest rates; and how treasury risk was managed overall.

The report explained that local authorities were currently treated by regulated financial services firms as professional clients who could "opt down" to be treated as retail clients instead. However, from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities would be treated as retail clients who could "opt up" to be professional clients, subject to meeting certain criteria. The Council normally met all the conditions to "opt up" to professional status and intended to do so in order to maintain the current MiFID status.

Resolved:

(1) That progress in implementing the 2016/17 treasury strategy be noted;

(2) That the intention to "opt up" to continue to be treated as a Professional Client in Markets in Financial Instruments Directive II, as described in paragraphs 4.1 to 4.3 of the report, be endorsed.

22. EXCLUSION OF THE PRESS AND PUBLIC

Resolved -

That pursuant to Section 100A of the Local Government Act 1972 (as amended) members of the press and public be excluded during consideration of the following item, as it was likely that there would be disclosure of exempt information as defined in paragraphs 1-5 of Part 1 of Schedule 12A (as amended) to that Act.

23. EQUAL PAY UPDATE

Peter Sloman, Chief Executive, and Peter Lewis, Strategic Finance Director, presented a report on the management of the equal pay claims and gave an update on the current position on discussion, settlement of cases and future litigation. It was recommended that the Council should appoint a legal firm, independent of the existing advisers, to provide an evaluation of the current position and offer advice on future action to resolve the outstanding equal pay claims.

Resolved:

(1) That the progress on the management of the equal pay claims and the programme of litigation be noted;

(2) That the appointment of an independent legal firm to provide an evaluation of the current position and offer advice on future action to resolve the outstanding equal pay claims be noted.

(Councillor Terry declared an interest in this item. Nature of interest: Councillor Terry's partner, Councillor Jones, was employed by Unison).

(Exempt information as defined in Paragraphs 1, 2, 3, 4 and 5).

(The meeting commenced at 6.30pm and closed at 7.12pm).

READING BOROUGH COUNCIL

INTERIM STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 January 2018**	**AGENDA ITEM:**	**4**
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 September 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

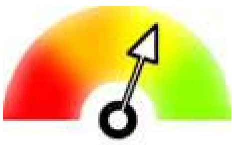
3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms 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.

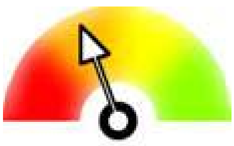
Reasonable



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** expose until resolved.

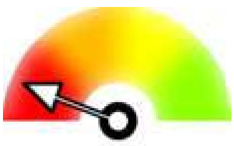
Limited



AMBER

Limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

No assurance



RED

There is **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

3.2 Grading of recommendations

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

Priority	Current Risk
High	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or 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 Public Health Grant

1	1	1

4.1.1 Although procedures for the administration of the Public Health Grant Fund are much improved there are areas that require addressing to provide greater clarity of funding allocations.

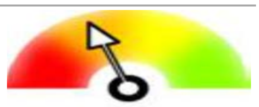
4.1.2 A number of projects were found to be in areas that had been classified as being ‘miscellaneous expenditure’ (£879k). Alongside this, the recharge of central establishment costs (£318k) did not show any detail as to their calculation (total PH budget £10m). This has resulted in monies being assigned internally to RBC cost centres to support activity that although is broadly in line with public health guidelines, are not necessarily in line with specific programme designations. In the main, expenditure for these projects have not been reviewed and signed off by the current public health management.

4.1.3 There is nothing to suggest that monies have been spent inappropriately or that with a relatively small change these projects cannot be brought back within a proper governance framework with a relatively small expenditure of effort or the calculation of costs that are recharged under the grant are made clearer.

4.1.4 The audit also noted that there were a relatively high number of journal transfers to move monies around codes and a relatively late application of funds for some projects which would suggest that there were issues around the budget build process.

4.2 Bank Reconciliations

2	3	1



4.2.1 The overarching objective of this audit was to follow up progress made on implementing audit recommendations, following the last review in January 2017. We hoped to see up-to-date bank reconciliations in place, with historic balances cleared and improved corporate oversight of all other control account reconciliations.

4.2.2 At the time of this audit, a revised Bank Reconciliation Process had been designed, but not implemented, as these changes required updates to the Council’s cash system to progress. As RBC predominantly initiates payments through the Oracle Fusion Payments module or Payroll, there should be control at transaction level going forward. The new bank reconciliation process will essentially bring these together, and allow for the “timing differences” to reconcile the Oracle Fusion bank position with the actual bank account. However, no monthly bank reconciliations had taken place for the financial year 2017/18.

4.2.3 In the meantime daily checks are now being undertaken to check that all receipts in the bank account are processed by the Civica (cash) system, so it is known that cash has been allocated.

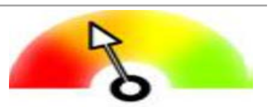
4.2.4 With regard to historic reconciliations, there has been some progress in clearing known unreconciled items so that the historic unreconciled balance is reduced and eventually removed.

4.2.5 Progress at individual system level has been minimal as the Corporate approach to reconciliations has not been agreed, including documenting procedures and reconciliation standards/conventions. The current format of reconciliations is sometimes unclear and unprotected with manual processes being necessary to physically input data from the systems being reconciled into excel spreadsheets. Services have now been instructed to send reconciliations to the Finance Service each month from September 2017 onwards within 1 month of the month end.

4.3	Business Rates	0	0	4

4.3.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and reconciled monthly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with collection and recovery performance monitored.

4.4	Direct Payments	3	4	2



4.4.1 An important part of the control framework is the quarterly and annual review process(es) where the Direct Payment client (or representative) accounts for expenditure paid out. Audit sample testing of key control documents found that there were a number of gaps and inconsistencies between records. It was found that the quarterly monitoring and annual audit checks by staff of Direct Payment accounts are not being done on time and there are backlogs with both. The consequence of backlogs is that mistakes, errors or potential instances of fraud might not be identified and investigated in a timely way.

4.4.2 In common with most local authorities RBC requires separate bank accounts to be set up and used and for a prescribed pattern of central checking to be carried out. However to improve control, we’ve recommended that the Direct Payment client (or representative) is instructed to submit evidence of expenditure (invoices, receipts etc) on a quarterly basis for scrutiny, in addition to the regular monitoring return and copy bank statement that are required by RBC currently.

4.4.3 One of the ways to allocate, manage and monitor Direct Payments is through the use of pre-paid cards. There are advantages in the use of pre-paid cards and central and local government are keen for their widespread use as it is perceived to offer increased choice and responsibility for the client, as well as reducing the administrative burden on the local authority. It was disappointing to find therefore that the take up of pre-paid cards is low (less than 20%). It was also noteworthy that some other local authorities do not offer any choice to clients before switching them across to use pre-paid cards, whereas RBC clients are allowed to choose and to change systems. Clearly further efforts need to be made to improve this and it was a recommendation that this option is investigated further as it could potentially have important advantages for the Council.

4.4.4 The service has responded positively to the report and recommendations. In particular management has committed to review the strategy for Direct Payments, especially the extension of the use of pre-paid cards.

4.5 Adults Safeguarding	0	5	1	

4.5.1 At the request of the service we were asked to undertake a quality assurance check on supervision procedures and supporting records to verify the consistency and quality of social worker supervision. This covered both personal supervision and case reviews[1].

4.5.2 An analysis of staff satisfaction[2] with the (personal) supervision framework, using a number of predefined questions revealed the average satisfaction rate to be 89.6%. In practice, staff satisfaction rates across all areas of the supervision process vary quite substantially, between 57% and 98% satisfied. However generally, most staff consider the process a useful experience, although there are elements that could be improved to increase compliance and consistency or could be adapted to suit a professional caseload focussed role such as social workers and case co-ordinators.

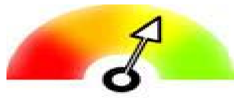
4.5.3 Based on our analysis the personal supervision process is generally working well, although consideration should be given to reinforcing value and importance of the supervision process.

4.5.4 There was evidence seen on supervision notes and Mosaic files that consideration is given to the Mental Health Capacity Act, risk assessments and joint working arrangements. We did however recommend that supervision is linked to social care standards, the frequency should be dependent on development status and there should be mandatory requirements i.e. standards of records, Mosaic inclusion and inspection of records.

[1] The audit tested evidence of case management supervision covering Mental Capacity, risk assessment, joint working arrangements and financial outcomes. It did not evaluate the quality or appropriateness of outcomes of the supervision.

[2] A questionnaire was made available to all adult social care staff (272), of which 58 (21%) responded.

4.6 Payroll

0	2	2	

4.6.1 The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, and that payments made are accurate. In general, this was found to be the case, with effective controls in place to ensure that the pay run is accurate and payments and deductions are accurately applied to employee records. Suspense accounts were cleared in respect of payroll entries in a timely fashion.

4.6.2 The key part of the payroll process continues to be timely notification by the recruiting manager/budget holder of changes effecting pay and/or the establishment and staff submitting claims in a timely and legible fashion. This has led to overpayments in the current calendar year (January 17 to December 17) totalling £67k (including schools) or £41k (excluding schools).

4.6.3 This figure is for overpayments that couldn't be reclaimed automatically from an employee's next available pay such as leavers or negative net pay. The figure is net e.g. after refunding tax, national insurance and pension. In addition there are costs associated with the administration time and recovery of the debt.

4.6.4 Whilst, the values appear relatively low in context of the council's overall payroll budget (£71.7m), we are of the opinion that greater accountability needs to be placed with the budget holder to notify payroll of the leaver. Payroll will automatically reclaim money if they are able to do so, but when an employee leaves or does not have enough salary to reclaim the amount payroll will have to raise a debtor's account. We have recommended that the debt sits with the budget holder and not corporately, as currently there is little accountability for managers who fail to submit change/leaver forms and it is left to Payroll to raise a debtor's account and communicate with the individual.

4.7 N3 Accreditation

4.7.1 N3 was the NHS National Network and accreditation will allow RBC to access NHS records for the purposes of delivering better social care. In order for access to be granted, RBC must have a number of policies and procedures in place and these must be evidenced before the technical work to link our network to the NHS can go ahead. These policies cover a number of areas including:

- Information Governance Management
- Confidentiality and Data Protection Assurance
- Information Security Assurance
- Care Record Assurance

4.7.2 In total there are 28 compliance conditions complete with evidential requirements that need to be formally evidenced and signed off by internal audit. We have worked with the officers concerned to ensure that the conditions are achieved or are likely to be met due to measurable actions being taken moving forward. Each compliance condition required evidence to be attached to a master document before submission for accreditation.

4.7.3 On the 17th November 2017 we were informed that we had passed and were accredited which meant that the next phase of technical work to join networks could go ahead.

4.7.4 It is worth noting that N3 has recently been replaced the by HSCN (Health & Social Care Network).

4.8 Journals

4.10.1 We have been working with Finance to quality assure the evidence to support journal transactions for the 2016/17 financial year. This has involved sampling hundreds of journal transactions and evaluating the standard of the supporting evidence. We have also worked with the Oracle Fusion Team and Technical Accountant to review processes within Fusion which allow evidence and working papers to be uploaded directly to Fusion and authorisation process to be built into workflows.

4.7 School Audits

4.7.1 We have completed three school reviews this quarter as follows:

Emmer Green Primary School	0	1	1	
Geoffrey Field Junior School	0	0	6	
Oxford Road Community School	0	5	5	

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	Sep-17	Sep 17
Child Exploitation & Missing Children	Q1	Apr-17	Jun 17	Sep 17
Financial Assessments for Adult Care	Q1	Apr-17	Dec 17	
Public Health Grant	Q1	May 17	Sep 17	Sep 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	Jul 17	Aug-17	Dec 17
Direct Payments/Personal Budgets**	Q1	Jun-17	Sep 17	Dec 17
Information Governance (follow up)	Q2	Dec 17		
Payroll	Q2	Sep 17	Dec 17	Jan 18
Local Transport Plan Capital Settlement (Grant Certification)	Q2	Jul 17	Jul 17	Jul 17
Bank & Cash Rec	Q2	Sep 17	Oct 17	Dec 17
MASH (Multi-Agency Safeguarding Hub)	Q2	Cancelled - focus on improvement plan		
Pothole action fund	Q2	Jun-17	Jul 17	Jul 17
NHS CHC	Q2	To be rescheduled for 18/19		
EDRM (follow up)	Q2	Dec 17		
Deputyship and Appointeeship	Q2	Oct-17		
Children's Services Improvement Plan	Q2	Jan 18		
Emmer Green Primary School	Q2	Nov 17	Nov 17	Dec 17
Council Wide Savings	Q2	Jul 17	Sep 17	Sep 17
Bus Subsidy Grant	Q2	Jun 17	Jul 17	Jul 17
Business Rates	Q2	Sep 17	Oct 17	Nov 17

* Currently delayed until Q4

** 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	To be rescheduled for 18/19		
St Michaels Primary School	Q3	To be rescheduled for 18/19		
Commercial property acquisitions and management	Q3	Dec 17		
Blagdon Nursery School	Q3	To be rescheduled for 18/19		
Homes for Reading	Q3	Oct 17	Nov 17	Dec 17
Whitley Park Primary School	Q3	Nov-17		
The Hill Primary School	Q3	To be rescheduled for 18/19		
Corporate Governance Overview	Q3	Dec 17		
General Ledger	Q3			
Geoffrey Field Junior School	Q3	Nov 17		
Oxford Road Community School	Q3	Oct 17	Nov 17	Nov 17
Arts & Theatres income collection	Q3	Dec 17		
Sundry Debtors	Q3	Oct 17		
Foster care (inc follow up)	Q4	Jul 17	Dec 17	
Creditors (Accounts Payable)	Q4	Jan 17		
Network Infastructure Security	Q4	Dec 17		
Right to Buy (follow up)	Q4			
Troubled Families Grant Sign Off	Q4	Sep 17	Dec 17	Jan 17
Subject Access Requests (follow up)	Q4	Feb 18		

6 INVESTIGATIONS (April 2017 – September 2017)

6.1 Benefit Investigations

6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case for a (now) former employee was referred back to investigations team by the DWP. The total overpaid benefit for this case was **£12,000.** The defendant was found guilty of two fraud Act charges and received a suspended sentence and was also ordered to complete 200 hours of unpaid work within 12 months.

6.2 Council Tax Support (CTS)

6.2.1 Due mainly to resources and other priorities, over the past 6 months we have not undertaken any new work on Council Tax Support. However, we are engaged with the service on a project to data match Person Discounts (SPD) data sets with credit agencies. It is hoped that this work will start in the new financial year.

6.2.2 We have sanctioned two cases for offences, including one prosecution. The total savings for CTS is £5,000 and admin penalties (fines) of **£1,761.**

6.3 Housing tenancy investigations

6.3.1 Since 1 April 2017 Investigation officers have investigated 49 referrals of alleged housing tenancy fraud, and have assisted in the return to stock of 13 Council properties.

6.3.2 It is difficult to quantify the financial implications of these types of investigations, however the RBC agreed figure of £15,000 is considered to be the average cost for retaining a family in temporary accommodation. Using this figure (13 x £15,000), to date notional savings of **£195,000** have been made as a result of tenancy investigations.

6.4 Right to buy (RTB)

6.4.1 Between April and December 2017 we have been working with the Council's RTB team on applications made with the purpose of preventing money laundering and/or selling Council properties to someone who is not entitled.

6.4.2 The RTB discount can be as high as £78,800 and in addition, once a property is sold rental income is lost.

6.4.3 Since April 2017 the investigations team have undertaken enhanced checks of 29 RTB applications and following these checks one application was cancelled.

6.4.4 The notional savings have been calculated as **£85,600** - £78,800 (full RTB discount) plus a 12 month rental income of £6,812 for this property.

6.5 Housing (other)

6.5.1 The investigations team has been assisting housing officers in the succession and accession process, with the aim of preventing fraud from entering onto the system by actively working with housing staff to run a set of basic verification checks prior to agreement. This includes identification checks as part of the overall verification of identity documents.

6.6 Blue Badge Investigations

6.6.1 We have received a total of 32 case referrals which has resulted in 20 of these been further investigated. As a result of this work 17 parking notices have been issued for minor Blue badge offences. A total of 4 Blue Badges have been seized and removed from circulation. There have been 2 prosecutions for Blue Badge frauds the notional cost we have calculated for Blue Badge fraud with the RBC area is £2,200 (per badge) per annum .Using this figure the notional savings achieved since April 2017 to December 2017 is £13,200.

6.4 Social Care Fraud & Investigations

6.4.1 We currently have two cases with our Criminal Lawyers pending fraud charges. One case with respect to direct payments[3], whereby it appears monies paid by RBC have not been used in accordance with the care plan. Following months of complex investigation we have gathered evidence which indicates that over **£60,000** has been misappropriated and not been used for purposes for which the monies were intended.

6.4.2 The second case involved allegations that care workers employed by a care agency, which provides domiciliary care and support to service users, had been falsifying time sheets, and subsequently claimed for work which was not undertaken.

6.4.3 Following investigation two employees of the agency were arrested for suspected offences under the Fraud Act 2006. It was then found that both individuals had obtained employment using false identification, to allow them to work in the UK. The overcharge amounted to just under **£2,000**.

6.5 Internal Investigations

6.5.1 For the period April 2017 to December 2017, we have been involved in two internal investigations, both of which have been passed to the Council's criminal solicitor to consider charges.

7. CONTRIBUTION TO STRATEGIC AIMS

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

8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 N/A

[3] **Direct payments** are payments for people who have been assessed as needing help from social services, and who would like to arrange and pay for their own care and support services instead of receiving them directly from the Local Authority.

9. LEGAL IMPLICATIONS

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

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

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

8.1 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

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 January 2018**	**AGENDA ITEM:**	**5**
TITLE:	**Corporate (Strategic) Risk Register**		
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 covers the update of the Strategic Risk Register, in the proposed new format which is still at an embryonic stage and includes additional information on unmitigated risk and risk appetite scores.

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 July 2017.

1.3 The following documents are appended:

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

2. RECOMMENDED ACTION

2.1 Consider the Council's strategic risks as at of Dec 17 (end of Q3).

2.2 To provide feedback on the new format and completeness of risks and scores in the re-formatted Strategic Risk Register including risk appetite.

3. KEY ISSUES

3.1 Risk management is a key part of corporate governance. Good risk management will help identify and deal with key Strategic 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.

3.2 The Strategic Risk Register has been developed to provide a concise, focused and high level overview of Strategic risks that can be easily communicated to all staff, councilors and stakeholders (e.g. Council's Insurers). It should, however, always be supplemented by the more detailed directorate/service/project risk registers.

3.3 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 Strategic 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.

3.4 The format of the Risk Register had not been updated for some time. Advice from an external risk management consultant concluded that our arrangements were fit for purpose, but could be improved by identifying risk appetite. This is consistent with the Institute of Risk Management which advises that risk appetite should be identified for each risk. ***Risk appetite is the amount of risk that an organisation is willing to seek or accepts in order to meet its long term objectives.***

3.5 Whilst mindful of the need to ensure risk management arrangements are proportionate, it is now appropriate to enhance the Register to better inform those responsible for managing the risks. The environment in which the Council operates has changed considerably in recent times and the organisation now faces significant financial pressures. The Council's transformation programme encompasses the response to risk moving forward. Risk mitigation will be limited by how much we have to spend. Members' and officers' appetite for the level of risk the Council is prepared to accept will by necessity have to increase accordingly. Under this new approach it is important that we determine risk appetite.

3.6 In response to this the Register has been re-formatted to include unmitigated and risk appetite scores and track scoring over time. The revised format was reviewed and approved by the Corporate Management Team.

3.7 Given the revised format identifies risk appetite for each individual risk, the previous colour coding of red, amber and green based on a single assessment of risk tolerance would be confusing and hence the analysis of red, amber and green will now be based on the extent of the gap between the current residual risk and the risk appetite.

3.8 In order to focus senior management and Member attention on areas of greatest risk, the Register should include only the key current risks that have not been mitigated down to the risk appetite level. Hence it is proposed that where risks have been rated as green for 2 or more consecutive quarters they should be removed from the Register. These can be re-instated should the risk rise again.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 Regular review of the Strategic Risk Register is an integral part of effective risk management arrangements and corporate governance. Identifying risk appetite enables the Council to clarify the extent of risk mitigation required in order to achieve its strategic aims.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 N/A

6. LEGAL IMPLICATIONS

6.1 There are no specific legal implications arising from the recommendations in this report"

7. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

8.1 Appendix 1 – the Council's Corporate (Strategic) Risk Register.

Risk 1: *The council does not create and deliver a sustainable Medium Term Financial Plan and/or achieve a balanced budget.*	**Risk Owner:** Chief Executive /Director of Finance

Risk Rating (Impact x Likelihood)

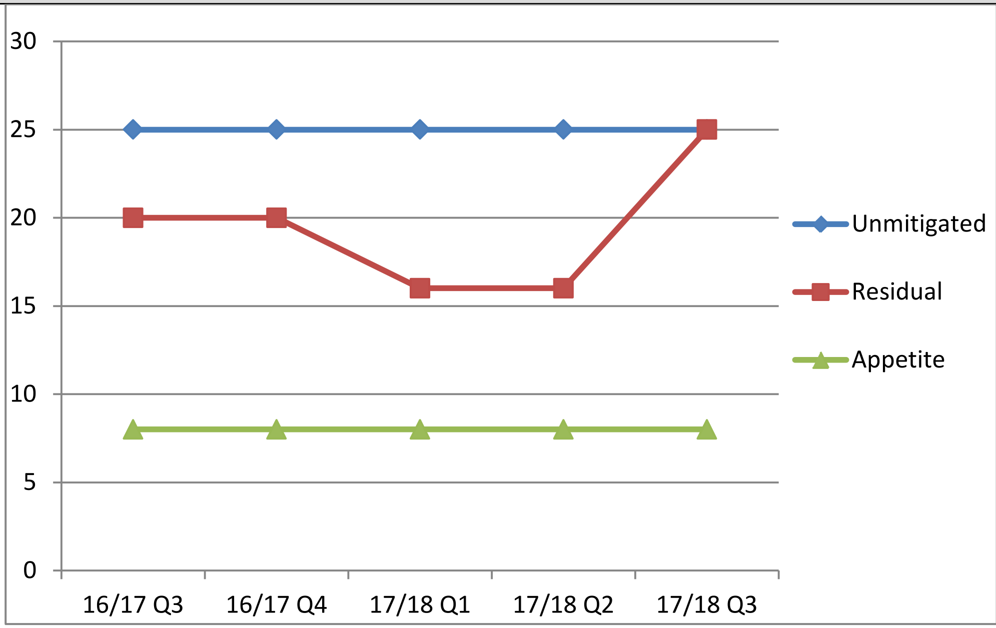
Unmitigated 5 x 5

Current Residual 5 x 5

Appetite 4 x 2

Potential Impact

Strategic objectives and statutory duties not met. Council unable to set legal budget. Service or services failure



Rationale for current score:

While the 2017/18 budget contingency is not fully committed, continuing pressures on the care services are cause for great concern. Strong control is required over all budgets especially considering the level of general balances. 2017/18 and predicted pressures in future years have made the 2018/19 budget and MTFS setting process challenging. Particularly there is a need to take early and robust action on longer term initiatives to ensure that the Council remains a going concern.

Rationale for risk appetite

Achieving a sustainable financial position is essential in order to be a going concern and deliver priorities. Careful planning is essential and the risk appetite is low.

Current RAG rating	**RED**

Current Actions *(What we are currently doing about the risk)*

- Immediate action has been taken in 2017/18 to reduce the overspend.
- Further developing the MTFS for the period 2018-2021, with very early actions for the later years being discussed with members
- 2018/19 and 2019/20 budget assumptions and savings proposals being reviewed and new proposals are being developed.
- Robust monitoring arrangements are continuing and will be used to carefully monitor the delivery of the savings proposals.
- Corporate Performance Delivery Group meeting fortnightly to review performance and delivery
- Early presentation of the overall budget and MTFS to the Policy Committee in January 2018 in order to seek approval for some actions and to evidence robust action.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer (s) responsible	**Target date**
2017/18 monitoring is showing pressure on the budget. Budget managers have proposed and are delivering mitigations for the remainder of the year.	Corporate Directors	March 2018
Revision of 2018/19 budget and MTFS now commenced; will take account of any emerging pressures from 2017/18. Aim is to have MTFS supported by sustainable funding (not one-off) and savings measures throughout.	Finance Director	Feb 18
Discussions with members about preparing the Council for the longer term future and the Council's capability and capacity to deliver current services in the current manner.	Corporate Directors	Feb 18

Risk 2: *Insufficient or lack of capable staff resources to deliver our services in an effective and efficient manner*

Risk Owner: Head of Legal / HR

Risk Rating (Impact x Likelihood)

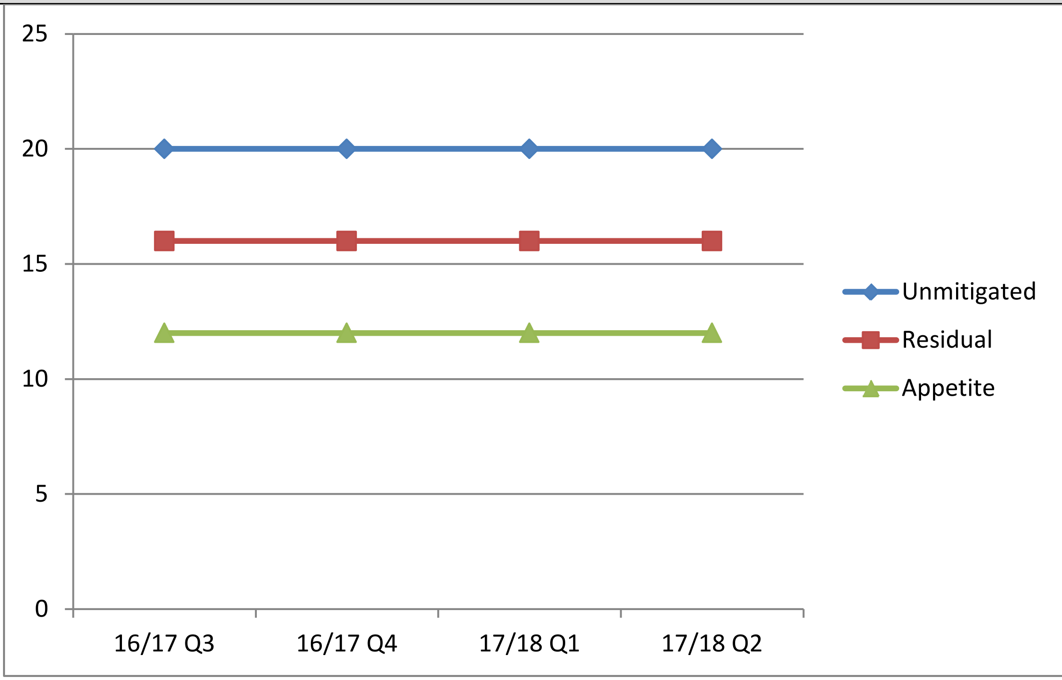
Unmitigated 4 x 5

Current Residual 4 x 3

Appetite 3 x 4

Potential Impact

Failure to meet demand. Statutory duties not met. Negative impact on staff motivation and stress related illness.



Rationale for current score:

Managing delivery of ongoing services during a period of significant change with reduced staffing resources due to redundancy, retirement, sickness, staff resources diverted to the transformation programme and difficulties in recruiting to certain specialist posts

Rationale for risk appetite

In order to implement the Transformation Programme it will be necessary to reduce staffing levels and is accepted that will put pressure on managing and delivering services hence appetite is high…

Current RAG rating	AMBER

Current Actions*(What we are currently doing about the risk)*

- Ensure that managers are carrying out 1:1's, appraisal and team meetings at a local level
- Chief Executive has issued a clear instruction that appraisals must have been completed by March 2018.
- Staff to again be reminded of HR guidance on stress management and about the Employee Assistance Programme.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
CMT to review and develop cultural and organisational change programme. This will need to be properly resourced and communicated	CMT	

Risk 3: *Information created, accessed, handled, stored, protected and destroyed by the Council and its service areas is not managed in compliance with legislation or local policies. Council services do not fully understand or manage the risks such non-compliance involves therefore not making informed, risk based decisions.*

Risk Owners: Head of Legal / Head of Customer Services

Risk Rating (Impact x Likelihood)

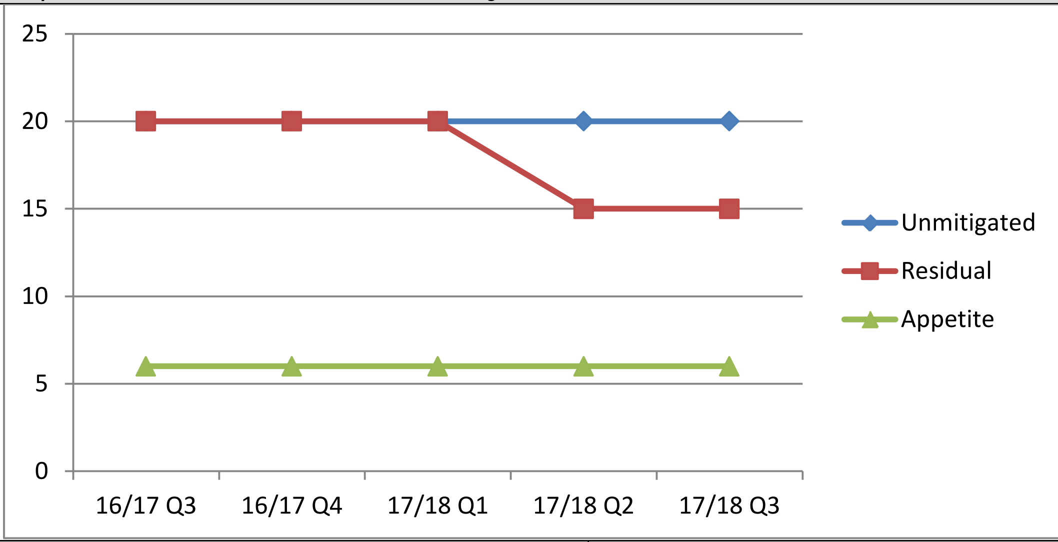
Unmitigated 5 x 4

Current Residual 5 x 3

Appetite 3 x 2

Potential Impact

Fines/penalties, reputation damage, service failure.



Rationale for current score:

The likelihood remains high as incidents tend to be due to human errors rather than weakness in control. Fines are increasing, hence potential impact remains high.

Rationale for risk appetite

In addition to the financial risk, financial penalties are now very high, hence the Council will seek to minimise the risk of these being incurred.

Current RAG rating	**RED**

Current Actions(*What we are currently doing about the risk*)

- Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly. Data Protection Training is mandatory for all staff.
- GDPR Project team established and working towards GDPR compliance so as to avoid large penalties and fines.
- Due to a staff resignation, two new Information Governance Officers are to be appointed, one permanent and one fixed term for one year. This will bolster the team at a time when the demand from the organisation for advice and support is increasing.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Need to test application of training by officers and monitor both the effectiveness and that the right staff handling sensitive data is prioritised.	CMT	May 18
Need identified to update data protection suite of policies and to monitor awareness of the procedures and steps to take in response to breach.	CMT	May 18
GDPR introduces increased fines and data subjects' legal right to compensation. The latter is likely to create a spawn of litigation that will be very costly and labour intensive to manage, plus reputational damage	CMT	May 18

Risk 4: *The Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal process*

Risk Owners: Head of Legal/ Director of Finance

Risk Rating (Impact x Likelihood)

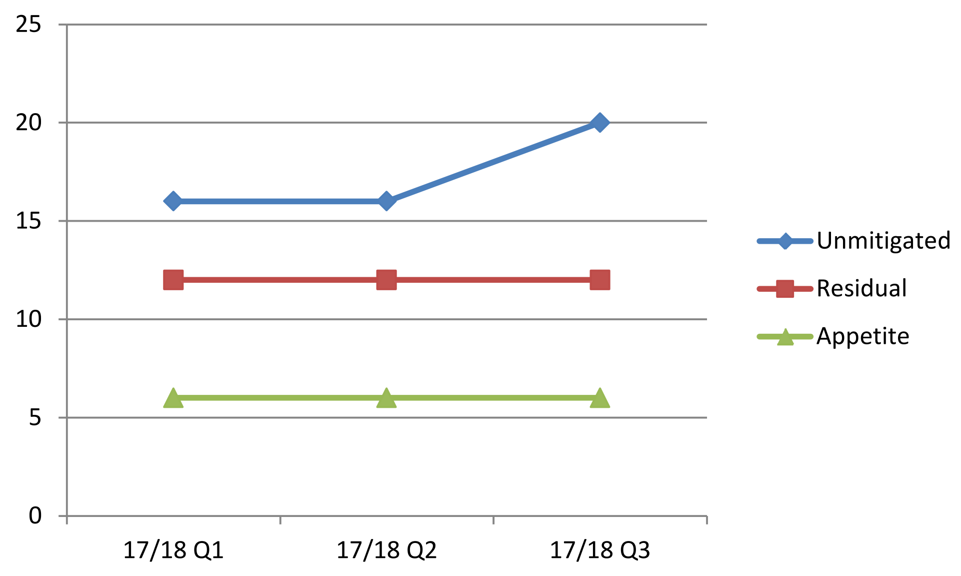
Unmitigated 5 x 4

Current Residual 4 x 3

Appetite 3 x 2

Potential Impact

Breach of Officer or Member code of conduct.- Breach of Information Security or Governance or Confidentiality leading to Information Commissioner review.- Ombudsman, Ofsted, External Audit, Care Quality Commission. Legal challenge from those who interact with the Council



Rationale for current score:

While controls are in place, they are not always being followed. Work by the Due Diligence Group is having an impact in improving processes, training and policies. Reporting to Committee is ongoing to assure members that action is being taken.

Rationale for risk appetite

A Council should be a model of propriety and control to ensure confidence in its handling of public assets. Hence the likelihood of non-compliance should be at a minimal level.
Good governance underpins all work to achieve the Council's targets

Current RAG rating	**AMBER**

Current Actions *(What we are currently doing about the risk)*

- Follow up on Audit Recommendations to ensure that they are all dealt with fully so that systems, processes and compliance are improved.
- The current induction programme for new members of staff to include guidance to certain key governance policies (including the Code of Conduct);
- Staff code of conduct to be issued with contracts of employment
- Strategic risk register to be kept up to date and reviewed promptly.
- Roll out of net consent for policy management.
- Risk management training completed for Heads of Service & Directors
- Full review of Strategic Risk Register undertaken Nov 17.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Employee code of conduct to be refreshed and relaunched. Declarations, gifts/hospitalities procedures & processes to be reviewed/updated & relaunched.	Head of HR	Dec 17 (Complete)
All budget holders to complete training on budget management – majority in Nov 2017 with sweep-up in Feb/Mar 2018	Director of Finance	Nov 17 + Feb/Mar 18
Refreshed anti-fraud and an anti-money laundering policy corruption statement	Chief Auditor	Feb 18
Local Code of Corporate Governance for RBC to be updated to conform to CIPFA/SOLACE guidelines.	Policy Officer	Mar 18

Risk 5: *failure of major contract causes financial, service delivery, legal and H&S issues which directly impact the Council - (Care Homes, Home Care, ICT, OOH Call Handling, EDS etc)*

Risk Owners: Corporate Management Team

Risk Rating (Impact x Likelihood)

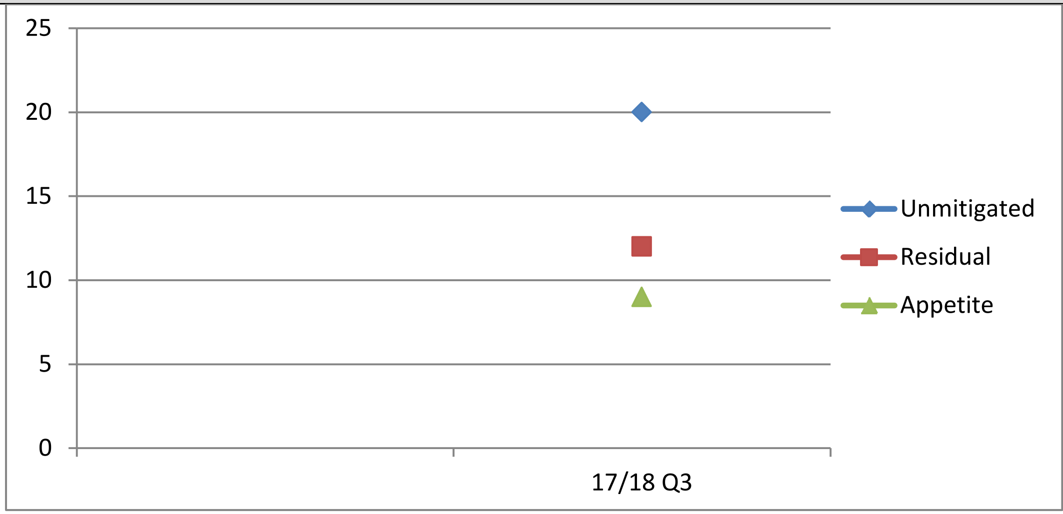
Unmitigated 5 x 4

Current Residual 4 x 3

Appetite 3 x 3

Potential Impact

Disruption to services.
Failure to meet statutory duties



Rationale for current score:

Increasing pressure on children's/adults social care due to changing demographics.

Rationale for risk appetite

Tolerance is relatively low due to knock on effect on service delivery

Current RAG rating	**AMBER**

Current Actions*(What we are currently doing about the risk)*

- Providers are required to have a business continuity plan in addition where the provider is not an RBC run service the plans of each independent provider are checked as part of the ASC contract monitoring procedures.
- Currently retendering for contracts with the voluntary sector.
- Agreed a Section 75 for the Better Care Fund
- Council Wide Business Continuity Plan to reflect critical functions.
- Key contracts are monitored on a regular basis as part of the contract performance mechanisms in place for all contractors. This should address any capacity or performance issues that might indicate that there may be issues with financial/general viability
- Financial assessments of tenderers undertaken for all major contracts let by the Council and annual financial assessment checks where appropriate for major contractors
- To raise profile of having effective contract management in place

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
The ASC provider failure protocol has recently been updated and will be approved by 28.2.18	Head of ASC	Feb 18
Continue to develop the Reading Integration Board with all partners to secure opportunities to support vulnerable people in the community	Head of ASC	Ongoing

Risk 6: *Failure to invest in the future, results in economic growth declining in Reading. – (Land use planning, private sector working/partnership, investment in infrastructure)*

Risk Owners: Director of Environment & Neighbourhood Services

Risk Rating (Impact x Likelihood)

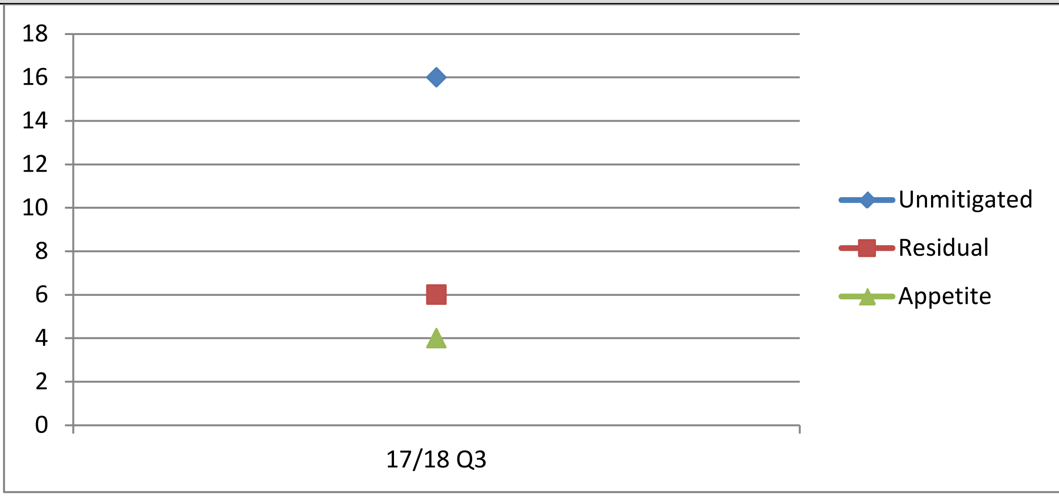
Unmitigated 4 x 4

Current Residual 3 x 2

Appetite 2 x 2

Potential Impact

Declining growth in Reading will present less job opportunities and a likely decline or stagnating incomes/living standards.



Rationale for current score:

Reading's (and the wider Thames Valley) economy remains relatively buoyant but will potentially be negatively affected by wider economic trends, including the impact of Brexit. The Council's role in creating the right conditions for growth is however significant.

Rationale for risk appetite:

the economic success of the town is critical to quality of life and also has an inherent link to demands on Council services as well as income.

Current RAG rating	AMBER

Current Actions(*What we are currently doing about the risk*)

- A33 MRT schemes underway – phases 1 & 2 delivered, phases 3 & 4 due for completion end 2019. (Future phases subject to funding).
- Green Park station project – works due to commence in March 2018 with station opening in Summer 2019
- Cow Lane Bridges widening – Work underway, scheduled to be re-open to 2 way traffic Summer 2019.
- East MRT – Scheme development ongoing with planning application due to be decided in Summer 2018. Subject to planning the scheme is due to be completed in 2021.
- Smart City Cluster Project – A 1.73million grant has been obtained to create an Internet of Things communication platform to gather and distribute data such an environmental and traffic information.
- The Council is preparing a new Local Plan in order to set out how Reading will develop up to 2036 ensuring housing, economic, environmental and social needs are met.
- The full housing needs required up to 2036 cannot be delivered within the Borough. RBC is working with Councils within the Western Berkshire Housing Market Area through an agreed MoU to ensure that the full housing needs are accommodated.
- Joint work with Reading UK CIC to market and promote the town and proposals to expand the Business Improvement District to continue investment in a high quality town centre offer.
- Delivery of a comprehensive cultural programme to raise Reading's profile,

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
A project to install a 3rd Thames Bridge at East Reading at the base of the A329 is being worked up with neighbouring local Authorities. This would ease traditional bottlenecks at Reading and Caversham Bridges, also reducing Town centre congestion as traffic would no longer be required to travel from the A329 through the Town Centre to the current bridges	Strategic Transport Programme Manager	TBC – subject to funding
Continue to develop a comprehensive network of sustainable travel choices, such as Park and Ride, enhanced public transport cycling and walking routes.	Strategic Transport Programme Manager	TBC – subject to funding
Further develop delivery plans to achieve the 2050 vision and to secure additional resources linked to these plans building on 'Smart City' investment already secured.	Head of Economic & Cultural Dev.	Ongoing
Secure appropriate and high quality development / re-development of the Reading Prison site to enhance the attractiveness of the town centre / Abbey Quarter as a destination.	Head of Planning, Dev. & Regulatory Services	TBC – subject to MoJ timing and plans

including for inward investors, with this being a key shared endeavour with the Council, Reading UK and the University as key partners, including: - Re-opening the Abbey Ruins to the public and as a venue for a range of events and activities; - Further development of the Abbey Quarter, including significant investment in the Town hall & Museum; - Delivery of the three year 'Great Places' scheme, including a new annual Reading-on-Thames Festival.	

Risk 7: *The Council doesn't take adequate mitigation to reduce the risk of injury or death from incidents within Council residential accommodation and private high rise within the borough*

Risk Owners: Director of Environment & Neighbourhood Services

Risk Rating (Impact x Likelihood)

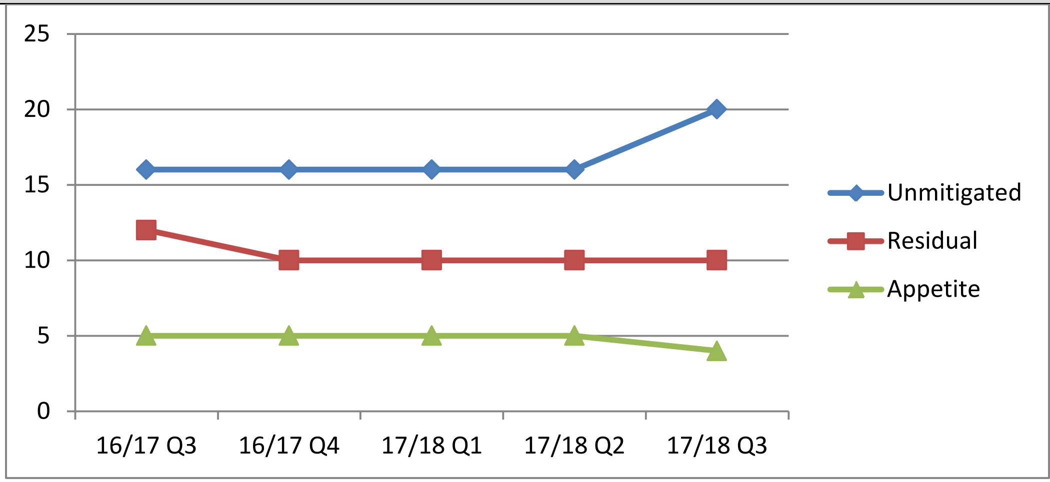
Unmitigated 5 x 4

Current Residual 5 x 2

Appetite 4 x 1

Potential Impact

Death/Injury to individuals and/or non-compliance with relevant legislation



Rationale for current score:

A significant amount of work has been undertaken and is underway (across the Council and Fire Service) following Grenfell Tower to address the issues raised by that incident. This has reduced the likelihood of a significant fire related incident but the impact remains high.

Rationale for risk appetite

The Council has a low appetite for injury or death to its residents /tenants. Considering that the impact of an incident is potentially death, the Councils residual risk score may never reach our appetite.

Current RAG rating	**AMBER**

Current Actions *(What we are currently doing about the risk)*

- Detailed Housing Service action plan in place to track and monitor actions in respect of fire safety post Grenfell Tower. H&S compliance monitoring reviewed and strengthened.
- Council 7x high rise housing blocks: post Grenfell Tower new 'intrusive' Fire Risk Assessments (FRAs) have been completed by a qualified external assessor – covering communal areas and sample of flats; RBFRS have visited all blocks; fire safety information sent to all tenants – visits to all over 65s completed Oct
- 350 flatted blocks all have an FRA completed as of end December 2017.
- A block inspector regularly checks all blocks and housing officers are on site most days to ensure frequent 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.
- Across housing tenures, a total of 86 residential buildings over 18 meters in height have been identified within the Reading Borough Council administrative area including the 7 local authority blocks. The Royal Berkshire Fire and Rescue Service (RBFRS) have visited each one of these premises in order to review fire safety including an assessment of the external materials used on each block Regular liaison between RBFRS and RBC to ensure that interim measures are in place to manage properties where cladding is of a concern. Regular reporting to DHCLG.
- Corporate working group set up to review, agree and implement actions arising.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
An independent external review of Housing fire safety measures and systems in high rise blocks and wider management practice has been commissioned. This will include Type 4 intrusive Fire Risk Assessments of sample high rise and other higher risk blocks. *Review completed – final report awaited – advice will inform commissioning of additional fire safety measures.*	Head of Housing/ N'hoods	End Feb
Additional private sector housing resource to be appointed following the agreement to sign to the MoU. Implementation of the MoU.	Head of Planning Development and Regulatory Services.	March 2018

Risk 8: *Partnerships – Failure to develop and maintain key partner relationships results in failure to deliver key shared outcomes*

Risk Owners: Corporate Management Team

Risk Rating (Impact x Likelihood)

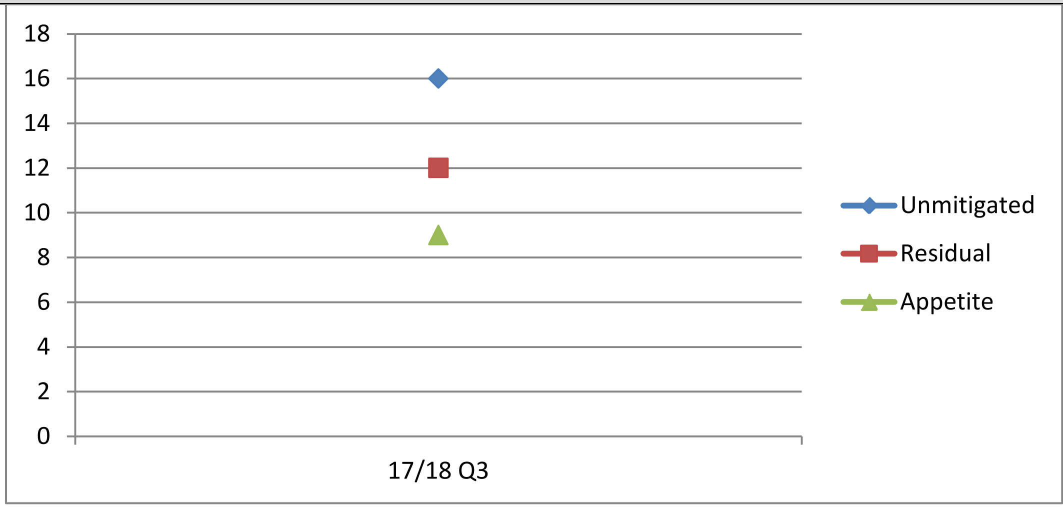
Unmitigated 4 x 4

Current Residual 4 x 3

Appetite 3 x 3

Potential Impact

Community needs not met
Negative impact on community cohesion which could lead to extremism.
Increased risk of failure of voluntary sector umbrella support



Rationale for current score:

A number of partnerships are embedded to secure strategic and operational outcomes.

Rationale for risk appetite

Appetite fairly low as the Council seeks to meet the needs of the community and maximise effectiveness and compliance with statutory requirements though working closely with key partners.

Current RAG rating	**AMBER**

Current Actions*(What we are currently doing about the risk)*

- Reading 2050 vision document was launched in October. This sets out a shared view of key priorities for the future of Reading. We will be working with partners across the town to identify the actions needed to deliver this vision.
- Community Safety Partnership – brings together the Council, Police and a wider range of partners and agrees clear joint strategic priorities with activity monitored through a number of delivery groups reporting to the partnership; regular and structured liaison is in place between RBC/Police at a range of tiers.
- Local Enterprise Partnership and joint working to influence investment in infrastructure, skills and private sector to support economic growth.
- Cultural Partnership and Cultural Education Partnership to drive delivery of a cultural renaissance and contribute to achieving priority social outcomes, including educational attainment, employment and employability, health and well-being (targeting more vulnerable groups / communities).
- One Public Estate Partnership – to oversee and implement shared property ambitions across the public estate.
- CSC – participation in statutory and strategic partnerships to include Local Safeguarding Board, Children's Trust Board, Children's Services Improvement Board, Health & Wellbeing Board. Strategic Management Group (TVP)

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Nominated leads for all statutory and strategic meetings and full participation in programme(s) of work	AMD	March 18
Continue to develop the Reading Integration Board with all partners to secure opportunities to support vulnerable people in the community	Action owner	date

Risk 9 : *Children's Company – Failure to make the successful transition to a viable independent local authority trading company to provide children's services*

Risk Owners: Head of Customer Care and Transformation

Risk Rating (Impact x Likelihood)

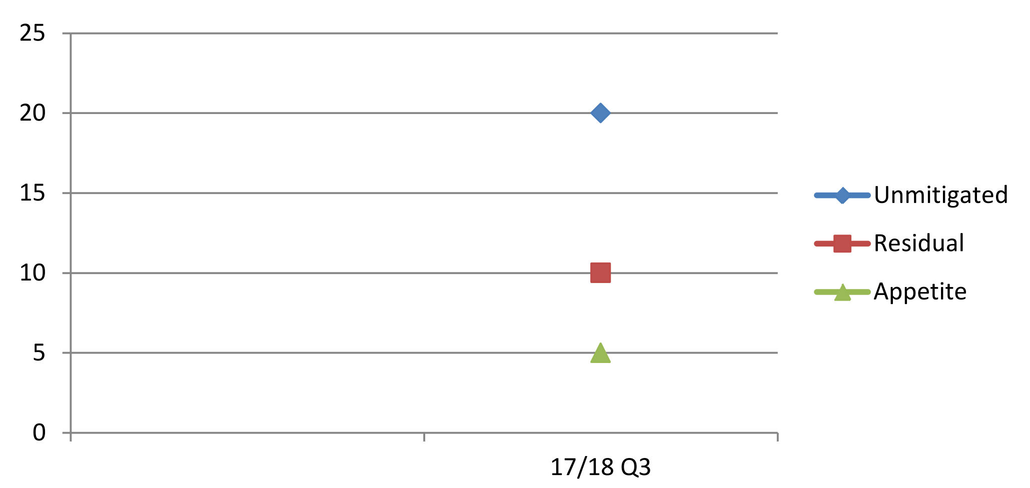
Unmitigated 5 x 4

Current Residual 5 x 2

Appetite 4 x 1

Potential Impact

Death/Injury to individuals and/or non-compliance with relevant legislation



Rationale for current score: *The impact of not setting up the company given the direction from the DfE would be significant, potentially leading to the service moving to another Council. The risk is being mitigated via a robust governance process, engagement of specialist suppliers with a strong track record in this area and clearly identified internal work stream leads.*

Rationale for risk appetite: *Given the nature of the task, it would be difficult to reduce the risk appetite. We will expect as the programme progresses that the risk would remain moderate.*

Current RAG rating	AMBER

Current Actions*(What we are currently doing about the risk)*

- A robust governance structure has been put in place with the support of specialist support from Mutual Ventures who have been engaged to provide programme management and specific expertise and track record in setting up a Children's Company.
- The Council is reviewing its own capacity to set up the company and engaging specific additional resources where identified to ensure operational capacity.
- Work is being done to ensure the overall estimated cost of transition is as robust and accurate as possible to ensure that the grant requested from the government is sufficient and that we received the funds in a timely manner.
- A detailed and comprehensive programme plan is being developed to ensure that all the requirements of the new company are met and delivered to timescale.
- This is supported by detailed work stream plans which will be updated regularly.
- A risk register for the project has been developed to capture and assess all project risks by work stream. This document will be regularly reviewed and maintained as the project progresses. Identified mitigation activities will be added to the project plan.
- A Key Decisions document has been developed for the project. The purpose of this document is to act as a 'blue print' for all decisions required to set-up the company – capturing assumptions and in principle decisions to ensure project direction.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Further work is being done to assure the government (DfE) on the level of funding required to set up the company, identifying as accurately as possible at this stage the funds required.	Head of Customer Care & Transformation	Feb 2018
Complete and regularly maintain the programme plan, detailed work stream plans, risk register, and Key Decisions document to identify and progress all required tasks, timelines and required resources – escalating sustained issues and risks to senior project stakeholders for mitigation decision-making	Children's Company Project Lead	28 February and ongoing to end of project

Risk 10: *Safeguarding - Risk of death harm or injury to vulnerable persons for whom we have a responsibility*

Risk Owners: Director of Adult & Director of Children's

Risk Rating (Impact x Likelihood)

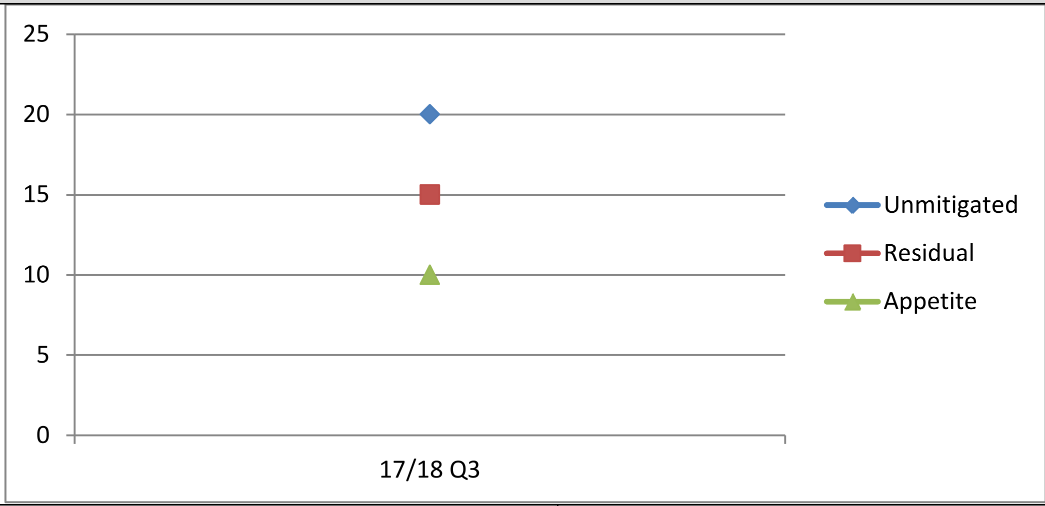
Unmitigated 5 x 4

Current Residual 5 x 3

Appetite 5 x 2

Potential Impact

Death or injury. Loss or reputation. Fines/ penalties. Insurance claims



Rationale for current score:

Risk of death or serious injury

Rationale for risk appetite

Given the risk relates to the safeguarding of vulnerable individuals the risk appetite is low.

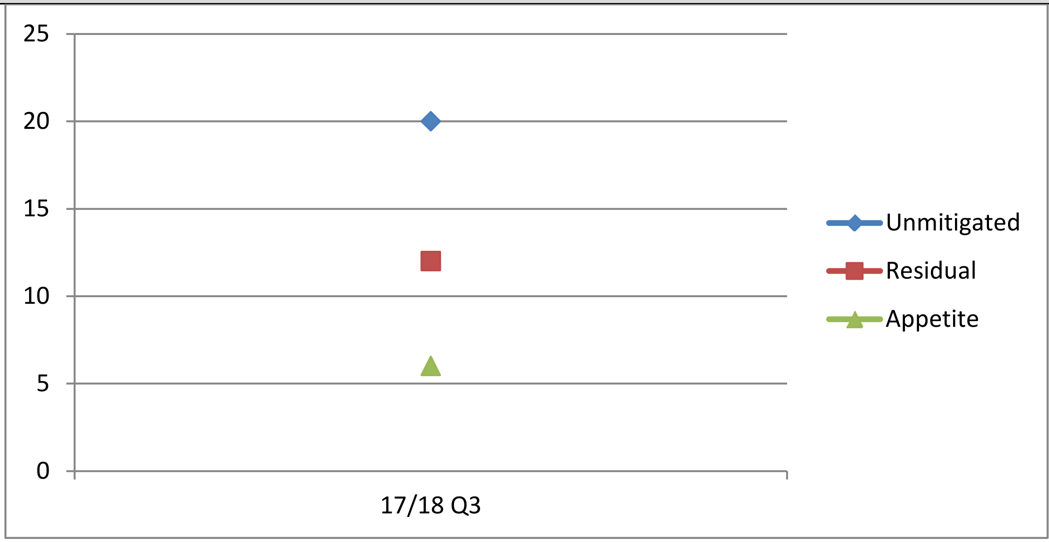
Current RAG rating	**AMBER**

Current Actions*(What we are currently doing about the risk)*

- Safeguarding team continues to deliver training at L1. Workshops for all sectors of social care staff, learning lunches and attend team meetings. Levels 2 & 3 face to face safeguarding training has been re commissioned with training dates throughout the year.
- 20% of Safeguarding cases are audited each month using an audit tool agreed by the Safeguarding Adults Board.
- The Safeguarding Adults Board has a Safeguarding Adults Review group that reviews information submitted from the Local Authorities and Health Agencies to consider whether a Safeguarding Adult Review is required. Once a review is completed the learning is shared to prevent further incidents
- Service Improvement Plan in place to deliver service improvements across the whole of Children's Services reporting to an independently chaired Improvement Board
- Regular 3 monthly Ofsted visits to ascertain quality of service delivery to vulnerable children
- Traditional and Beyond Audit approach to promote improvements in quality of practice

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Further ongoing work identified for Mental Health Services regarding reporting through the statutory safeguarding process as well as the trusts internal service. (DATiX).	Head of Adult Social Care	Jan 18
From the 1st of October the Safeguarding Team will be screening all of the safeguarding concerns; the team has additional capacity to support this and the teams who are investigating safeguarding enquiries. This will be reviewed quarterly	Safeguarding Adults Team Manager	Jan 18
Revised Safeguarding Adults Policy & Procedure Launched	Safeguarding Adults Team Manager	Dec 17

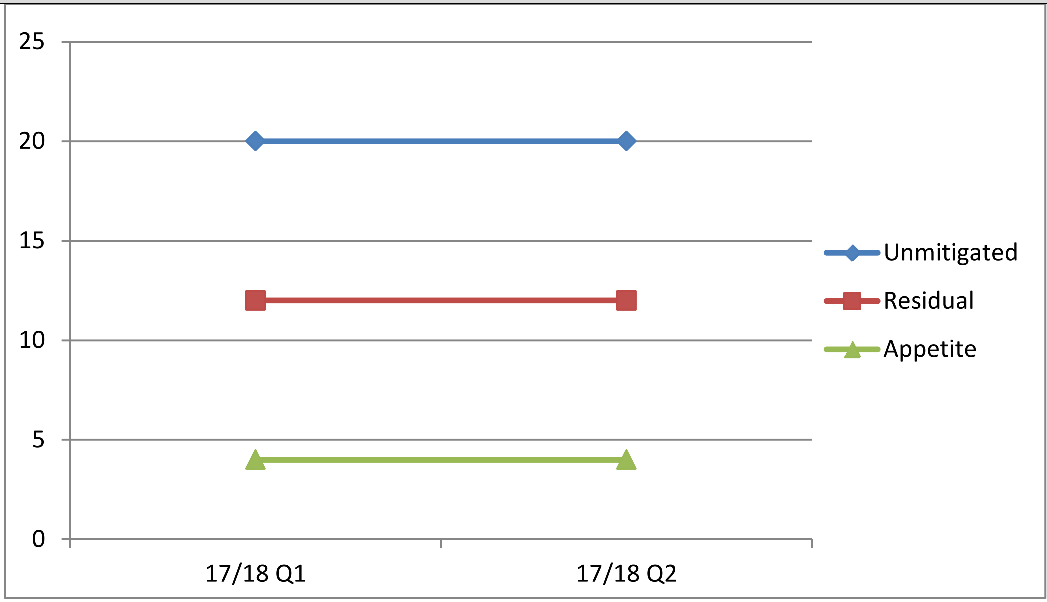
Risk 11: *Criminal Exploitation Risk of death harm or injury to vulnerable persons for whom we have a responsibility*		**Risk Owners:** Director of Children, Education and Early Help Services
Risk Rating (Impact x Likelihood) Unmitigated 4 x 5 Current Residual 4 x 3 Appetite 3 x 2 **Potential Impact** *Death or injury. Loss or reputation. Fines/penalties. Insurance claims*		***Rationale for current score:*** Risk of death or serious injury. "Criminal Exploitation", gangs use children to traffic drugs, using dedicated mobile phones/"lines". Young people are often physically locked in premises and threats of coercion or violence mean they can be too scared to try to make their own way back - even if they have the means to do so." "They are exploited children and are being manipulated. ***Rationale for risk appetite*** Given the risk relates to the safeguarding of vulnerable individuals the risk appetite is low. **Current RAG rating** **AMBER**

Current Actions*(What we are currently doing about the risk)*

- Criminal Exploitation for RBC are led by the Police. Select RBC members attend monthly Operational panel meetings. The strategic aim covers Prevent, Protect, Prepare and Pursue
- RBC attendance at Police Disruption meetings
- RBC are leading on the Protection Stream. Instigation robust Child protection procedures, multi-agency partnership working.
- Strategic schools activity planned for January 2018.
- Child Sexual Exploitation hub in place providing a centralised case management system to ensure timely response to children being exploited or at risk of.
- Strategy meetings are held for all Criminal Exploitation referrals

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Create Action Plan to include: Workshops/training	MASH Manager	Feb 18
Pathways to be reviewed and developed	MASH Manager	Feb 18
Increase remit of CSE hub to include Criminal Exploitation cases and additional resources such as Youth Services to be co-located	MASH Manager	Feb 18

Risk 12: *Failure to implement a council wide response to Child Sexual Exploitation involving all appropriate partners.*		**Risk Owners:** Director of Children, Education & Early Help Services
Risk Rating (Impact x Likelihood) Unmitigated 5 x 4 Current Residual 4 x 3 Appetite 4 x 1 **Potential Impact** *Loss or reputation. Fines/penalties. Insurance claims*		***Rationale for current score:*** *Likelihood is significant as factors outside the control of the Council may result in the sexual exploitation of a child. Failure to adhere to Council procedures may contribute to the failure to safeguard a vulnerable child. The impact of failure would be critical.* ***Rationale for risk appetite*** Given the risk relates to the safeguarding of vulnerable individuals the risk appetite will be low **Current RAG rating** **RED**

Current Actions*(What we are currently doing about the risk)*

- Local Safeguarding Children's Board brings together senior and operational staff within the local organisations to help co-ordinate services and make certain they work together to keep children safe from harm. The board has a role in monitoring and overseeing the contribution partnership organisations make towards safeguarding children.
- Transformation project around early intervention and prevention.
- Comprehensive restructure of Children's Services single point of contact (MASH) response to children identified as at risk of CSE and missing children. Phase 2 went live 29th September 2017.
- Implementation of multi-agency response to CSE using LSCB strategic themes of PREVENT, PROTECT, PURSUE and DISRUPT and aid RECOVERY.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Completion of action plan following CSE internal audit review (13 recommendations – key areas below)		Various
For the LSCB CSE and Missing Sub Group to agree an annual audit process in line with the Children's Services QAP Team	Quality Assurance Service Manager	Mar 18
Development of a wider CSE dashboard to capture appropriate data	Head of EH	Mar 18
Review MOSAIC pathways and reports	Performance & Data	Mar 18

READING BOROUGH COUNCIL

REPORT BY INTERIM DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 January 2018**	**AGENDA ITEM:**	**6**
TITLE:	**INTERNAL AUDIT PLAN 2018-19**		
LEAD COUNCILLOR:	**COUNCILLOR STEVENS**	**PORTFOLIO:**	**FINANCE**
SERVICE:	**FINANCE**	**WARDS:**	**N/A**
LEAD OFFICER:	**PAUL HARRINGTON**	**TEL:**	**79390695**
JOB TITLE:	**Chief Auditor**	**E-MAIL:**	**Paul.Harrington@reading.gov.uk**

1. EXECUTIVE SUMMARY

1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2018/2019. The annual audit plan is designed to implement the internal audit strategy.

1.2 Accompanying the audit plan is the internal audit charter which sets out the purpose, authority, responsibility and scope of internal audit.

1.3 The following document is attached to this report:

- Internal audit indicative plan 2018/2019 (appendix 1)
- Internal audit charter (appendix 2)

2. RECOMMENDED ACTION

2.1 That the Audit & Governance Committee approves the audit plan for the period April 2018 to March 2019 and notes the content of the Internal Audit Charter.

3. INTERNAL AUDIT PLAN

3.1 It is internal audit's responsibility to form opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. In the context of the Public Sector Internal Audit Standards, 'opinion' does not simply mean 'view', 'comment' or 'observation'; it means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the Council's activities that we have examined. The attached audit plan will allow for the effective discharge of this responsibility.

3.2 In preparing the plan I have taken account of the adequacy and outcomes of the Council's risk management, performance management and other assurance processes. I have consulted with stakeholders, such as Directors and Heads of Service, the Head of Finance and the Council's external auditors.

3.3 The audit plan is fixed for a period of one year; however it must at the same time be fluid, kept under continuous review and amended to take into account emerging risks and areas where assurance work is required to be provided. Any significant changes will be reported back to the Audit & Governance Committee.

3.4 CMT and the Audit and Governance Committee will also be advised of performance against the audit plan and be kept informed of the results of those audit reviews undertaken.

3.5 The plan may be subject to changes, between now and the start of the new financial year, if new risks emerge which require internal audit focus.

4. AUDIT CHARTER

4.1 A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

4.2 The Public Sector Internal Audit Standards (PSIAS) require an Internal Audit Charter to be in place which will be reviewed periodically and presented annually to the Corporate Governance and Audit Committee for approval.

4.3 The main objective of Internal Audit is to provide a high quality, independent audit service to the Council which provides annual assurance in relation to internal control and overall governance arrangements.

4.4 The PSIAS recognises that Internal Audit's remit extends to the entire control environment of the organisation and not just financial controls.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 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.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 *N/A*

6. LEGAL IMPLICATIONS

6.1 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.

6.2 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.

6.3 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. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

8.1 N/A

Appendix 1

Indicative Internal Audit Plan

(2018/2019)

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Internal Audit Plan

1. Background

1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): "*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*."

1.2 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.

1.3 Internal audit also supports the Director of Resources in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the Director of Resources to comply with:

i. Section 151 of the Local Government Act 1972. The Director of Resources, as the council's Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Director of in exercising his/her responsibility for financial administration.

ii. The Accounts and Audit Regulations state that 'A relevant authority must undertake an effective internal audit1 to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. The work of internal audit provides a substantial element of this requirement.

1.4 'Effective internal audit' is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note for the PSIAS.

1.5 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'. Within the Council, the Audit & Governance Committee fulfils the key duties of the Board laid out in the PSIAS. This document sets out the proposed plan for 2018-19.

2. The Planning Process

2.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources and a yardstick for measuring audit performance.

2.2 The PSIAS Performance Standard 2010 - Planning states that: '*The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.*' Within Reading Borough Council (RBC), the role of Chief Audit Executive is undertaken by the Chief Auditor.

2.3 The standards refer to the need for the risk-based plan to take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight.)

2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach. The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Councils Strategic risk register, Corporate Plan and minutes of officer and Council meetings. Directors and Heads of Service were consulted for areas to be included in the audit plan and our own knowledge and experience of Council services was also used to inform our subsequent risk assessment. This information is used to inform and design the audit plan.

3. The Internal Audit Plan

3.1 The outputs from the planning process have been prioritised to produce a plan that balances the following:

- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
- the time required for anti-fraud and corruption activity
- the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
- the need to retain a contingency element to remain responsive to emerging risks; and
- the resource and skill mix available to undertake the work.

3.2 Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required, i.e. the audit of schools.

3.3 The Chief Auditor in liaison with the Director of Resources (sec 151 Officer) will keep progress against the audit plan, and the content of the plan itself under review. The Corporate Management Team and the Audit and Governance Committee will also be advised of performance against the Audit Pan and be kept informed of the audits undertaken.

3.4 The indicative Internal Audit programme for 2018-2019 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3.5 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year.

4. Resources

4.1 The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year. Resource requirements are reviewed each year as part of the audit planning process and are discussed with the sec 151 officer.

5. Individual Audits

5.1 When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard. Where revisions are required we will obtain approval from the appropriate Corporate Director prior to commencing fieldwork.

5.2 In determining the timing of our individual audits we will seek to agree a date which is convenient and ensures the availability of key management and staff.

5.3 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

5.4 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the terms of reference or within two weeks of completion of the audit fieldwork, whichever is the sooner.

5.5 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.

5.6 Following discussion of the draft report the auditor will draft a clear, concise and constructive report, following a standard format, outlining:

- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
- audit recommendations, along with management response and implementation date
- an executive summary of the key findings and conclusions
- Details of findings, to include an explanation of the risk and the identified control weaknesses.
- The final report will be issued in the name of the auditor conducting the review and the Chief Auditor.

6. Follow up Reviews

6.1 Whether or not and audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but our aim to complete the follow up within six to twelve months of completion of the audit.

7. Reports to C.M.T. and the Audit & Governance Committee

7.1 A status report on internal audit work will be presented to CMT and the Audit and Governance Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues.

8. Annual Assurance Report

8.1 A formal annual report to the Audit & Governance Committee and CMT, presenting the Chief Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Annual Governance Statement. The format of the Chief Auditor's report will follow that set out in the Public Sectors Standards for Internal Audit and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- Comment on compliance with the Public Sector Standards on Internal Audit and internal audit's quality assurance programme.

Appendix 1

CORE COUNCIL

Governance

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Corporate Governance Overview	Review of ownership, completeness and currency of documentation the Council is required to hold, publicise and periodically review setting out its governance arrangements. As part of this review we will follow up actions in the Council's Annual Governance Statement (AGS) and facilitate and review the completion of directorate self assessments			●	
Employee gifts and hospitality & declarations of interests	The public is entitled to expect the highest standards of conduct from all employees who work for local government. The 'Code of Conduct for Employees' require employees to register any gifts or hospitality/declarations of interest, in order to provide openness and transparency and protection for employees against any allegations of conflicts of interest or corruption in the minds of the public. This review will seek to determine the level of compliance with the code through contacting a selection of key services to see if any gifts or hospitality have been declared and whether declarations of interest have been provided.				●
GDPR	Readiness (given May 2018 and £20m fines). Retention policies applied to email and unstructured data and Information Asset Owners – Privacy Impact Assessments undertaken routinely, SIRO, Calidcott Guardian, Data protection officer, IT Security all trained and performing roles, Data Protection Training and awareness of GDPR specific changes especially in higher risk areas of Social Services (Adults, Children's), Education, Child Care Legal, HR and Payroll, Legal, Finance.	●			

HR

Pay parity/recruitment and retention	Review the systems and process followed which govern honorarium & additional payments. Do the processes followed to make additional payments conform to equal pay protections and are they robust? Undertake an analysis of all forms of additional payments made via payroll and test check to ensure appropriateness and compliance with HR policies.	●			

ICT

Payment card Industry Data Security Standard	Ensure appropriate processes are in place to ensure adherence to industry standards relating to the use of payment card technology and systems		●		
Data Storage	We will review electronic file storage arrangements, including storage capacity and cost of storing emails and electronic files.		●		

Revs. & Bens.

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Entitlement & Assessment/HB Subsidy	Review of the Council's arrangements for administration of the local Housing Benefit and CTS. Verify percentage of claims are reviewed by managers and CiC entered by officer and HB system is posted and reconciled on a regular basis to GL. Ensure that the systems and processes for the assessment, calculation and payment of HB & local council tax support are effective. The audit will verify the "means-test" calculation function is correct, applied consistently and there is documentary evidence to substantiate both the claimant's and partner's income and capital.	●			
Business Rates	Tax database reconciled back to VO listing on weekly basis System reconciled to VO listing on weekly basis (reconciliation between VO listing & CTAX properties)		●		
Sundry Debtors	This audit will review compliance with the Corporate Debt Policy, ensure payments are auto-matched to debtor accounts and receipts without a valid reference are posted to and cleared from a suspense account on a regular basis. Unpaid invoices are monitored and chased appropriately. Bad debts are appropriately authorised and accounted for before being written off. Collection performance is monitored and reported. Collection activity is focused and less priority is given to accounts with ageing balances which may not be 'real' receivables.			●	

Finance

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Budgetary Control and Savings	Review procedures used for monitoring the Council's budget, including budget setting, budget monitoring and savings monitoring. Assess the timely posting of journals and virements in the year to keep budget on track and test the integrity and robustness of procedures for the use of Hyperion for staff budget monitoring.		●		
Hyperion system - (Revenue Budget Setting)	This audit will determine if the most appropriate use is being made of the Hyperion system and processes. The audit will verify the integrity of data input, quality control checks and reliance on spreadsheets. The audit will also verify the approach to pay, increments, vacancy factors etc. across service budgets				
General Ledger	Using data analytics we will carry out checks to test the appropriateness of journal entries recorded in the general ledger. This will include trend analysis, high-value amounts, splitting of journal voucher entries, posted outside office hours, multiple debits or credits to the same GL account and fraud detection tests. We will verify that Journal transactions are transparent with a clear description, there is detailed supporting documentation and appropriate authorisation, there is an appropriate audit trail within Oracle Fusion and relevant "supporting papers" (possibly in electronic format) are held by the journal originator and there is appropriate separation of duties between the staff inputting the journal and those requesting/authorising the transaction.				●
Capital Accounting (Fixed Assets)	To provide assurance over the processes in place to accurately identify and account for capital spend, including updating the fixed asset register with additions/disposals and accounting for depreciation of capital assets. The audit will also review the robustness of capital spend monitoring.				●

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Bank & Cash Rec (follow up)	The review will consider cash collection, banking arrangements and assess the adequacy of the cash/bank reconciliations. Ensure key controls over cash receipting systems within key service areas are effective. This will include Purchase ledger to general ledger reconciliation, Debtors ledger to general ledger reconciliation and monthly bank reconciliations for all bank accounts. The audit will verify the reconciliation of all control accounts and review the process to ensure these are completed in a timely way.		●		
Creditors (Accounts Payable)	Using a data analytics we will undertake trend analysis, sampling, duplication detection and fraud detection tests on live Accounts Payable Data. We will review amendments to supplier details and verify they are appropriately authorised and inactive suppliers are periodically removed. Ensure payments are correctly coded, made promptly, in full and only in respect of authorised invoices and that orders for goods and services are placed in advance and appropriately authorised.			●	
Payroll	The audit will verify the monthly payroll process is administered and controlled in a timely fashion. Every change or amendment to an employee's pay is properly supported by evidence, is appropriately authorised and securely held. Only genuine employees are paid, and at their contracted rates. There are controls in place to detect inputting and system errors arising from increased data entry by staff. Exception reports are produced to ensure that changes are highlighted and agreed. Payments and expenses paid to staff are timely, accurate and comply with statutory requirements.			●	

ENVIRONMENT & NEIGHBOURHOOD SERVICES

Housing

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Homes for Reading	This audit will review the procedures and policies for financial tasks (bank rec/business resilience etc.), monitoring, reporting and processes to ensure there is clarity about roles and responsibilities and suitable checks and balances in place.	●			
Housing Revenue Account	To review the arrangements in place for monitoring the Council's HRA financial viability. To review recharges to HRA to make sure expenditure/income is applicable.				●

Transport

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Residents Parking	Provide assurance on the adequacy on the adequacy and effectiveness of controls/processes over parking permits. The scope of this review will cover access to IT systems, eligibility and validation criteria, covering application and renewal process and ensure procedures in place over the payment of Residents Parking Permits are sound.	●			
Local Transport Plan Capital Settlement (Grant Certification)	This audit will provide assurance to the Chief Executive and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with		●		
Bus Subsidy Grant	The Bus Service Operators Grant (BSOG) for both commercial and non-commercial bus routes is administered centrally by the Department for Transport. The BSOG is the partial refund on fuel duty received from the government by operators of local bus services in England. The grant claim requires Head of Internal Audit certification.		●		

Leisure

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Leisure income collection	The audit will review controls over income collection, recording, reconciliation and banking at all RBC leisure centres, including bookings in advance. The audit will also cover access control to centres and the subsequent reconciliation to till receipts.		●		

Other

Commercialisation	To review the processes that the Council has in place to identify commercial opportunities, both in terms of maximising current income and generating new income streams. The audit will assess that cost recovery is done properly and the demand for that service, as well as an appropriate pricing strategy (fees/charges/recharges) is known and agreed.				●

CHILDREN, EDUCATION & EARLY HELP

Children

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Creation of Children's Company	This audit will review controls, constitution, governance etch for the newly created children's company		●		
Administration of Looked After Children	The audit will review the effectiveness of controls in the following areas: accuracy and completeness of information held; timely completion of assessments and reviews; budget monitoring; and authorisation for spend on placements, based upon a sample of (e.g. 20 Children Looked After), excluding "fostered", "fostered by IFA" and "placed for Adoption". Predominately focusing on (high cost) external packages. Our audit will verify that processes are in place to ensure packages represent best value for money; funding options are robustly costed, monitored and there is robust challenge over the placement identification process and cost. We will also carry out substantive testing on payments to ensure placements are still in existence.			●	
Troubled Families (Grant)	In accordance with the DCLG funding framework we will check and verify at least a representative sample (at least 10%) of results before each claim is made. Internal audit will verify the families' eligibility for the expanded Troubled Families Programme and whether the progress measures have been achieved, with supporting evidence.		●		●

Education

Special Education Needs	Children with Special Educational Needs (SEN) are areas of significant spend for the Council. Placements can be made within maintained schools, independent or non maintained schools. The commissioning approach used should be completed in line with defined Council protocol and requirements, to ensure that the needs of the service user are met while achieving Value for Money (VFM) for the Council. This audit will be split into two parts and will review the systems and processes in place for the commissioning of (1) SEN education only placements and (2) SEN joint social care and education funded placements to ensure: i) that there is a defined commissioning approach; ii) placements are commissioned in line with Council requirements and guidance iii) The selection of placement is appropriate (based on supporting audit trail), in line with the service user's needs and currently held contracts iv) placement decisions are formal, robust, transparent and consistent and v) An appropriate governance framework (including performance management and monitoring) is in place.			●	

Schools

Schools	Visit a small sample of maintained schools to give the Head of Finance adequate assurance over their standards of financial management and the regularity and propriety of their spending.			●	●

Appendix 1

ADULT & HEALTHCARE SERVICES

Adults

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Direct Payments (follow up review)	The regulations require direct payments to be routinely reviewed at least once every 12 months to make sure that the arrangements are meeting the service users' needs and that funds have been appropriately managed. A review of this area was completed in 2017/18. The findings emanating from the review resulted in a limited assurance opinion being given in respect of the control environment. This audit will follow up progress in implementing audit recommendations			●	
Commissioning (Adults)	Review governance relating to placement contracts commissioned with external providers (Dom Care/Supported living/Residential & Nursing Care) to evaluate the effectiveness contract review and management processes to ensure effective challenge and performance management processes are in place. Analyse spend on spot purchasing to identify emerging trends and how VFM is obtained (spot purchasing v block provision)			●	
Continuing Health Care (CHS)	The audit will test a sample of high cost placements to ensure NHS CHC has been appropriately considered. The audit will also ensure training is available to all adult social care staff covering statutory duties and legislation with regard to CHC together with the values and principles of carrying out a good assessment, key issues, the process, completing the checklist & decision support tool and informing service users.	●			
MOSAIC Finance Module	RBC uses MOSAIC to support the delivery and management of its social care provision for adults and children, including paying providers, charging clients, financial assessments and managing contracts and services. This review will seek to provide assurance over the operating effectiveness of the MOSAIC Financial Module features/functionality in respect of payments/charging/financial assessments etc.				●

Public Health

Public Health Grant (Follow up)	The Public Health ring-fenced grant funding conditions include specific reporting requirements to the Department of Health. They also require the Chief Executive or S151 Officer to provide a signed statement confirming that that the grant has been used to discharge the public health functions set out in Section 73B(2) of the National Health Service Act 2006. A review of this area was completed in 2017/18. The findings emanating from the review resulted in a limited assurance opinion being given in respect of the control environment. This audit will follow up progress in implementing audit recommendations				●

Internal Audit Charter

(2018/2019)

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We aim to provide a high quality cost-effective service, which adapts and responds to the Authority's needs based on achieving a high standard of professionalism and expertise in service delivery and also to contribute in achieving best value public services.

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Reading Borough Council
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1. Background

1.1 The Public Sector Internal Audit Standards (PSIAS) requires that an Internal Audit Charter is in place for each local authority. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.

1.2 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Reading Borough Council (RBC) and has been drawn up in line with the PSIAS requirements and is further informed by the CIPFA Local Government Application Note (April 2013) published to assist in the implementation of the PSIAS.

1.3 This Internal Audit Charter is subject to approval by the Audit and Governance Committee of Reading Borough Council (RBC) on an annual basis, in line with PSIAS requirements.

2. Role

2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Reading Borough Council ("RBC" or "the Council"). It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

2.2 The Internal Audit function's main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in.

2.3 This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Chief Auditor's opinion is a key element of the framework of assurance that the Chief Executive and Leader of the Council needs to inform the completion of the Annual Governance Statement.

3. Purpose, Responsibilities and Objectives of Internal Audit

3.1 Internal Audit is an independent appraisal function established within the authority – as part of the Corporate Support Services Directorate - with the following objectives[1]:

- To provide an effective Internal Audit Service, on behalf of the Director of Finance (sec 151 officer), in line with legislation and the appropriate audit standards;
- To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
- To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3.2 It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

3.3 The Chief Auditor reports to the Audit and Governance Committee on a regular basis in line with the agreed work programme for the Committee. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment and regular updates on reports issued. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.

3.4 Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.

3.5 Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to affect personal gain.

4. Scope of Internal Audit Activities

4.1 The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to other bodies. This description shows the wide potential scope of Internal Audit. In order to translate this description into individual audit reviews, a risk assessment methodology is applied that allows high-risk review areas to be prioritised (also see Section 8.)

[1] Financial Regulations –Section 2.8 'Internal Audit'

4.2 To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:

- review of controls within existing systems and systems under development
- compliance with policies and procedures including Financial Regulations
- transactions testing to ensure accuracy of processing
- contract audit
- establishment reviews
- computer audit including data analytics
- anti-fraud work
- investigation of suspected fraud and irregularities
- value for money reviews and transactions testing
- provision of advice to Directorates and services including consulting services
- provision of audit services to external clients.

5. Definition of Consulting Services

5.1 The PSIAS defines consulting services as follows: *"Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."*

5.2 The PSIAS requires that approval must be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.).

6. Arrangements for Appropriate Resourcing

6.1 As stated in the CIPFA Application Note, *"No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage."*

6.2 The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.

6.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.

6.4 In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Auditor will identify the shortfall and advise the Director of Finance followed by the Audit & Governance Committee as required to assess the associated risks or to recommend additional resources are identified.

6.5 The audit plan will include a contingency allocation to address unplanned work including responding to specific control issues highlighted by senior management during the year.

6.6 Internal audit work is prioritised according to risk, through the judgement of the Chief Auditor, informed by the Council's risk registers and in consultation with senior management and External Audit.

6.7 Internal audit activity is subject to annual review by External Audit.

6.8 Progress on the annual plan is reported to the Audit & Governance Committee on a regular basis throughout the year. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Auditor will advise the Director and Head of Finance and the Audit & Governance Committee.

7. Organisational Independence of Internal Audit

7.1 The PSIAS requires that reporting and management arrangements must be put in place that preserve the Chief Auditor's independence and objectivity, in particular with regard to the principle that the Chief Auditor must be independent of the audited activities.

7.2 PSIAS Standard 1110 requires that the Chief Auditor reports to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. CIPFA and the Chartered Institute of Internal Auditors expect that the Chief Auditor should report to at least corporate management team level.

7.3 Within RBC, the Chief Auditor reports functionally to the Audit & Governance Committee and administratively to the Director of Finance (Sec 151 Officer) and has direct right of access to the Chief Executive. The Chief Auditor also has direct access to the Chair of the Audit & Governance Committee.

7.4 The Internal Audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.

7.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the Chief Auditor and reported to the Section 151 officer as appropriate.

7.6 Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.

7.7 The Chief Auditor will confirm to the Audit and Governance Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

7.8 The Chief Auditor will report audit findings to the Council's Corporate Management Team and Audit & Governance Committee.

8. Planning

8.1 The annual audit plan will be submitted to the Audit and Governance Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Chief Executive, the Director of Finance, individual Directors and other senior officers as appropriate.

8.2 The risk-based plan will outline the audit assignments to be carried out.

8.3 The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment covering the impact and likelihood of the inherent risk for each auditable area. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.

8.4 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.

8.5 As part of the planning process, the Chief Auditor will identify other potential sources of assurance and will include in the risk based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

8.6 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management, including risk of fraud and control processes.

9. Reporting and Follow Up

9.1 A written report will be prepared by the appropriate auditor for every audit review and distributed in line with established and agreed reporting protocols. This will include an opinion on the adequacy of controls in the area that has been audited.

9.2 The draft report will be discussed with the auditees and a response obtained for each recommendation stating their response to each recommendation along with a timescale for implementation. The final report will include the management responses and will be issued to the relevant Director and other officers in line with directorate protocols.

9.3 Any reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment will be subject to a follow up review to determine whether the recommendations made have been implemented.

9.4 Regular update reports to Audit and Governance Committee will show the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings.

9.5 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP.)

9.6 The PSIAS also requires the Chief Auditor to establish a follow up process to monitor and ensure actions have been effectively implemented. This is an established process within RBC, with a follow up review being undertaken on any assignments with limited assurance/no assurance, to ensure recommendations have been adopted and suggested controls are working well in practice.

10. Assurance to external organisations

10.1 The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms/service level agreement or equivalent. The work carried out to provide such assurances will be conducted in accordance with Internal Audit's quality procedures and service standards. These will be included in the annual audit plan.

11. Fraud and Corruption

11.1 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.

11.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.

11.3 In line with Financial Regulations (Section 6.5 – Preventing Fraud and Corruption), whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Chief Auditor. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

12. Authority of Internal Audit

12.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 which came into force on the 1st April 2015 state that:

(i) *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

(ii) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*

(a) *make available such documents and records; and*

(b) *supply such information and explanations; as are considered necessary by those conducting the internal audit.*

(iii) *In this regulation "documents and records" includes information recorded in an electronic form.*

12.2 The statutory role is recognised and endorsed within the Council's Financial Regulations[2], which provides the authority for access as follows:

Directors must ensure that Internal Audit is allowed to:

(i) *Enter any council premises or land at all reasonable times;*
(ii) *Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties;*
(iii) *Receive such explanations as are necessary concerning any matter under examination.*
(iv) *Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee's duties.*

13. Code of Ethics

13.1 All our Internal Auditors must conform to the Chartered Institute of Internal Auditors Code of Ethics. The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.

13.2 The Code of Ethics includes 2 essential components – the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications.)

13.3 Internal Auditors will adhere to RBC relevant policies and procedures (including the Employee Code of Conduct) and local Internal Audit procedures.

13.4 All Internal Auditors will be qualified by experience, hold a professional qualification, or be training towards a professional qualification.

13.5 In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

[2] Financial Regulations – Section 2.8 'Internal Audit'

14. Review of the Effectiveness of Internal Audit

14.1 The Accounts and Audit (England) Regulations 2011 required councils to conduct, at least once a year, a review of the effectiveness of its internal audit. Within RBC, the internal audit annual report and opinion provides an overview of the work and performance of Internal Audit throughout each year. The annual report, along with independent reviews by the external auditors, provides an assurance of the effectiveness of the Internal Audit service during the year.

14.2 These 2011 regulations have now been superseded by the Accounts and Audit Regulations 2015 which maintain the requirement for an effective internal audit function and state that:

A relevant authority must, each financial year—

(a) conduct a review of the effectiveness of the system of internal control

14.3 Internal Audit will continue to provide assurance on the effectiveness of the function through the annual reporting process.

15. Quality Assurance and Improvement Programme (QAIP)

15.1 The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.

15.2 The Chief Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to the Director of Finance and the Audit and Governance Committee.

15.3 Internal Audit issues a customer satisfaction questionnaire following each audit assignment. The results are used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 January 2018**	**AGENDA ITEM:**	**7**
TITLE:	**Annual Governance Statement 2016/2017 – Updated Action Plan**		
LEAD COUNCILLOR:	**Councillor Lovelock**	**PORTFOLIO:**	AUDIT & GOVERNANCE
SERVICE:	**FINANCE**	**WARDS:**	N/A
	Peter Lewis	**TEL:**	0118 9373263
JOB TITLE:	**Director of Finance**	**E-MAIL:**	**Peter.lewis@reading.gov.uk**

1. EXECUTIVE SUMMARY

1.1 The Council is responsible for ensuring that financial management is adequate and effective and that there is a sound system of internal control, which facilitates the effective exercise of the Council's functions. It is also essential that there are effective 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. This was presented to the Audit and Governance Committee in July 2017 along with an action plan to address the governance challenges identified. Further reports were presented in September and November 2017, updating the Committee on the actions taken to that date.

1.3 This report updates the Committee on the further progress made against the action plan; the details are appended. Discussions are underway with the Chief Auditor to identify how he can, in future, offer assurance to the Committee about progress being made and when it would be appropriate to sign off the actions.

2. RECOMMENDED ACTION

2.1. It is recommended that the Committee considers, and comments on, the progress being made against the action plan and also indicates any further requirement for information to assure themselves of continued improvements.

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
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	A revised and more robust budget for 2017/18, including a MTFS to 2020, was presented to, and agreed by, the Policy Committee in July 2017. There is now in place a robust savings monitoring regime overseen by the Delivery Unit and the Corporate Programme Delivery Group. Budget monitoring from September showed pressures emerging in 2017/18 and mitigating actions were put in place. These pressures will have an impact in 2018/19 and beyond so additional work is required to prepare the refreshed 2018/19 budget and MTFS (extended to 2020/21). This work is well underway, with the first report to Policy Committee on 15 January and the next on 19 February with proposals to deliver a balanced budget and MTFS. In addition a Corporate Plan for 2018-21 is being developed in parallel with the budget preparations.
2.	Prepare and deliver a robust savings monitoring programme to ensure that savings are delivered and/or adjusted according to a strong governance	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	There is a process for robust savings monitoring overseen by the Delivery Unit and the Corporate Programme Delivery Group (CPDG). This has been in place since May 2017 and has been improved each month. There is now more independent investigation into each saving by the Delivery Unit and more scrutiny at CPDG and at the individual Directorate Steering groups. This has driven up the standard of scrutiny and the quality and regularity of information being supplied

Annual Governance Statement 2016/17 Implementation Plan							
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	process						from directorates. There is a clear expectation that where savings cannot be delivered then mitigating actions are put forward. The recent Internal Audit review of this area was encouraging with only minor recommendations. The interim lead of the Delivery Unit left in December and transition to a permanent post holder has taken place. The first 9 months review of progress on savings shows a positive trend upwards in delivery of existing savings.
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)	Since September 2017, relevant officers have been asked to send reconciliations to the Finance Service each within 1 month of the month end. After chasing, all but Housing Rents had been received to the end of November at the time of writing. Review of the reconciliations received has highlighted various historic transactions that need clearing, and that is currently being progressed. Most services have also submitted procedure notes, which are being reviewed. On initial inspection, they generally appear to be sensible outlines of the reconciliation work required. Not all the reconciliations currently balance, and those not in balance are in discussion between the Head of Finance and relevant staff doing the reconciliation A simplified schedule is also being

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							prepared for periodic consideration by senior finance managers and the officer Due Diligence Group.
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	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. Key monitoring piece of work is LAC Modelling and the development of the MOSAIC system.	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. 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.	June September 2017	Partly achieved, further improvements depend upon Team resourcing Started in July but slower progress than anticipated	Director of Finance	Temporary Senior Accountant has been with the team for some time. DMT now demonstrate a strong understanding and ownership of budgets within the Directorate Performance Meetings. Finance assists decision making with DMT by providing robust, accurate and timely information to assist in the process. There is improved budget monitoring and clear understanding of Children's Services budgets and key high risk areas, and the factors impacting on these areas. The LAC monitoring of CSE children and the activity data are now used in the budget monitoring process. Recent changes in the type of cases being dealt with have introduced another cost factor that is now being analysed for impact. This data analysis has been fed into developing the 2018/19 budget and the MTFS to seek to ensure that it is robust. A strategy has now been developed for SEND to be implemented and to reduce the pressure on the High Needs budget. Finance has improved the monitoring for schools with deficits and are implementing

Annual Governance Statement 2016/17 Implementation Plan							
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							loan agreements.
5.	Further develop the financial culture of the Council	A revised budget management handbook will be made available and it is planned to have some training sessions to launch and embed it. CMT will further scrutinise financial information and seek to lead by example in terms of the culture.	Revised handbook was published in April 2017. Training sessions are being planned for November 2017. CMT already scrutinises finance and performance information, but will undertake more intense investigation to ensure that expenditure is delivered in line with the budget.	April 2017 November 2017 June 2017 (first monitoring for 2017/18)	Complete In planning Commenced	Director of Finance	Training for all budget managers then took place in week commencing 6 November; 142 budget managers were trained over the ten available sessions and additional sessions are planned to cover more managers and further develop financial understanding The planned restructure of the Finance Service will also prepare for a different cultural environment where there is more self-service by budget managers; implementation of the structure will commence in late January/early February 2018. Further initiatives around procurement and budget savings emphasises the need for all managers to engage in financial matters. Detailed scrutiny of the budget position for 2017/18 takes place monthly at CMT meetings; Directorate Steering Groups sessions now present the opportunity for more detailed scrutiny. Remedial actions are required to seek to ensure that, overall, spend remains within budget. Ongoing discussion about the MTFS and savings requirements further engages managers in the financial debate.

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
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 overseen by an independently chaired Improvement Board (CSIB) reporting quarterly to ACE Committee	Actions are being delivered in accordance with various action plans and monitoring regimes.	Various to 31/3/18 and beyond	In progress	Director of Children's, Education & Early Help Services	Monitored monthly at CSIB. Key headlines are that of 39 actions 10 are rag rated as green i.e. making good progress; 16 are amber i.e. some delays with mitigation and 13 are red i.e. out of timescale or presenting risk. All red actions have clear plans and are being actively worked and tracked.
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	Since the recruitment drive was launched in June 2017, there have been 38 staff recruited, with 3 of them due to start in February or March. Eleven of these are people who have been working with RBC through Agencies. This shows that they are continuing to be encouraged to convert to directly employed. There have been 6 internal appointments. Of the 38, 22 are managers - 7 Service Managers, 11 Team Managers and 4 Assistant Team Managers. There are still 28 Social Workers to be recruited. A recruitment campaign is about to launch targeting experienced Social Workers. Some of the new starters have given feedback on their experience of the recruitment and induction process. This has been mainly very positive and the feedback is to be built on to improve the experiences for future recruits.

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No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
							Learning & Workforce Development(LWD) is a key focus with managers having individual development plans and a Talent Programme being developed. All the permanent Service Managers have recently undergone a Skills Assessment with an external partner, Learning & Workforce Development and the Service Consultant. The progress will be reviewed by LWD. Reflective supervision training is being delivered. This aims to develop the managers and front line staff and assist in retaining the permanent staff.'
8a.	Internal Controls: *General Ledger* – 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 – all short term target dates met	Financial Systems Manager	All of the three Priority 1 (Red) issues have now been fully addressed: – a daily log of interface files process is kept and reviewed; originating teams are informed of daily file values (item 1 on report) - All user input journals are now subject to a review process by Senior Finance Staff to ensure that journals are correct, and appropriate working papers are attached within Fusion. Until 8th January 2018, this was performed externally to Fusion, but since this date a Fusion based system of approval has been implemented which gives a full audit trail of actions performed on a journal (item 2 on report). This process was approved by Internal Audit prior to being implemented. - Internal Audit have been provided with

Annual Governance Statement 2016/17 Implementation Plan							
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							access to Fusion data table contents (item 4 on report) Internal Audit is due to undertake a follow up review shortly.
8b.	Internal Controls: *Accounts Payable* – detailed action plan in response to Internal Audit findings to be completed and delivered	Specialist Payments Team Change Manager to be appointed. Change Manager to review AP Audit Management Action Plan and complete Management Response, Response Person and Target Date Create detailed supporting implementation plan that addresses all points raised and integrates solutions with introduction of upcoming supplier portal	Interim Accounts Payable Change Manager Appointed Documents reviewed by Change Manager and commented Summary top level run through completed with Accounts Payable team Balance of actions o/s	5 June 2017 8 June 2017 9 June 2017 9 June 2017	Recruitment Completed Manager in Post Completed Known remedial actions will be factored into (currently in draft) audit milestone plan Completed	Director of Finance Accounts Payable Change Manager	Post holder continues to make a positive impact. Full Audit Response submitted to IA with all Amber then Green tasks prioritised (no red). Audit response reviewed and accepted by Internal Audit. Ongoing review to identify any further (non-audit) AP process improvements. This work has currently identified a further 8 areas for change to enhance or streamline existing processes. Much of which has now been delivered. There is a milestone report that contains • All AP Remedial audit actions agreed upon. • The Supplier Portal implementation Project actions. • The Invoice Scanning Project Implementation actions From this report 18 actions are fully completed 14 actions are in varying degrees of progress 5 actions previously deprioritised in favour of other business priorities have been

Annual Governance Statement 2016/17 Implementation Plan							
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							rescheduled live with end Jan or Feb delivery dates. 8 task are on hold due to FFF or awaiting completion of scheduled feeder work to facilitate last step. Main areas of focus at this time are the completion of the FFF process Implementation of the new procurement process (now defined) The rollout of the supplier portal and the reporting on productivity achieved (and impact of ongoing issues with scanning solution).
8c.	Internal Controls: *Bank Reconciliation* – regular completion of timely reconciliations throughout the year	A revised properly structured procedure will be put in place to complete the bank reconciliation, with proper "walk through" possible Bank account reconciliation completed in timely way and reviewed by a senior officer on a monthly basis, within the month	Considerable work was done to identify the weaknesses of the existing process (substantially by the Treasury & VAT officer, under the guidance of the then Interim Chief Accountant This has identified the need to	Process in place from July with suitable "back entries" for months up to July 2017	Work in Progress. Work has proceeded more slowly than the aspiration because officers involved have had to deal with other work, notably external audit queries There was	Head of Finance	A revised Bank Reconciliation Process has been designed, and the system supplier (Civica) was on site implementing changes to facilitate moving to the new simplified process for various days in January. A member of the Interim closedown team has been looking at the process to help identify (process) anomalies which need to be resolved for the proposed new process to be successful. We continue to successfully check daily that all receipts in the bank account are processed by the Civica (cash) system, so we know we do not have unallocated cash receipts. As payments are in the main originated within RBC (through the Oracle Fusion Payments module or Payroll), we should therefore have control at transaction level.

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			change the		also a considerable delay getting dates from the system supplier to make system changes		The new bank reconciliation process essentially brings these together, and allows for the "timing differences" to reconcile the Oracle Fusion bank position with the actual bank account. With regard to historic reconciliations, we know there are some historic unreconciled items to clear, so the legacy unreconciled balance can be removed. A verbal update on the work with Civica should be available at the meeting.
8d.	Internal Controls: *Information Governance & data protection* 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	Ongoing face to face Data Protection training currently being delivered to all staff. Teams who process and hold sensitive data a high priority. A need to target staff who work at offsite locations. Working with Learning and Development to further develop E-learning packages Covering Information Governance including the GDPR which is due to rolled out to all staff to complete at the end of January. Further face to face training will also be available to staff. The GDPR project team are working through the changes to be introduced and a data audit survey has been rolled out to all staff. The project team have started to hold monthly drop in sessions for staff to help awareness of the new regulation. Further information sessions have been added to inform staff the next stages they need to complete. A short presentation to Senior Leadership

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
							Group means they are now aware of the scale of changes introduced by the GDPR. Dates have been provided to SLG for information sessions to inform them of the next steps the service areas need to take. All contracts with suppliers, contractors and providers will need varying in line with the GDPR On online process is in development for staff to complete Privacy Notices and Data Protection Impact Assessments for processing activity to ensure compliance for GDPR. Future coms will follow instructing staff how to complete the process. New software (Data leakage protection), to detect inappropriate email content, is imminent Document marking software is already in place
8e.	Internal Controls: *Subject Access Requests* Under the Data Protection Act 1998, individuals have a right to access information held about them. A consistent policy	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	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	The new procedure is working well with all routes of access being co-ordinated by Legal Services. The GDPR imposes new requirements on local authorities dealing with SARs and we will need to make amendments to our processes in light of this. Internal Audit review is shortly to commence.

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
	and procedure should be applied to subject access requests.	officers are being trained by Legal Services					A need for additional resources has been identified and managers in DEECHS are pursuing this
8f.	Internal Controls: *Electronic Document & Records Management* - 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	Complete	Head of Customer Services	Internal controls and process improvements in place. Royal Mail courier contract is now in place, with transition completed by the due date of 31 Dec 2017 Information asset owners engaged and consulted on proposed changes to processes and supplier. Internal Audit follow up review is underway.

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
8g.	Internal Controls: *Accounts receivable* All services raise invoices promptly and provide sufficient details on invoices to improve collection performance	Refreshed procedures are being written up to accurately reflect the procedures we have in place for raising, monitoring and chasing of unpaid invoices. These procedures will be re-launched and shared with other service areas, to ensure the quality of information provided on invoices is improved.	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. This could have several potential advantages for the Council and could improve the efficiency and	31 January 2018 for the review	In progress	Head of Customer Services / Head of Finance	This project has now commenced with a series of workshops to set out the new process and determine which areas of invoicing might benefit from change. A detailed project plan has been developed and the centralisation of invoices is planned to be in place by the end of May.

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
			effectiveness of income collection and recovery. This proposal is to be further investigated and presented to CMT for discussion in the near future.				
8h.	Internal Controls: *Nursing & residential care packages* > Improve audit trails to provide better evidence of placement decisions made by the Adult Funding Panel	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	These are clearly recorded; an audit of the panel proformas and decision log will be completed to ensure compliance with the process annually.	Ongoing Ongoing	Green Amber	Director of Adult Care & Health Services	The Department has introduced a formalised short term intervention team at the social care front door to manage demand. This team focusses on providing timely interventions such as assistive technology, equipment and rehabilitation services. This aims to prevent services users coming in to statutory services earlier than they need to including being placed too early in residential settings. Up to 10.1.18 84% of cases were diverted following the Call Centre intervention during November and December. The Department has established a pre-funding eligibility and risk panel process currently being introduced to maximise monitor the use of universal community options, assistive technology and Public Health commissioned services to support residents to remain at home as long as possible. The Pre Eligibility and risk Panel

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
	Improve procedures to ensure care packages are reviewed annually to comply with statutory review process	who contribute to the decision making process. Reviews are recorded in MOSAIC, this generates a review date. Managers run reports from MOSAIC to monitor performance and compliance.	Review project in place to support compliance with reviews. Reports run for managers to review evidence of performance.				also provides information of the current market availability to ensure workers are well informed to consider effective commissioning options. An Eligibility and Risk Panel meets weekly, chaired by the Head of ASC or the DASS, to provide a robust approach to decision making in relation to eligibility and applying consistency in the approach to how care and support needs are met. Extra Care is the first consideration where a resident requires a significant level of support as a preference in promoting independence in the community rather than residential care. Eleven people were admitted to ECSH as an alternative to residential care in this time period. 142 cases were considered in November and December which after consideration of eligibility the total cost committed was £23,352. All Direct Payments from 1st January 2018 are being provided a Pre-Paid Card and at the time of review existing service users will be moved to a pre-paid card. This will enable tracking of expenditure on line, and enables unspent budgets to be recouped easily. Summary The Director is establishing a Governance Framework and has created a Performance

Annual Governance Statement 2016/17 Implementation Plan							
No.	**Management Action**	**How implemented**	**Progress**	**Due date**	**Status**	**Responsible Officer**	**Monitoring Comments**
							and Finance Board and a Quality Board to ensure robust accountability of the standards of practice and funding allocations. The first meetings will take place in Feb 18.
8i.	Internal Controls: *Corporate Governance* 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	Ongoing	Head of Legal and Democratic Services	New Code of Conduct sent via Netconsent from 1/12/17 In addition new Anti-Fraud and Money Laundering Policies have been drafted and approval processes are underway, ultimately ending with Policy Committee in February 2018. A revised Corporate Governance Code of Practice is yet to be drafted although it intended to be presented to the Audit and Governance Committee in April (or May) 2018.
8j.	Internal Controls: *Strengthen and embed the processes for the management of risk.* 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	1st April 2017 31 Dec 2017	Complete Ongoing	Director of Finance	22 staff have been invited to Level 4 Risk Training and 19 have accepted, split between 2 courses on 30/10/17 and 15/11/17. Further sessions have been arranged for March 2018. New reformatted risk register has been agreed by CMT. The new format introduces risk appetite and aims to better inform those responsible for managing risks. A risk workshop, facilitated by the Council's insurers took place in on for 28 Nov 2017, to ensure the risk register is focusing on

Annual Governance Statement 2016/17 Implementation Plan							
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			in for quarterly review at CMT. Level 4 Risk Management training, supplied by Council's insurers being scheduled for senior officers.				the Council's most strategic risks The new format will be presented to CMT on the 16 and then to A&G on the 25 Jan 2018. 2 of 4 directorate risk registers have been reviewed for Q3 and the remaining 2 are scheduled for review in Jan 2018.
8k.	Internal Controls: *Compliance* 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	May 2017 September 2017	Developing and ongoing Requires planning	Director of Finance	AGS action plan is now in place and is being actively monitored by the Due Diligence Group. Those responsible for the actions identified above are both implementing the actions and updating the action plan. Action leads are attending the Due Diligence Group on a periodic basis. The recently implemented Directorate Steering Groups are reviewing overall performance and adherence to standards and will start to have some impact in governance terms. Overall, the mood of the organisation is being changed through a range of interventions, including the Chief Executive staff briefings. The internal audit team will follow up progress through targeted reviews (e.g. financial system reviews) and governance audits when preparing the 2017/18 annual

Annual Governance Statement 2016/17 Implementation Plan							
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			due course.				governance statement (AGS). Any outstanding actions will be carried forward into the 2017/18 AGS.
9.	Develop a clear and 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 communicatio n 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	• Information message sent on 28/11/17 confirm CoC has been updated and will be sent via Netconsent to staff from the beginning of December. 30 days to show staff have read and understood it • E-mail sent on 28/11/17 to Heads of Services and PA's with the new spreadsheet and process for recording gift, hospitality and interests • The new register of interests will be monitored quarterly at DMTs and published accordingly A short questionnaire to be added to the learning pool which confirms staff understand key conduct obligations including gifts, hospitality and interests
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	New meeting arrangements were put in place from 1/8/17. This includes new directorate steering groups which involve meetings of DMT's & corporate senior management. New directors reports on performance have been put in place reporting into CMT. Meetings are in place; these focus attention on processes, systems and performance for each single directorate. Each director is held accountable for progress and performance. The Delivery

Annual Governance Statement 2016/17 Implementation Plan							
No.	Management Action	How implemented	Progress	Due date	Status	Responsible Officer	Monitoring Comments
							Unit prepares the information in a consistent form. Proposals are being developed for the creation of a centralised performance and data function – to give insight to inform policy. The use of business objects software is also being investigated.

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 JANUARY 2018**	**AGENDA ITEM:**	**8**
TITLE:	**ACCOUNTS 2016/17**		
LEAD COUNCILLOR:	**Councillor Lovelock**	**PORTFOLIO:**	**LEADERSHIP**
SERVICE:	**FINANCE**	**WARDS:**	**N/A**
	Peter Lewis	**TEL:**	**0118 9373263**
JOB TITLE:	**Director of Finance**	**E-MAIL:**	**Peter.lewis@reading.gov.uk**

1. EXECUTIVE SUMMARY

1.1 The accounts for 2016/17 were due to be completed and audited by the end of September 2017. As explained at that time, it was not possible to deliver signed and audited accounts due to significant challenges experienced in their preparation.

1.2 This report sets out the ongoing and future actions by officers of the Council to deliver the 2016/17 accounts and to improve the quality of financial processes and systems in order to deliver a true and fair view in the future.

2. RECOMMENDED ACTION

2.1 The Committee is requested to consider the current and future actions set out in this report and indicate their support for them, amended as required.

3. BACKGROUND AND PROCESS

3.1 The Committee received a report in September 2017 stating that it was not possible to present, at that time, a set of signed off and audited accounts for the financial year 2016/17. That report set out the issues that had prevented the successful completion of the accounts.

3.2 Since then, significant effort has been committed to addressing the deficiencies in the accounts and this report summarises the actions taken to date and those planned. In undertaking these actions, attention is also being paid to preparations for the completion of the 2017/18 accounts, which must be undertaken by 31 May 2018 with the audit complete by 31 July 2018.

3.2 While there remains strong commitment within the Finance Team to delivering improved accounts for audit, it is recognised that to move from the current situation to unqualified accounts within the current accounting year is a tough challenge.

3.3 One of the first and arguably most important actions to be undertaken was to significantly bolster the resources dedicated to the task of improving the accounts. Other actions have also been initiated to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. The table below briefly sets out the actions underway or planned at the current time.

No.	Comments and Actions	Intended Impact	Underway/ Future
1	Fundamental restructure of the Finance Function, to fit with the Chief Executive's proposals for strengthening Corporate Support Services	Improve clarity of roles, capability and capacity within the Function to ensure that both financial and management accounting activity, along with technical tasks, are carried out correctly	U – consultation phase is complete; minor amendments made to initial proposals; selection processes underway shortly
2	Health check of the Fusion (the main financial ledger) system	Ensure that the system is working as intended, and particularly that the set-up is efficient so maximising system tasks and reducing manual tasks	U – contractor selected; Fusion upgrade now completed and arrangements for the healthcheck are being made with start date of 23 January 2018
3	Recruitment of additional interim technical accountancy capacity	To work with interim Chief Accountant to improve the accounting processes within the wider organisation (e.g. Collection fund accounting)	Complete – all required interims have been in place for several weeks
4	Recruitment of permanent Chief Accountant	Seasoned professional required to drive up technical accounting standards and embed them throughout Finance and elsewhere as needed	Complete – new Chief Accountant commenced in post on 2 Jan 2018
5	Implement new year-end software designed by CIPFA with EY	Implementing the system will both drive improvements in process and structure of the accounts, and it will	U – Work has started with CIPFA during December 2017 but progress has been delayed due to personal issues with the

		enable easier production of the accounts in a tighter timeframe next year	CIPFA consultant assigned to the RBC implementation. Alternative resources from CIPFA are due to be assigned w/c 15.01.18
6	Version 3 of the 2016/17 accounts presented to EY for technical review	Version 2 was reviewed by EY prior to September 2017; corrections were needed and the majority of these were done for version 3 by end September. Version 4 was reviewed by EY in October and they noted improvements, but also that there was more work to be done. Version 5 to be submitted to EY for review on 15 January	U – We have submitted V5 for review to EY who are reviewing this version of the SOA on the 15 and 16 January; the majority of technical issues are thought to be resolved; however the narrative statement requires further work during January 2018
7	Reconciliations - per the AGS action plan, a list of reconciliations has been prepared and a review of them is underway. New software will be introduced for bank reconciliation and 2017/18 to date will be reconciled	Reconciliations of key systems with the General Ledger (Oracle) are a fundamental part of our control framework. Whilst routines are in place, they have not been carried out in full for 2017/18 to date, but are being brought up to date and will then be completed on a routine basis	U - Since September 2017, relevant officers have been asked to send reconciliations to the Finance Service within 1 month of the month end. Review of the reconciliations received has highlighted various historic transactions that need clearing; these are currently being progressed. Procedure notes are also being reviewed; on initial inspection, they generally appear to be sensible outlines of the reconciliation work required. Not all reconciliations currently balance, and those not in balance are in discussion between the Head of Finance and relevant staff doing the reconciliation. Software changes to facilitate a revised simplified bank reconciliation process are being implemented.

			A simplified schedule of reconciliations is also being prepared for periodic consideration by senior finance managers and the officer Due Diligence Group. Most 31/3/17 reconciliations had been completed
8	Journals – previous EY audit work showed that evidence underpinning journals was not adequate. Evidence is being attached to journals in the Fusion system, focusing on the EY sample initially	Good quality evidence is being presented for EY audit to give assurance that transactions on the accounts are sound. As this report is being written, EY are undertaking their review work in this area	U – Good progress has been made through the 581 sample and EY have now reviewed many of the samples and their queries appear to be resolved; it is hoped to give a further oral update at the meeting
9	Debtors and creditors – EY were not able to draw samples due to lack of detailed breakdowns of debtor and creditor balances and impact on control account reconciliations	It was identified during the external audit that officers had difficulty in breaking down in detail balances held in Oracle. This will require further investigatory work on source systems that feed the Oracle General ledger. Once this is completed, then EY can draw their samples and test transactions. This area is very important as it is the one with most potential to affect the outturn position	U – Debtors samples have commenced being drawn by EY w/c 08.01.18 and officers are assisting with providing evidence and explanations for balances. It is expected that Creditor balances will be able to be drawn by EY after the 19th January 2018
10	Correct issues identified during the 16/17 audit and address these for the 17/18 financial year	Preparation for the valuation of assets is underway for the 17/18 year end. Review of the fixed assets spreadsheet for 2017/18 is underway	F and U EY have commenced reviewing assets for 16/17 and correction for AUC, Surplus and investment properties. RBC has engaged with external valuers for the 17/18 revaluations
11	We are working with RTL to consider aligning financial years and accounting treatments	It is necessary for RBC to ensure that the transactions and accounts of RTL are	RBC has obtained aligned accounts from RTL which have been audited by the interim internal auditor to

	if possible. Journal controls are in place. Improved arrangements for reconciliations are in place	audited and verified as they are then consolidated into RBC accounts	provide scrutiny on RTL's reported and consolidated results. The audit results will be shared with EY as part of the 16/17 issues for resolution. In addition to this RBC will also audit the 17/18 aligned accounts in due course
11	Implement new processes to ensure that inadequate practice identified in 2016/17 is amended for the later part of 2017/18	To improve the standard of accounting practice as a foundation for the remainder of 2017/18 and beyond	U - A revised journal process has been implemented to include senior officer review & sign off. Journal evidence improved though resourcing the checks is proving challenging and highlighting other issues needing to be fixed; reconciliations underway. The second phase of Journal controls have been implemented w/c 15.01.18 and training will be rolled out by the interim internal auditor during January 2018
12	Interim Directorate Accountant for DACHS secured for the remainder of the financial year	Required to improve management accounting and support to the directorate in controlling budgets in challenging circumstances	Complete- commenced in post on 2 October

3.5 EY began to undertake some formal audit work during December and continue to have auditors on site to carry on the work. Regular update meetings take place between the Director of Finance and Maria Grindley (Associate Partner at EY), to provide updates and seek guidance and advice where possible.

3.6 At the present time it is estimated that our programme of work is about two weeks behind where we had planned it to be, although EY sent auditors in about two weeks earlier than expected. While, overall, we would have liked to be further ahead, it is an achievement to be where we are. When the timetable to the end of December 2017 was set, the interim team, who largely had no previous involvement with the accounts, could only anticipate the challenges that they may find. They have discovered more issues than anticipated and have therefore worked hard to keep to as near the target date as possible. It is very helpful that EY are being flexible with the deployment of auditors to make sure that there is sufficient material to keep them all occupied. The onus is now on the Finance Service to keep the audit packages flowing and to respond to EY queries swiftly.

3.7 EY have explained that a key document for them is Version 5 of the Statement of the Accounts, which will be supplied to them on 15 January for review. While the underpinning transactions will still need to be tested, the accuracy and attention to detail with which we put this document together will indicate to EY how far the Council is away from a signed off set of accounts.

3.8 The Chief Accountant is now developing the plan for the 2017/18 closure of accounts to ensure that we meet the even tighter deadline. Many of the actions already taken and foundations laid through repairing the 2016/17 account will support the closedown for 2017/18. The Committee will be updated on progress at each meeting.

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 JANUARY 2018**	**AGENDA ITEM:**	**9**
TITLE:	**PREPARING FOR THE 2018/19 BUDGET DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2018/19**		
RESPONSIBLE COUNCILLOR:	**COUNCILLOR STEVENS**	**PORTFOLIO:**	**CHAIR OF AUDIT & GOVERNANCE**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**ALAN CROSS**	**TEL:**	**0118 9372058**
JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out some of the matters that will be relevant to the final 2018/19 Budget Report.

1.2 This report enables some pre budget scrutiny as recommended by CIPFA of the current draft the Annual Treasury Strategy & Investment Statement. Of necessity, elements of the strategy are technically complex, and Audit & Governance Committee Scrutiny enables some councillor consideration in public committee ahead of decisions that need to be made in February.

1.3 The Treasury Strategy Statement will in due course form part of the Council's overall budget proposals, presented as part of the Budget Report to Council in February.

1.4 The draft Treasury Strategy may see some amendments to ensure it is consistent with the remainder of the budget proposals, but major change impacting 2018/19 is not anticipated. In introducing the item at committee, a short presentation will highlight key treasury management and related issues for 2018/19.

2. RECOMMENDED ACTION

2.1 That the committee considers the draft Treasury Strategy & Investment Statement, prior to setting the 2018/19 budget.

3. POLICY CONTEXT

3.1 The Council is required to have a Treasury Strategy & Investment Statement in place in order to comply with legislative requirements and recommended professional practice. As the strategy is linked to the Council's overall budget strategy, it is formally considered and approved each year as part of the budget. There are some changes this year as set out in the draft strategy statement.

4. THE PROPOSAL

4.1 The draft Treasury Management Strategy Statement is attached in Annex A. This report enables Audit & Governance to consider the draft statement for 2018/19 (at Annex A) ahead of Policy Committee & Council in February.

4.4 There will be a brief presentation at the Committee meeting to explain the key treasury and other issues the council is likely to face over the next year. There are a few gaps (marked "to follow") or things that may change in the draft Treasury Strategy as the budget proposal for 2018/19 is yet to be finalised.

5. CONTRIBUTION TO STRATEGIC AIMS

A key objective of the Council's Corporate Plan is to remain financially sustainable to deliver its key service priorities. Proper management of the Council's Treasury position and property investments helps support the overall achievement of the Council's financial objectives and service strategies.

6. COMMUNITY ENGAGEMENT AND INFORMATION

The Council does not directly consult with the community on these particular issues, though occasionally receives queries about its treasury and property 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 elsewhere in this report and appendices.

10. BACKGROUND PAPERS

The statement has been prepared using a template provided by Arlingclose, adapted for Reading's needs

CIPFA Treasury Management & Prudential Codes and guidance notes

Treasury Management Strategy Statement 2018/19

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

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

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (DCLG) issued revised *Guidance on Local Council Investments* in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year. During the Autumn of 2017 both CIPFA and DCLG consulted on revisions to the Code and statutory guidance, but at the time of writing, whilst the final CIPFA Code had been published, the final revised statutory guidance was not available. 2018/19 is seen as a transition year, and whilst CIPFA's Treasury & Capital Management Panel has issued a statement recommending both CIPFA codes are implemented as soon as possible, but recognised that the new formal requirement to have a capital strategy may not be fully implemented until 2019/20. In this code we have implemented changes to the practical extent reasonably possible[1] at the time of preparation. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the DCLG Guidance.

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

- Treasury Management Strategy for 2018/19
- Annual Investment Strategy for 2018/19
- Approve a (newly required) Capital Investment Strategy (to follow - not available for A&G)

[1] As usual the TMSS has been based on a template provided by Arlingclose. For practical reasons their *template covered the requirements of the 2010 CLG Investment Guidance and the 2011 CIPFA TM Code of Practice, including the Treasury Management Indicators. It could not reflect changes to DCLG Guidance which were published after the template was issued. We have made reasonable practical additions and amenments to take account of the later published guidance.*

- Prudential Indicators for 2018/19, 2019/20 and 2020/21 (with some updates to 2017/18)
- MRP Statement (in connection with debt repayment)

2. Introduction

2.1 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.

2.2 Revised strategy: In accordance with the DCLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Council's capital programme or in the level of its investment balance.

3. External Context

3.1 Economic background: The major external influence on the Council's treasury management for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

3.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

3.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

3.4 **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

3.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

3.6 **Interest rate forecast:** The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

3.7 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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

3.9 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.3%, and that new long-term loans will be borrowed at an average rate of 1.5% rising to 1.75% by the end of the year (reflecting short term borrowing at up to 0.75% and long term borrowing at 1.75%%. (In practice we are not budgeting for lending, and these borrowing rates are higher than is currently achievable, so include some cover for possible (modest) interest rate rises.

4. Local Context

4.1 On 31 December 2017, the Council held £352.2m of borrowing and 23.4m of treasury investments. This is set out in further detail at ***Annex B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	301.7	335.8	447.7	479.9	513.8
HRA CFR	191.3	187.1	189.8	190.1	190.5
Total CFR	493.0	522.9	637.5	670.0	704.3
Less: Other debt liabilities *	- 31.8	- 30.8	- 29.8	- 28.8	- 27.0
Borrowing CFR	461.2	492.1	607.7	641.2	677.3
Less: External borrowing **	- 353.4	- 339.2	- 286.7	- 282.3	- 278.0
Internal (over) borrowing	107.8	152.9	321.0	358.9	399.3
Less: Usable reserves	- 81.4	- 80.0#	- 70.0#	- 65.0#	- 60.0#
Less: Working capital	- 26.4	- 25.0#	- 25.0#	- 20.0#	- 20.0#
Forecast New borrowing Need	-	- 47.9	- 226.0	- 273.9	- 319.3

* PFI liabilities & Finance Leases that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

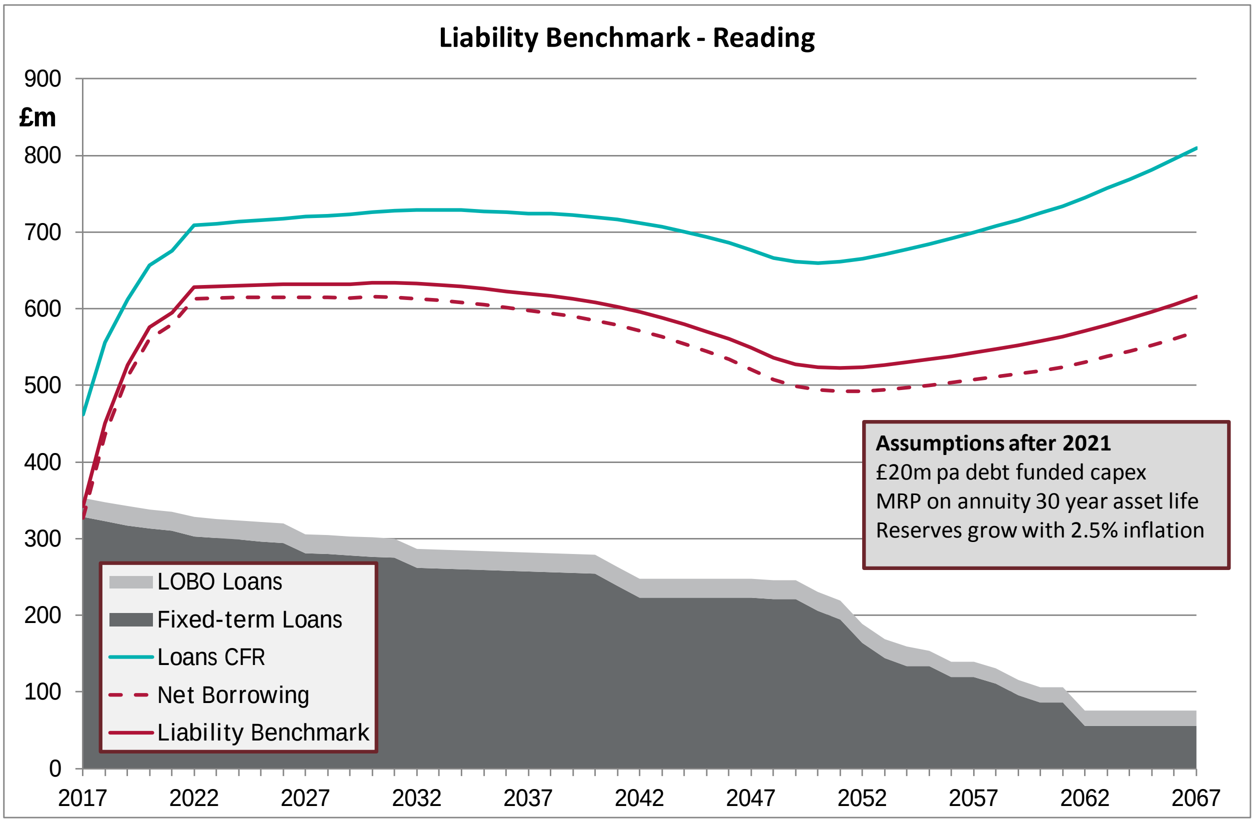
Figures will need to be reviewed when the draft budget proposal has been finalised

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. In recent years this has helped minimise net financing costs.

4.3 The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £320m over the forecast period, including c.£50m {to be confirmed} by the end of this financial year, and a further £176m next year. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19,and throughout the forecast period.

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

- capital expenditure funded by borrowing of £20m a year
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year (i.e. in real terms the Council's financial position is broadly stable)



[Draft Liability Benchmark Chart from November discussion with advisor]– *updated chart to be provided for Policy Committee/Council.*

4.5 The chart shows borrowing needing to rise from the current £350m level to around £600m by the early years of the next decade. This very large increase reflects the Council's strategy to have a large capital programme funded by borrowing (which is in part revenue generating, to help fund the borrowing).

5. Borrowing Strategy

5.1 At 31 December, the Council held £352 million of loans, a slight decrease from the £359 million 12 months ago. The balance sheet forecast in table 1 shows that the Council expects to borrow up to c.£180m in 2018/19. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £520 million.

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

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

5.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk at least in the immediate financial year. The benefits of internal and short-term borrowing will continue to be monitored regularly against the potential for incurring additional costs by deferring longer term (fixed rate) borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.5 Alternatively, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.6 In addition, the Council may borrow short-term to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term bor rowing are:

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

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

Operating and finance leases and hire purchase

Private Finance Initiative

sale and leaseback

The Council has historically raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates.

5.7 **Municipal Bonds Agency:** The UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. The Council, along with about 60 other authorities are shareholders. The MBA plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council approved the necessary cross guarantee arrangements to be able to participate in a bond issue some time ago. The MBA has been moving towards its initial bond issue for some considerable time, and provided our original rationale for investing remains true, subject to meeting the MBA's criteria the Council may be part of an MBA bond issue during the year. Should the terms of the cross guarantee arrangements have materially changed from those already agreed Policy Committee will need to approve the revised arrangements before proceeding.

5.8 **LOBOs:** The Council 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 at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOS have options during 2018/19, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

5.9 During 2017/18, the Council has been contacted by a lender of £10m of the Council's LOBOS setting out outline terms to repay the loan, in a way that either the LOBO risk could be removed at no long term cost to the Council, or the opportunity taken to refinance the borrowing differently at a lower annual treasury cost, at least for the medium term financial strategy period. The proposal appears to have some merit, and the Council's treasury advisor has been asked to complete a due diligence report, with a view to proceeding with a repayment during 2018. The loans are the most expensive LOBO loans the Council currently has and amongst the Council's most expensive long term borrowing (although they were originally arranged at then reasonably low rates in the market). The premium the Council will have to pay to replace these loans can be accounted for over the remaining period of the original loans and on initial inspection appears to offer some long term, and possibly shorter term advantages to the Council. As in previous years, total borrowing via LOBO loans will be limited to £40m, though assuming this restructure proceeds our actual LOBO portfolio will reduce to £15m.

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

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

6. Investment Strategy

6.1 The Council sometimes holds significant invested funds, representing income received in advance of expenditure and also has some limited balances and reserves. During 2017/18 to 31 December, the Council's investment balance has ranged between £19.8 and £70.8 million, and in the forthcoming year levels are generally expected to be between £15m and £25m (to ensure that we hold the minimum £10m liquid balance required to meet MIFID2 requirements, as well as the expected continuing holding of the CCLA property fund. Over the course of the year the balance could sometimes reach £50-£70m depending upon cash flow.

6.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest it's treasury 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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 **Negative interest rates:** Should the UK enter into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council moved the majority of its short term cash holdings to money market funds in 2015/16. With Arlingclose, we will consider options to further diversify into more secure and/or higher yielding asset classes during 2018/19. This diversification will represent a continuation of the new strategy adopted over the last couple of years.

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

- human rights abuse (e.g. child labour, political oppression)
- environmentally harmful activities
  (e.g. pollution, destruction of habitat, fossil fuels)
- socially harmful activities (e.g. tobacco, gambling)

These principles will be applied to investments made by the Council.

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

Table 2: Approved investment counterparties and limits

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

#In practice balances with individual counterparties are likely to be significantly less than £20m.

6.7 During recent years, Arlingclose have developed criteria for identifying which smaller building societies appear to have the most robust financial position, and the current recommended have been added below. Note that some banks on the list below currently have a nil counter party limit. The Council's S151 officer has Council to amend the list below at short notice on the advice of Arlingclose (subject to the Treasury Strategy as a whole).

Table 3: Proposed Counterparty List {to be verified with Arlingclose}

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)	Maximum Maturity Limit (negotiable instrument)
UK	Santander UK Plc (Banco Santander Group)	£10m		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	£20m	£20m	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	£20m		2 years	5 years
UK	Barclays Bank Plc	£20m		2 years	5 years
UK	HSBC Bank Plc	£20m		2 years	5 years
UK	Nationwide Building Society	£10m		6 months	5 years
UK	NatWest (RBS Group)	£0m	£5m (in the event the limit is raised)	2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	£0m		2 years	5 years
UK	Coventry Building Society	£5m		6 months	n/a
UK	Leeds Building Society	£5m		100 days	n/a
UK	Darlington Building Society	£1m		100 days	
UK	Furness Building Society	£1m		100 days	n/a
UK	Hinckley & Rugby Building Society	£1m		100 days	n/a
UK	Leek United Building Society	£1m		100 days	n/a
UK	Loughborough Building Society	£1m		100 days	n/a
UK	Mansfield Building Society	£1m		100 days	n/a
UK	Market Harborough Building Society	£1m		100 days	n/a
UK	Marsden Building Society	£1m		100 days	n/a
UK	Melton Mowbray Building Society	£1m		100 days	n/a

UK	National Counties Building Society	£1m		100 days	n/a
UK	Newbury Building Society	£1m		100 days	n/a
UK	Scottish Building Society	£1m		100 days	n/a
UK	Stafford Railway Building Society	£1m		100 days	n/a
UK	Tipton & Coseley Building Society	£1m		100 days	n/a

6.8 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.9 **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See 6.16 below for arrangements relating to operational bank accounts.

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

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

6.12 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made on the specific advice of the Treasury Advisor following an external credit assessment or to a maximum of £500,000 per company as part of a diversified pool in order to spread the risk widely. In practice this form of lending is not currently envisaged, but the possibility of doing it has been included on Arlingclose advice.

6.13 Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

6.15 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. At the current time the Council has not used such funds.

6.16 Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore normally be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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

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

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

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

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

6.20 Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

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

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

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£25m (including at least £15m in CCLA property fund)
Total investments without credit ratings or rated below A-	£20m (Including CCLA PF)
Total investments (except pooled funds) with institutions domiciled abroad rated below AA+	£0m
Total non-specified investments	£5m+ CCLA Funds

6.22 **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be £[to follow – from main budget report or Robustness appendix] million on 31st March 2018. To avoid putting reserves at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million (and normally for only short periods). A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit (as last year)
Any single organisation, except the UK Central Government	£15m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	5m in total
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£20m each

6.23 **Liquidity management**: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

6.24 **<u>Non-Treasury Investments</u>**

Although not classed as treasury management activities and therefore not covered by the 2011 CIPFA Code or the CLG Guidance, the Council may also purchase property for investment purposes and may also make loans and equity investments to the Council's subsidiaries. Such loans and investments will be subject to the Council's formally agreed approval processes, which sits separately this treasury management strategy. When the final new MHCLG Guidance is issued the Council may need to review it's Commercial Property Investment Strategy. Similarly, the Council's support arrangements for Homes for Reading Ltd may need review, though as was reported when the arrangement was approved, the Company's activities are closely linked to the Council's Housing strategy.

The Council's existing non-treasury investments are set out in Appendix B. The Prudential Indicators below have at this stage only allowed for the Council's planned property purchases to the end of the 2018/19 financial year, as it will be appropriate to consider each year whether further purchases are appropriate.

7. Treasury Management Indicators

7.1 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.

	Target
Portfolio average credit score	6.0

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. This target has been increased from £10m to £15m to take account of the requirement from 3 January 2018 normally to hold £10m for MIFID 2 related reasons

	Target
Total cash available within 3 months (above estimated cash flow requirements)	£15m

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

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	110%	110%	110%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for 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.

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

Maturity Structure of Borrowing	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and within 20 years	100%	40%
20 years and within 30 years	100%	
30 years and within 40 years	100%	
40 years and within 50 years	100%	
50 years and above	100%	

For the purpose of this indicator, time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment (with the next LOBO option dates treated as the repayment date). Although these limits have not been changed, the under 12 month limit will be reached during 2018/19 (if the whole £178m borrowing identified above were taken, together with other borrowing due to mature within a year). To avoid a breach, the Council will normally explore options with our Arlingclose to extend maturities should the under 12 month maturing actual borrowing exceed 20% of all borrowing (i.e. currently when such borrowing reaches about £80m).

7.4 Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20	2020/21
Limit on principal invested beyond one year	£15m	£25m	£15m	£15m

(Note that Arlingclose advise that the limit for 2018/19 is set in line with the long-term investment limit under non-specified investments above. The limits for the later years are smaller, so limiting investments made for longer than 2/3 years).

8. **Other Items**

8.1 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

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

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

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

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

However, during 2016/17 and 2017/18 some technical details of the methodology have been adjusted to recognise that in essence the £147.8m of loans the Council borrowed at the time of self-financing were primarily taken for HRA debt, and therefore the operation of the single pool should not lead to the average interest rate being charged to the HRA being less than the average rate on the remaining part of those loans (with the balance of HRA borrowing at the average of all other long term borrowing).

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

8.3 **Investment training:** The needs of the Council's treasury management staff for training in investment management are periodically considered especially when the responsibilities of individual members of staff change. Staff regularly attend training courses or seminars provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, or other appropriate organisations. There will need to be a review of overall training needs during 2018/19 because of wider staff changes anticipated within the Finance function. The new Chief Accountant will ensure this review is undertaken.

8.4 **Investment advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. We have at least two meetings per annum with Arlingclose, and make contact whenever advice is needed on treasury or related matters (including related capital accounting issues – for example during 2017/18 Arlingclose have provided assistance in resolving audit queries, including those related to PFI financing).

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

8.6 The total amount borrowed will not exceed the authorised borrowing limit of £520 million. The maximum period between borrowing and expenditure is expected to be less than 2 years, (as we would not normally borrow money that was not expected to be needed within the current or following financial year), although the Council does not link particular loans with particular items of expenditure.

9. Financial Implications

9.1 During 2017/18 the Council expects to earn around £60-70k on its cash balances. The estimate for investment income in 2018/19 is slightly higher (reflecting the November 2017 interest rate rise, but lower forecast cash balances) at c.£75k, based on an average investment portfolio of around £20 million at an interest rate just below 0.4%. The budget for debt interest paid in 2017/18 was £12.1 million but borrowing has been lower than forecast so costs will only be around £11.1m. The 2018/19 budget is £12.0m (of which £10.6m is currently committed), the overall budget being based on an average debt portfolio of £380 million at an overall average interest rate of 3.15%). If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. The treasury position is managed as a whole, with the aim of operating within the agreed capital financing budget. A range of other lines are included; income on our CCLA Property Fund Investment, Interest on money lent to others (Reading Buses and Homes for Reading Ltd) as well as our MRP budget. £6.5m interest costs are estimated to be charged to the HRA.

9.2 Other Options Considered

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

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

Prudential Indicators and MRP Statement 2018/19[2]

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

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in [the capital programme report pages X to X – in final Council Report].

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
General Fund *(split by service if appropriate)*	70.6	145.8	125.5	93.8
HRA	12.0	25.3	15.6	8.7
Total Expenditure	82.6	171.1	141.1	102.5
Government Grants	17.0	26.7	25.3	6.8
Capital Receipts	3.3	7.0	4.2	1.0
S106	1.6	5.9	2.9	-
CIL	3.3	2.0	2.0	2.0
Borrowing	51.0	123.3	100.7	86.3
Major Repairs Allowance	6.2	6.2	6.0	6.4
Total Financing	82.4	171.1	141.1	102.5

[2] As indicated above the TMSS and this template covers the requirements of the 2011 CIPFA Prudential Code (as amended in 2012). It also covers the requirements of the latest Guidance on Minimum Revenue Provision for an annual MRP statement (England 2012). The latest code removed explicit reference to HRA indicators, but recommended local indicators were used where the HRA was significant. In practice we intend to continue with the original agreed suite, given the HRA' significance in Reading).

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

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	335.8	447.7	479.9	513.8
HRA	187.1	189.8	190.1	190.5
Total CFR	522.9	637.5	670.0	704.3

The CFR is forecast to rise by £175m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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

Debt	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	387.0	493.0	556.0	597.0
Finance leases	<1.0	**<1.0**	<1.0	<1.0
PFI liabilities	30.8	29.8	28.8	27.0
Total Debt	**418.8**	**523.8**	**585.8**	**625.0**

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

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's 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 Council's debt.

Operational Boundary	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	**470**	500	530	560
Other long-term liabilities	**40**	40	40	40
Total Debt	**510**	**540**	**570**	**600**

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

Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	480	**520**	550	590
Other long-term liabilities	40	**40**	40	40
Total Debt	**520**	**560**	**590**	**630**

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

Ratio of Financing Costs to Net Revenue Stream {to follow}	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund				
HRA *(if applicable)*				

We need the final 3 year MTFS agreed to calculate these ratios

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

Incremental Impact of Capital Investment Decisions	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax			
HRA - increase in average weekly rents *(if applicable)*			

This indicator has been dropped by the new code and suggest we drop it

Appendix Y – Annual Minimum Revenue Provision Statement 2018/19

Summary Introduction

This statement was last substantially revised in 2016/17. The revised approach was considered similarly prudent to the previous one overall as debt will be paid off over the same period of time (albeit to a different profile, or in the case of older debt and historically supported borrowing over a 50 year fixed period, (rather than never being fully repaid).

In addition the policy was extended to include a similar approach with PFI assets, and in connection with a funding strategy for our equal pay liability. The revised policy included some discretion in relation to capital receipts and making additional provisions. Over the life of assets all debt will be repaid, but the annuity method seeks to equalise total financing costs over the asset life with the consequence that generally less debt will be paid off in early years. These MRP arrangements have been applied since the 2015/16 financial year. Only minor changes have been made for 2018/19.

Statement of MRP approach

1. The Government's Capital Finance and Accounting Regulations require local authorities to make 'prudent annual provision' in relation to capital expenditure financed from borrowing or credit arrangements. This is known as Minimum Revenue Provision or MRP, but it is often referred to as a provision for "debt repayment" as a shorthand expression. The Government has also issued statutory guidance on MRP, to which the Council is required to have regard.

2. This policy applies to the financial years 2017/18 and 2018/19, and is intended to apply for years thereafter subject to annual review as part of the budget. Any interpretation of the Statutory Guidance or this policy will be determined by the Chief Finance Officer (taking advice as necessary from the Head of Legal & Democratic Services and the Council's treasury advisor, Arlingclose).

3. Principles of debt repayment provision - The term 'prudent annual provision' are not defined by the Regulations. However, the statutory Guidance says "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant". The Guidance does not prescribe the annual repayment profile to achieve this aim, but suggests four methods for making MRP which it considers prudent, and notes that other methods are not ruled out. The Council regards the broad aim of MRP as set out above as the primary indicator of prudent provision, whilst recognising the flexibilities which exist in determining an appropriate annual repayment profile.

4. The Council considers that ‘prudent’ in this context does not mean the quickest possible repayment period, but has regard to the prudent financial planning and management of the of the overall financial position, recognising the flow of benefits from the capital expenditure, and other relevant factors.

5. This MRP Policy therefore takes account of the financial forecast in the Council’s medium term plans, and a general assessment by the Director of Finance of the likely position in the years after that in determining what is a prudent MRP in the circumstances. In particular, this takes account of the Council’s funding approach to equal pay settlements (paragraph 14 below) and the need for an orderly financial transition as the Council manages the grant reductions announced by Central Government through to 2019/20 (that in 2018/19 are linked to the NNDR Berkshire Pilot).

6. Consistent with the Statutory Guidance, the Council will not normally review individual asset lives used for MRP as a result of any changes in the expected life of the asset or its actual write off. Inevitably, some assets last longer than their initially estimated life, and others will not; the important thing is that the Direcor of Finance is satisfied that a reasonable estimate has been made at the time of capital expenditure. (Normally this will range between 5 years for some vehicles and IT equipment, though some assets in these categories could be longer, to 60 years for major new buildings (such as new school buildings). As a guide we use the following standard asset lives
   - major new buildings on Council owned land where a 40-60 year asset life (unless the design life is demonstrably shorter) will be appropriate
   - freehold land – 60 years
   - leasehold land – the life of the lease
   - major extensions to existing buildings, or major remodelling of infrastructure – where a 20-40 year asset life may be more appropriate (according to the design life of the extension/remodelling)
   - major refurbishment of existing buildings – where a 20 year life can reasonably be presumed
   - major transport infrastructure or regeneration schemes (i.e. new roads or major remodelling of junctions) – 30 years (or according to the design life of the infrastructure/regeneration if materially different)
   - other transport capital expenditure – 20 years
   - small items capitalised revenue expenditure – 10 years
   - vehicles, where typically a 5 year life will be reasonable for smaller vehicles; in some cases (e.g. refuse freighters 7-8 years, in line with maintenance contracts) a longer life will be appropriate

   but we will keep this categorisation under review, and individually consider all material asset additions funded from borrowing

7. General Fund - Borrowing funded assets from prior to 2007/08 – For this historic borrowing the Council does not hold detailed records that match borrowing to assets, and until 2015/16 had been making MRP at 4%pa on a reducing balance basis. For the reasons outlined in 3 & 5 above the Council now considers that an approach consistent with paying the remaining debt off at 2% of the 31/3/11 level pa for 50 years would now be appropriate, but for

the period 2015/16-2019/20 considers an annuity approach based on a 46 year annuity from 2011/12 provides an appropriate transition from its approach hitherto to the long term intended approach. Therefore from 2020/21 the annual MRP will be fixed at the same cash value so that the whole debt is repaid after 50 years (from 2007/08), subject to adjustment in the event of appropriation of land between the HRA and General Fund. Debt for this purpose is measured on the historic “credit ceiling” basis, so includes repayment of the adjustment in the basis of MRP on moving from the 1989 Act system in 2004 (“Adjustment A”). The total of MRP subject to this process can be adjusted when appropriations occur between the HRA and General Fund.

General Fund MRP policy: borrowing funded assets after 2007/08

8. The general repayment policy for new prudential borrowing is to repay borrowing within the expected life of the asset being financed. Normally asset lives will be a maximum of 20 years in the case of major refurbishment or transport infrastructure, but longer periods may be used for new buildings or other major assets where the council puts in place an appropriate long term funded cyclical maintenance programme. This is in accordance with the “Asset Life” method in the Guidance. The repayment profile will follow an annuity repayment method, (like many domestic mortgages) which is one of the options set out in the Guidance.

   This is subject to the following details:

   8.1 An average asset life for each project will normally be used. There will not normally be separate MRP schedules for the components of a building (e.g. plant, roof etc), unless other component accounting requirements (which rarely apply in Reading) indicate such an approach would be appropriate. Asset lives will be determined by the Director of Finance, taking advice from appropriate technical experts (within the Council wherever possible). A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £5m, specialist advice from appropriate external advisers may also be taken into account.

   8.2 MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP will be deferred until the year after the asset becomes operational. (In connection with this, the MRP for the Civic Offices was adjusted in 2015/16 so all the borrowing finance is repaid over the same (60 year) period starting in 2015/16, as the asset became operational in late autumn 2014.

   8.3 Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Director of Finance.

   8.4 If appropriate, shorter repayment periods (i.e. less than the asset life) may be considered for some or all new borrowing.

8.5 Where the Council incurs debt on the purchase of an investment property, in the event of a vacancy of tenancy, the Director of Finance may suspend MRP for up to 2 years, provided it is reasonable to assume a new tenant will be identified.

Housing Revenue Account MRP policy

9. The statutory MRP Guidance states that the duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on HRA assets. This is because of the different financial structure of the HRA, in which depreciation charges have a similar effect to MRP. However, since the Government's HRA self-financing settlement, which introduced a cap on HRA borrowing, which was established in April 2012, the Council has made a minimum revenue provision of 2% of outstanding debt. This will continue (though is seen as part of the depreciation charge in the HRA business plan). The charge ins any year will also take account of the HRA business plan, and the context of HRA debt within the authority as a whole (taking account of the Council's single debt pool approach to managing it's borrowings. (For the immediate future this means the charge will be at least the 2% minimum). In principle, the Council will also seek to deliver a reduction in HRA debt per dwelling (though our ability to do this may depend upon RTB volumes). Additional voluntary HRA debt repayment provision may be made from revenue or capital resources (that have been derived from the disposal of housing assets).

Concession Agreements and Finance Leases

10. From 2015/16 MRP in relation to concession agreements (e.g. General Fund PFI contracts) and finance leases will be calculated on an asset life method using an annuity repayment profile, consistent with the method for prudential borrowing in paragraph 8 above. The Director of Finance may approve that such debt repayment provision may be made from capital receipts rather than from revenue provision (subject to Policy Committee approval of the draft accounts outturn report).

MRP & Capital Receipts

11. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts, and the Council's wider financial plans. If capital receipts are utilised to repay debt in year, the value of MRP chargeable will normally be reduced by the value of the receipts utilised.

13. Statutory capitalisation - Expenditure which does not create a fixed asset, but is statutorily capitalised, will follow the MRP treatment in the Government guidance, apart from any exceptions provided for below.

Cash flows

14. Where a significant difference exists between capital expenditure accrued and the actual cash flows, MRP may be charged based on the cash expended at the previous year end, as agreed by the Director of Finance. The reason for this is that, if expenditure has been accrued but cash payments have not yet been made, this may result in MRP being charged in the accounts to repay borrowing which has not yet been incurred.

Equal Pay settlements

15. During 2017/18 the Council has begun making payments in respect of its equal pay settlement liabilities. The MTFS envisages they are funded using capital receipts. Based on our current estimate of the liability, we currently hold enough receipts, but it is feasible that our estimate may change, as may use of receipts and we may find that not all the required receipts have yet been received. As there are risks to the timing and quantum of future capital receipts, as a risk management mechanism, MRP may be reduced in 2017/18 or 2018/19 if there are insufficient capital receipts to fund equal pay settlement costs in that (or the following year in the case of 2017/18). The revenue saving will then be used to meet the settlement costs.

16. Any such reduction will be made good by setting aside equivalent future capital receipts to provide for debt repayment, when there is a surplus of capital receipts available after funding equal pay settlements. As a minimum, any such reduction in MRP will be repaid over 20 years as a charge to revenue account on an annuity profile.

Capitalised loans to others

17. MRP on capitalised loan advances to other organisations or individuals will not normally be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. (i.e. MRP will be made and funded from the agreed debt repayment) However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.

Investments

18. Where investments are made in financial instruments that score as capital expenditure where the Council expects full repayment, no MRP will be made

Voluntary repayment of debt

19. The Council may make additional voluntary debt repayment provision from revenue or capital resources. In this case, the Director of Finance may make an appropriate reduction in the same or the following year's levels of MRP.

20. Where it is proposed to make a voluntary debt repayment provision in relation to prudential borrowing from 2007/08 under the asset life method, it may be necessary to decide which assets the debt repayment relates to, in order to determine the reduction in subsequent MRP. The following principles will be applied by the Director of Finance in reaching a prudent decision:

- where the rationale for debt repayment is based on specific assets or programmes, any debt associated with those assets or programmes will be repaid;
- where the rationale for debt repayment is not based on specific assets, debt representative of the service will be repaid, with a maturity reflecting the range of associated debt outstanding;

Subject to the above two bullet points, debt with the shortest period before repayment will not be favoured above longer MRP maturities, in the interests of prudence, to ensure that capital resources are not applied for purely short term benefits.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £m	**2018/19 Estimated MRP £**
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008		
Unsupported capital expenditure after 31.03.2008		
Finance leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		Nil
Total General Fund		
Assets in the Housing Revenue Account		Nil
HRA subsidy reform payment		
Total Housing Revenue Account		
Total		

The total CFRs in this table should match the estimates in the prudential indicators. Please delete

Annex A - Arlingclose Economic & Interest Rate Forecast January 2018

Underlying assumptions:

- The MPC increased Bank Rate in November 2017 to 0.5%. The rise was questionable based on the available economic data. Market rate expectations are broadly unchanged since the rise and policymakers continue to emphasise that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have revised lower the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2. Forecasts for future GDP growth have generally been revised downwards.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- More recent labour market data suggested that employment has plateaued, although house prices (outside London) appear to be relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger global and Eurozone economic expansions.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- The MPC increased Bank Rate largely to meet expectations they themselves created. Expectations for higher short term interest rates are now relatively subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.17**
3-month LIBID rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.23**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.22**
1-yr LIBID rate														
Upside risk	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.28**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.78**
Downside risk	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.92**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.35**
10-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.60**	**1.38**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.34**
20-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**2.10**	**1.95**
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.41**
50-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**2.00**	**1.84**
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.41**

Annex B - Existing Investment & Debt Portfolio Position

	31/12/17 **Actual Portfolio** **£m**	31/12/17 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**259.4**	**3.65**
PWLB - Variable	**4.8**	**0.48(tbc)**
Other Local authorities (short term)	**58.0**	**0.43**
LOBO loans from banks	**25.0**	**4.21**
Banks – Fixed Rate (ex Barclays LOBO)	**5.0**	**3.99**
Total External Borrowing	**352.2**	**3.12**
Other Long Term Liabilities:		
PFI	31.0	
Finance Leases	0.7	
Total Gross External Debt	383.9	
Investments:		
Money Market Funds	2.5	0.33
Bank Call Accounts	5.9	0.40
Pooled Funds (CCLA Property Fund)	15.0	4.86(tbc)
Total Investments	23.4	
Net Debt	360.5	
Non-treasury investments:		
Investment property	**45.0**	
Shares in subsidiary	**1.7**	
Loans to subsidiary	**1.7**	**3.13%**
Lease to subsidiary	**7.8**	
Total non-treasury investments	**56.2**	
Total investments	79.6	

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 JANUARY 2018**	**AGENDA ITEM:**	**10**
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 projected Council revenue budget outturn position for 2017/18 based on actual, committed and projected expenditure for the Council as at the end of November 2017. It also contains information on the capital programme, capital receipts and the Housing Revenue Account (HRA).

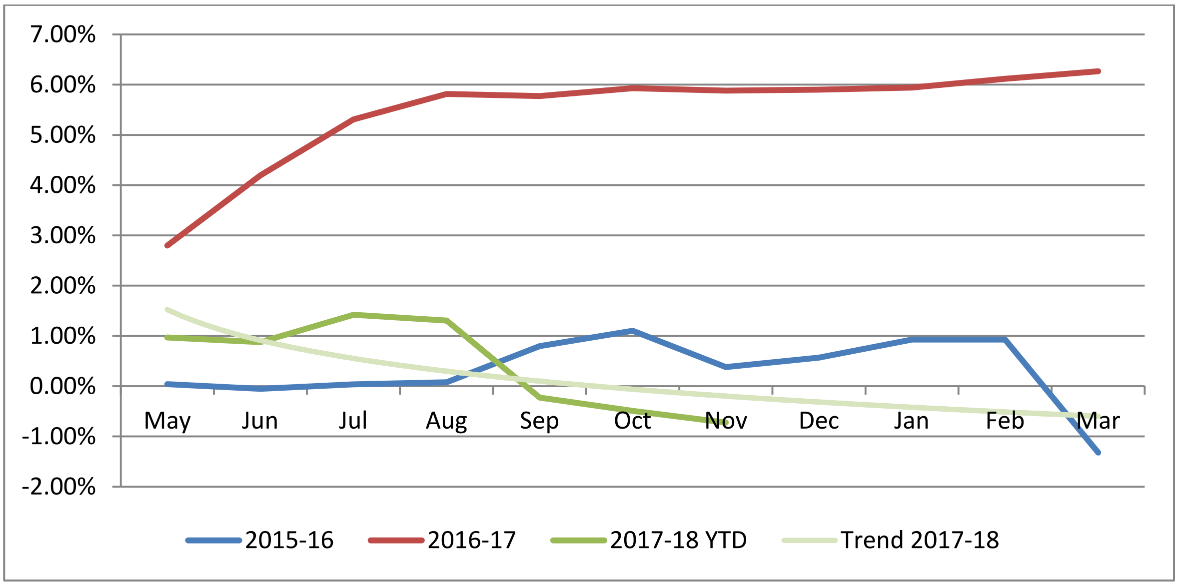
1.2 It is projected that the revenue budget will be underspent by £0.9m as at the year end and together with unused an contingency of £1.6m should there be no further unexpected pressures and savings shortfalls. However, there remain some serious concerns. In particular,

1.2.1 the total of negative variances is £9.1m, which includes some projection of further pressures on care places through to the year-end;

1.2.2 many of the positive variances and mitigations are not ongoing, so will not provide relief for any of the negative variances that are ongoing into 2018/19 and beyond. This produces a pressure in 2018/19 of £7.592m at this stage, some of which is a projection of growth in children's social care demand into that year. This pressure is being built into the budget setting process for 2018/19;

1.3 These circumstances combined led to service directors identifying immediate steps to reduce spending in 2017/18 and these actions are in place. Further strong management is required in order to prevent further overspending during the remainder of 2017/18.

1.4 In considering this matter, it is helpful to consider the trends of previous years. The following graph shows the percentage variance to budget for the whole Council for the last two financial years and for the year-to-date with a trend line to the end of the year.



1.5 2015/16 saw a fairly flat line through the year and then an eventual underspend, whereas in 2016/17 there was a rapidly escalating and significant overspend that remained to the year end. The projection for 2017/18 is of a much lesser quantum, but the trend, particularly in children's social care, is very concerning.

2. RECOMMENDED ACTION

2.1. To note that based on the position at the end of November 2017, budget monitoring forecasts that the budget will be underspent by £0.9m, without using the remaining contingency of £1.6m.

3 BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are summarised below. The projected impact into 2018/19 is also illustrated (note: children's services have also projected an ongoing increase in demand into 2018/19)

	Negative Variances £'000s	Positive Variances £'000s	Remedial Action £'000s	Net Variation £'000s	% variance budget	Savings Delivered 2017/18[2]	18/19 impact £000
Environment & Neighbourhood Services	1,641	-2,949	-100	-1,408	-4.9%	-5,903	1,047
Childrens, Education & Early Help Services/	3,179	-313	-379	2,487	6.3%	-1,868	4,850
Adults Care and Health Services inc. Public Health	2,587	-544	-1,644	399	1.1%	-3,267	1,732
Corporate Support Services	1,732	-1,475	-443	-186	-1.4%	-2,311	-37
Directorate Sub total	**9,139**	**-5,821**	**-2,566**	**1,292**		-13,349	**7,592**
Treasury		-1,250		-1,250			
Corporate Budgets		-950		-950			
Total	**9,139**	**-7,481**	**-2,566**	**-908**			

*1 The £1,047k 18/19 impact for DENS includes £284k for a 17/18 saving now re-profiled to 19/20
[2] Total of savings classified as blue, green and amber which are delivered on track to be delivered. The whole savings programme for 2017/18 is currently £14,419K.

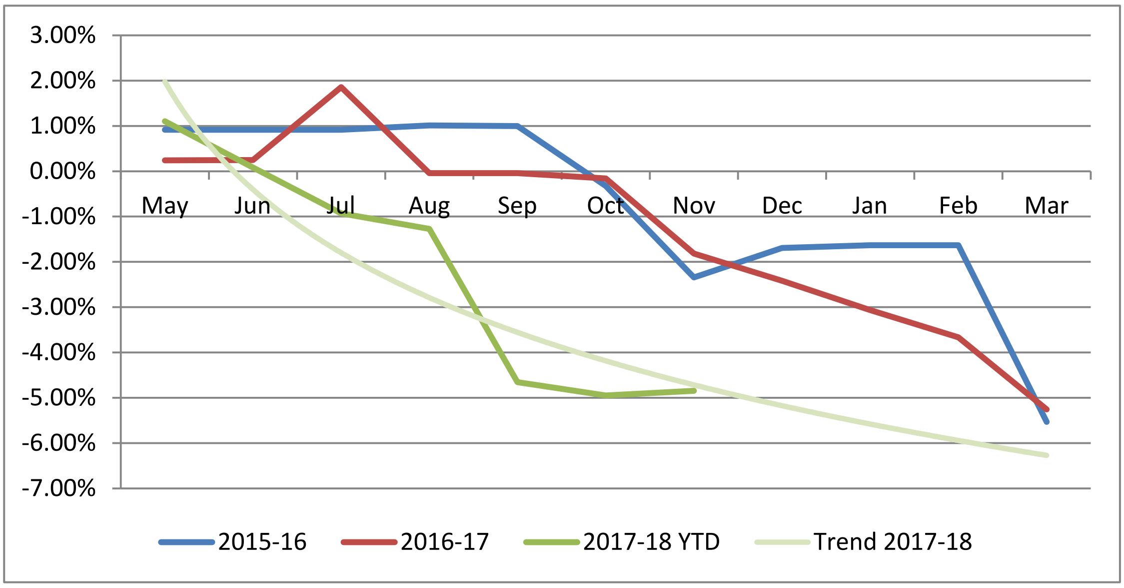
3.2 **Environment & Neighbourhood Services**

Based on the information currently available, the Directorate is reporting a et positive variance against budget at year end of £1. 408m. However, this is the consequence of a much more significant range of variances across a range of budgets including increased costs of £0.5m, reduced income of £0.5m and as yet unrealised savings of £0.6m, offset by an over-achievement of other income and under spend in homelessness.

The gross projected overspend, before mitigations; in DENS is £1.6m £1.0m of this arises in Transport & Streetcare (T&S), where over half the adverse variances arises from unrealised savings, notably a delay in the fleet management saving (£143k), and the off street car parking saving (£175k). T&S also has increased costs and in some areas reduced enforcement income (£100k) in comparison to budget. Planning, Development & Regulatory Services (PDRS) are predicting an adverse variance of £0.30m with the majority of this pressure being due to external legal costs in relation to a noise nuisance case. A one-off pressure of £0.1m relating to recent office moves has been identified but will be funded through the change fund as part of the transformation programme; therefore this has not been included as a pressure for the purpose of this report. Economic & Cultural Development (ECD) are also predicting an adverse variance (£0.4m), relating to reduced income in comparison to budget across a range of service areas.

These overspends are compensated by £3m of positive variances. Of this, £1.6m is increased income, most of which arises in T&S, and include £0.4m additional on street car parking income and £0.4m additional income from green waste.

£1.5m arises from reduced costs in T&S, ECD, PDRS & Housing & Neighbourhood Services (H&NS), notably for T&SC £0.4m across the park & ride contract & concessionary fares and £0.5 for H&NS due to a continuing trend of effective prevention of homelessness; increase supply and access to affordable housing; intensive casework with individual households; and effective market management/cost control. With better than anticipated first quarter performance alongside the Lowfield Road temporary accommodation development due to come online at the beginning of 2018, the service is aiming to finish the 2017-18 financial year with no more than a total of 50 occupied rooms. This would lead to an underspend of approximately £0.5m at year end.



3.3 Children, Education & Early Help Services

The Directorate is currently reporting a net negative variance of £2.487m for the year which represents 6.32% of the annual budget. The forecast assumes that the recently produced in year savings programme of £0.603m will be fully delivered.

The gross variance before remedial action is £3.179m, which is largely attributable to the increased complexity of the looked after children (LAC) population amounting to a £2.92m variance. The use of higher cost residential placements has increased significantly during 2017/18.

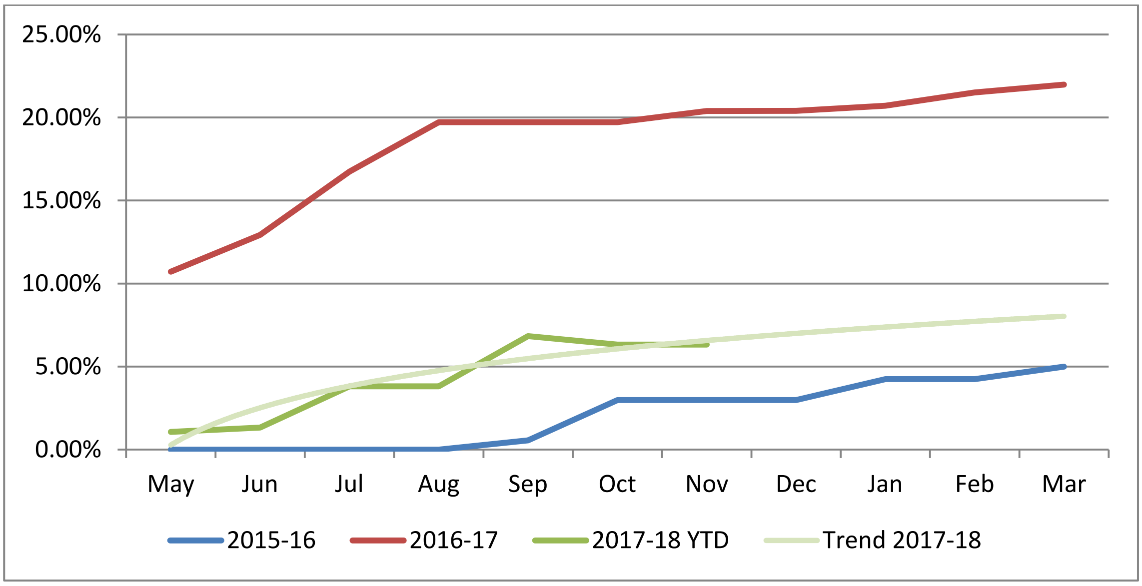
The projection assumes a future in year demand projection, which looks to be an accurate reflection of current position. The only caveat to this is the number of LAC has increased to 285, but the additional placements have been managed in lower cost placements where the forward projection assumed high cost residential placements. This has an impact on the pressure for 2018/19, which is calculated at £4.85m. In addition, the MTFS for 2018-19 makes provision for a further £2m to be held corporately as a contingency.

In addition to this negative variance, the Directorate is facing a £0.259m pressure for home to school transport for SEN pupils. In September, there was an increase in pupils being placed at The Avenue, increasing the demand for transport for SEN pupils. This has been offset in October's monitoring by £11k.

The position reflects the positive variance of £0.1m from the early implementation of the Business Admin restructure required by 1st April 2018 to achieve the proposed savings for 2018/19.

In year savings totalling £0.603m identified are focused on further measures. The measures include restrictions on Agency spend (£0.160m), review of SEN transport (£11k to reduce spend), implementation of restructures in Early Help prior to 1st April 2018 and holding vacant posts, changes to staffing in Children's Social Care (£0.136m) and transfer of young people over 18 to Adults Services (£0.083m).

The paragraphs above describe the impact for the General Fund Services, however the Directorate is also currently anticipating an in year deficit of £2.5m relating to the Dedicated Schools Grant (DSG). This will increase the deficit of the DSG to £3.9m which will be carried forward into 2018/19. The implementation of a new SEN strategy is intended to reduce the burden on the SEN budget when the new school funding formula is introduced in 2018/19. The local flexibility for the DSG will be restricted to 0.5% of the total DSG in 2018/19, which is estimated at £0.4m.



3.4 Adult Care & Health Services

The forecast overspend for the year after remedial action, and in year savings is £0.399m, which compares to a overspend forecast in October, adjusted for in year savings of £0.395m. This represents a position broadly in line with the October monitoring position. There have, however, been some variances within individual areas.

The main changes are increased care package cost and reduced in year savings (£0.297m), offset by increased underspends on Public Health (-£0.212m) and an underspend in the Director and Transformation cost centre (-£0.100m). The forecast assumes that the recently produced in year savings programme of £0.610m, will deliver savings of £0.553m, though some of the initiatives require further review to ensure they are deliverable in the remaining timeframe and in the context of other initiatives.

In terms of the overall position, the gross overspend before remedial action is £2.587m, after taking account of savings still to be delivered of £0.300m. The gross overspend is largely due to pressures on care placements in Learning Disabilities and Mental Health, across all types of service provision, although particularly in residential and community services. After remedial actions and in year savings, the remaining overspend on Learning Disabilities is £1.220m and on Mental Health £0.512m.

For the Learning Disabilities Service, the overspend is due to an additional pressure on residential placements and an overspend on Community Services which is related to increased clients and demography. The forecast includes a contingency for transition costs still to come through before the end of the year.

The adverse variance on Mental Health Services breaks down as £0.112m on placements in nursing homes due to an additional 3 clients being placed over the budgeted number of clients, £0.327m on residential placements based on an additional 9 clients over budget and an overspend of £0.073m on Community and other services.

The original DACHS savings programme for 2017-18, targeted savings in total of £4.067m. The forecast as presented assumes savings delivered will be £3.885m, representing a shortfall of £0.182m, though also 95% achievement of the original programme.

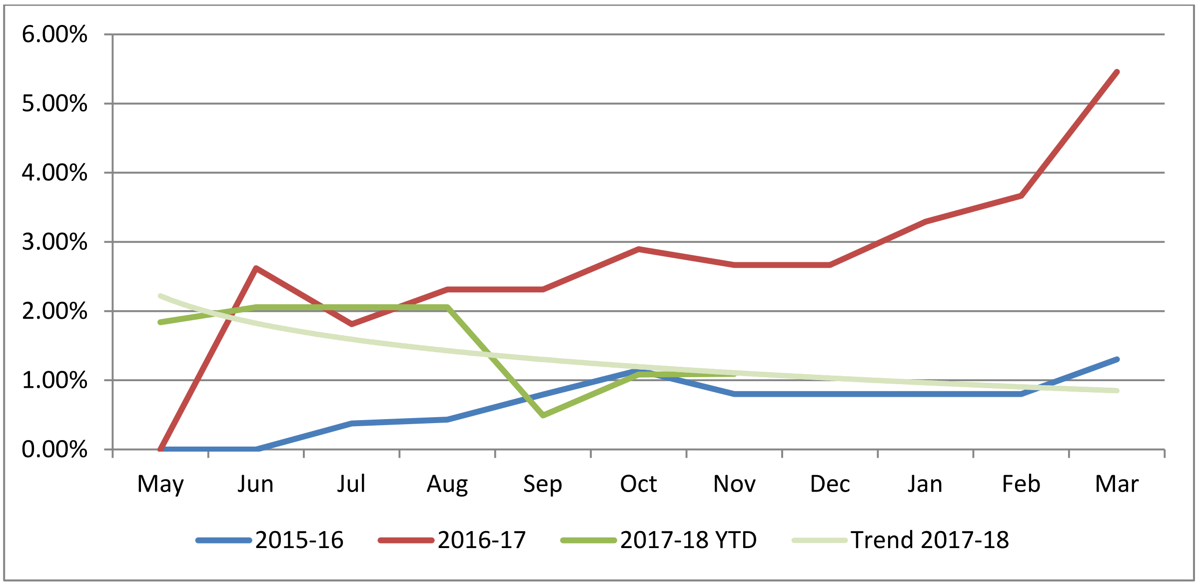
The Directorate has also identified £2.032m of positive variances and remedial action to reduce the gross overspend. This comprises £0.591m of underspends on budgets which are to be maintained until year end, specific remedial actions of £0.831m and new in-year savings of £0.610m. The main remedial actions identified to reduce the deficit have included reworking the use of elements of the Public Health grant (£0.365m), keeping inflation awards to a minimum with providers (£0.250m) and trying to find savings from either reworking service delivery or holding vacancies (£0.600m). Better contract management should yield additional Continuing Health Care (CHC) funding, although most of this is expected to be historical and will be one-off. The Directorate has also retained housing benefit funding (£0.121m) to reduce pressure on extra care and proposes capitalising costs of implementing new computer systems and software (£0.056m).

In year savings totalling £0.610m, are focussed on further measures, which includes, restrictions on agency spend (£0.150m), increasing Funded Nursing Care (FNC) and Continuing Health Care (CHC) funding (£0.150m), Public Health spend reductions on contracts (£0.112m), savings from reduced voids (£0.070m), Telecare spend reductions (£0.060m) and a range of other smaller reductions totalling £0.068m.

Against the target for remedial action and in year savings a shortfall of £0.110m is forecast, which is due to shortfalls in savings against Performance staffing, Maples Day Services and agency staff.

Further remedial actions are still being sought; with the aim of bringing spend back in line with budget.

In addition issues have been identified with the links between the Mosaic and Fusion systems which could potentially impact on care payments forecasts. An analysis of actuals is being undertaken to cross check against the forecast from Mosaic, to identify any issues and give added assurance on the forecast, which will be completed to inform the December monitoring position.



3.5 Corporate Support Services

The Directorate is reporting an underspend of £186K which is an adverse swing of £46K compared to last month due to additional costs identified of £60k relating to the Housing Benefit Subsidy with minor positive variances in other areas. Although an adverse variation, the claim result is actually a significant improvement on the previous two years where our subsidy loss has exceeded £500k. This year (on over £80m benefit expenditure) it is reduced to £223k, reflecting the improved checking and processes implemented, as has been reported to Audit & Governance Committee.

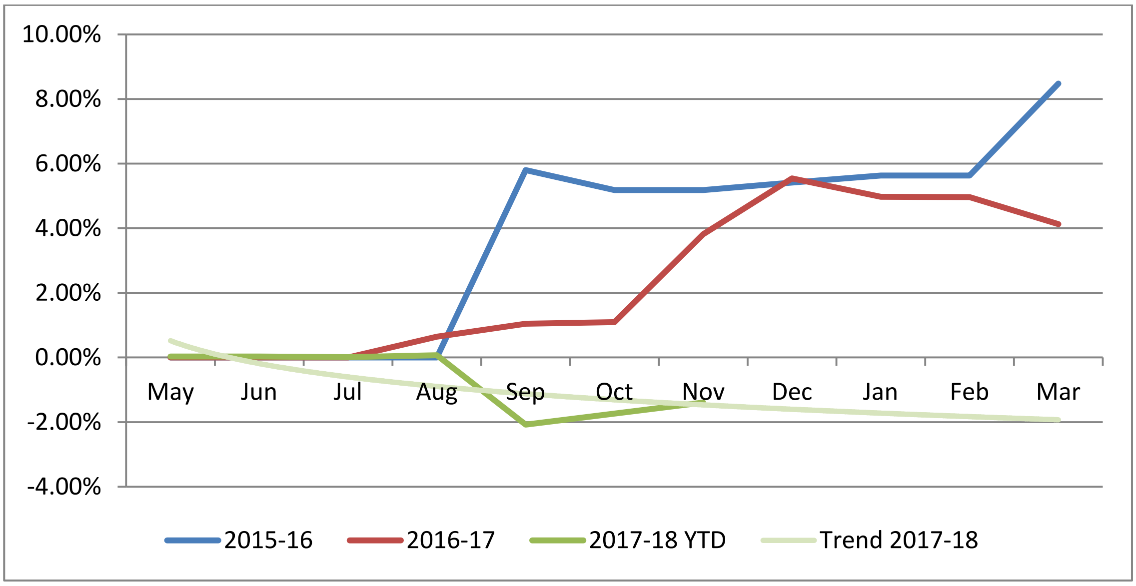
For the Directorate as a whole, the most significant variance sits within the Childcare Lawyers service; this is a Berkshire wide joint arrangement operated by Reading Borough Council. Increased caseloads and duration of cases due to their complexity means the team is employing interims and agency staff over and above establishment at an additional cost of £956K. These costs are recharged to the other five Berkshire LA's, including administration fees, causing a positive variance on income which offsets the negative variance on costs. The RBC element of the Joint Arrangement is currently expected to be £20k under budget.

The digitisation saving that is currently held within the Corporate budget is being shown as a pressure (£154K) whilst more detailed work is ongoing to identify how this saving will be achieved. In order to deliver this saving CMT have recently agreed to give targets to each directorate to work towards digitisation.

The Finance & Accountancy Team are currently undergoing a period of transformation with a new structure expected to be in place by the start of 2018/19. As part of the future for Finance, it is essential that the underlying processes and practices for preparing the 2017/18 accounts are improved to ensure that the accounts closure for 2017/18 can be achieved on time. A Chief Accountant has been recruited and has started at the beginning of January to provide technical accounting leadership. During this period of transformation for Finance & Accountancy, additional interim staff have been brought in to cover vacant posts and provide stability to the team at an additional cost of £338K. It is also anticipated that there will be additional external audit fees of around £100K arising from the additional work that EY have carried out on the audit of 2016/17 accounts. Some of these additional costs will lead to long term improvements in Finance, and organisational savings so could be considered for funding from the change fund in due course.

The overspends in the directorate are mitigated by vacancies being held in the Policy and Voluntary Sector Team and in the Learning and Workforce Development Team (£104K). There is also a non-recurrent saving (£180K) on the elections budget for 2017/18 as it is a fallow year.

The vacancies in the Policy and Voluntary Sector have been put forward as ongoing positive variances into 2018/19. The net position for Corporate Support Services is a £37K positive variance going into the next financial year.



3.6 Contingency

A contingency of £7.7m was built into the 2017/18 budget of which it was agreed at Policy Committee in July 2017 that £5.378m would be used to remove undeliverable savings leaving a contingency of £2.3m for this financial year. A further £695K has been used in since July to reprofile savings to future years.

	£'000s
Opening Position 1/4/2017	7,700
Savings removed July Policy Committee	(5,378)
Savings reprofiled July CMT	(121)
Savings reprofiled Aug CMT	(40)
Savings reprofiled Sep CMT	(534)
Remaining Balance at 30/11/2017	1,627

4. TREASURY MANAGEMENT & CORPORATE BUDGETS

4.1 We have further reviewed the capital financing budget position, to take account of the current cash flow and a projection to 31 March, and a review of the apportionment of interest costs and finalised the detailed MRP calculation. We now expect the overall budget to be under spent by £1.05m in 2017/18, though as always there remains some uncertainty, given the larger cash flows expected in the final quarter. In addition, a further projection of capital receipts and their uses will enable £200k to be used to repay debt and hence reduce the MRP payment in line with the agreed MRP policy, by the same amount.

4.2 The Committee may recall from the Annual Treasury Management Strategy Statement that the Council has borrowed £30m on LOBO Terms (where the lender has an option to increase the interest rate, whereupon the Council has an option to repay). Last year one lender of £5m indicated, and provided a deed of variation stating that it would not exercise the options, thus turning the loan into a "vanilla" one.

Recently the Council has been contacted by another lender of £10m setting out outline terms to repay the loan. The Director & Head of Finance are currently considering this proposal which appears to have some merit, and subject to appropriate due diligence and advice may proceed with a repayment during 2018. There will be a substantial premium, but this can be accounted for over the remaining period of the original loans and on initial inspection appears to offer some long term, and possibly shorter term advantages to the Council.

4.3 Other Corporate budgets have also been reviewed, notably the contingency budgets to help fund the Council's share of the Berkshire Pension Fund deficit, most of which is financed by the pensions on-cost on pay across the Council. The latest forecast is that very little of the budget should be needed this year with an expected £400k underspend. Furthermore £100K of the Living Wage "top up" contingency budget is not needed in 2017/18, as the costs are otherwise in the budget. However, currently there are no clear and firm plans to complete the delivery of the £350k across the Council procurement savings (other than those procurement savings already built into directorate savings proposals).

4.4 Additionally, across the Council £100K can be released from budgets this year due to the Christmas leave offer being made to staff and transformation costs are currently forecast to be underspent by £200K this year. Finally, of the £1m set aside in the budget to support the future improvement of Children's Services, which has now been agreed to be through the set-up of the Children's Company, only £500K will be needed this year, so £500k will not be spent in 2017/18.Therefore in total other corporate budgets are forecast to underspend by £950k.

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 £1.3m. The pressure on service directorate budgets is offset by a favourable position on treasury and other corporate budgets (see para 4.1), so there is an overall underspend of £0.9m forecast. Officers however need to continue to manage tightly spending throughout the remainder of the year to avoid any overspend at the year end.

6. CAPITAL PROGRAMME 2017/18

6.1 To the end of November £21.354m of the original c.£121m programme had been spent and it should be noted that capital spending is usually weighted to the latter part of the year. Officers are reviewing the whole programme and the total spend for 2017/18 is now likely to reduce from c£121m to c£85m (including the assumption we will buy a £21m investment property before the financial year end) as some projects have been pushed back into 2018/19.

Capital Receipts

7.1 The financial strategy depends on successfully obtaining capital receipts to fund the transformation programme and the equal pay settlements. In summary, an estimated £14m is required in 2017/18 for equal pay; £3.2m for the change fund; £1m for redundancy costs and £2m for debt reduction / an MRP contribution. This implies a requirement of £20.2m capital receipts.

7.2 Newark Street delivered a £0.4m receipt in November and Island Road delivered £6.4m in December. Weldale Street (£0.25m) is expected to be completed within this financial year. Negotiations are ongoing on Amethyst Lane (£4.0m) and likely to be completed in 2018/19.

	Non-HRA 17/18	HRA (not 1-1) 17/18	Total 17-18	18/19
Planned	£12.3m	N/A	£12.3m	£2.5m
16/17 b/f	£6.6m	£5.5m	£12.1m	N/A
Of which delivered	£8.2m	£0.2m	£8.4m	£0.0m
Expected shortly	£0.2m	N/A	£0.2m	£0.0m
Total Available			**£20.7m**	
Additional Required	£ 0.0m	N/A	£0.0m	£0.0m

8. HRA

8.1 An analysis of the current expected outturn of operational budgets (for repairs and management costs) projects an under spend of £200k. This includes £100k underspend relating to the revenue repairs budgets and a number of minor variances across the HRA supplies and services budgets as well as a small number of vacant posts.

8.2 The latest review of the HRA capital financing position for 2017/18 has identified those costs should be around £10.5m, which represents a £100k underspend. The current projection 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.

8.3 An analysis of the MRA funded capital expenditure is shown below. The majority of the expected underspend in 2017/18 relates to work the water mains at Coley High Rises which is likely to slip into 2018/19:

	Budget	Actual spend at 30/11/2017	Projected Outturn
	£'000	**£'000**	**£'000**
HRA-Major Repairs	7,248	2,445	6,352
HRA-Hexham Road Project	1,200	218	1,200
Disabled Facilities Grants	390	195	509

(Local Authority Tenants)			
Total	**8,838**	**3,114**	**8,061**

9. RISK ASSESSMENT

9.1 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;
- Significant additional demand (and change in caseload mix) 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

10. BUDGET SAVINGS RAG STATUS

10.1 The RAG status of savings and income[1] generation proposals included in the 2017/18 budget were not reviewed in November and the next review will be at the end of December.

10.2 The expanded RAG status in terms of progress is summarised below:

	September Position		October Position	
	£000	**%**	**£000**	**%**
Blue (fully delivered)	7,261	49.7%	7,337	50.9%
Green (on track)	3,318	22.7%	3,287	22.8%
Amber (<10% off track)	2,770	18.9%	2,725	18.9%
Red (>10% off track)	1,270	8.7%	1,070	7.4%
Grey (undeliverable)	0	0.0%	0	0.0%
Total	**14,619**	**100.0**	**14,419**	**100.0**

10.3 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.

11. COUNCIL TAX & BUSINESS RATE INCOME

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

Council Tax	**2017/18 £000**	**Previous Year's Arrears £000**	**Total £000**
Target	68,925	1,350	70,275
Actual	68,564	1,420	69,984
Variance	**361 under**	**70 over**	**291 under**

11.2 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 November 2017, collection for

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[1] 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

the year to date was 73.71% compared to a target of 73.88%, and collection is slightly behind 2016/17 (74.01% by end of November 2016).

11.3 **Business Rates Income to the end of November 2017**

Business Rates	**2017/18 £000**	**2017/18 %**
Target	93,143	72.00%
Actual	97,115	72.46%
Variance	**3,972 over**	**0.46%**

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of November 2016, 70.96% of rates had been collected. The actual for November 2017 was boosted by the in year transfer of the Council's rates charges, which was done in December last year. Adjusting for this suggests underlying collection at 69.6% is lagging slightly behind last year.

The high variance this month is due to the Council paying the NNDR for its own properties in November rather than in January as budgeted and therefore collection is ahead of target. This is a timing issue and the overall collection is still forecast to be broadly on target at the end of the year.

12. OUTSTANDING GENERAL DEBTS

12.1 The Council's outstanding debt total as at 30 November 2017 stands at £4.989m in comparison to the 31st March figure of £4.280m. This shows an increase of £0.709m, and we note that £2.934m of the balance as at 30 November 2017 is greater than 151 days old.

13. CONTRIBUTION TO STRATEGIC AIMS

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

14. COMMUNITY ENGAGEMENT AND INFORMATION

14.1 None arising directly from this report.

15. LEGAL IMPLICATIONS

15.1 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.

15.2 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.

16. FINANCIAL IMPLICATIONS

16.1 The main financial implications are included in the report. The Council's constitution envisages remedial action is implemented when there are adverse budget variances.

17. EQUALITY IMPACT ASSESSMENT

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

18. BACKGROUND PAPERS

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

READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 January 2018**	**AGENDA ITEM:**	**11**
TITLE:	**Appointment of External Auditors**		
LEAD COUNCILLOR:	**Councillor Lovelock**	**PORTFOLIO:**	Leadership
SERVICE:	**FINANCE**	**WARDS:**	N/A
	Peter Lewis	**TEL:**	0118 9373263
JOB TITLE:	**Director of Finance**	**E-MAIL:**	**Peter.lewis@reading.gov.uk**

1. AUDITOR APPOINTMENT

1.1. For audits of the accounts from 2018/19, Public Sector Audit Appointments (PSAA) is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. Reading Borough Council opted into this arrangement.

1.2. PSAA wrote to Reading Borough Council on 14 August 2017 to consult us on the proposed appointment of Ernst & Young LLP as the external auditor of Reading Borough Council from 2018/19. We responded supporting this proposed appointment.

1.3. PSAA have now confirmed the appointment of Ernst & Young LLP to audit the accounts of Reading Borough Council for five years, for the accounts from 2018/19 to 2022/23. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017.

2. RECOMMENDED ACTION

2.1. **It is recommended that the Committee notes the appointment of EY as set out above.**