

13 September 2017

AUDIT AND ETHICS COMMITTEE – 21 SEPTEMBER 2017

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Thursday 21 September 2017 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 29 June 2017.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors;
and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Review of the design of the effectiveness of IT Governance Controls in key financial applications
5. Approval of Accounts 2016/17
6. Annual Fraud Report 2016/17
7. 2017/18 Internal Audit Plan – Progress Update
8. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents - Standing Item - to receive any updates
2. Fraud and Corruption Issues - Standing Item - to receive any updates

Any additional papers or relevant documents for this meeting can be accessed here via the website.

Membership of the Committee:

Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Miss Lawrence, Mistry, Pacey-Day and Roodhouse

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.

AGENDA MANAGEMENT SHEET

Report Title:	Review of design effectiveness of IT Governance Controls in key financial applications
Name of Committee:	Audit and Ethics Committee
Date:	21 September 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	N/A
Contact Officer:	Chris Blundell, Financial Services Manager and Deputy Chief Financial Officer, Tel: 01788 533410
Public or Private:	Public
Report subject to Call-In:	No
Corporate Priorities:	
Statutory/Policy Background:	The Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice.
Summary:	On a cyclical basis our external auditors review the design effectiveness of the controls that the Council has in place in respect of those IT applications that they determine are key to the Council's financial reporting process. This report highlights the findings and outcomes from this work.
Financial Implications:	There are no financial implications for this report.
Risk Management Implications:	Management have set out in their response actions to address the control deficiencies. Non-delivery of these actions would give rise to a risk of inconsequential misstatement of the Council's financial reporting process.

Environmental Implications: There are no environmental implications for this report.

Legal Implications: There are no equality and diversity implications for this report.

Equality and Diversity: There are no equality and diversity implications for this report.

Recommendation: The findings of the review and related management actions be considered and any subsequent recommendations be made as appropriate.

Reasons for Recommendation: To comply with the requirements of the terms of reference of the Audit and Ethics Committee.

Audit and Ethics Committee – 21 September 2017

Review of design effectiveness of IT Governance Controls in key financial applications

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

The findings of the review and related management actions be considered and any subsequent recommendations be made as appropriate.

1. Purpose of Report

- 1.1 On a cyclical basis our external auditors, Grant Thornton, review the design effectiveness of the controls that the Council has in place in respect of those IT applications that they determine are key to the Council's financial reporting process.
- 1.2 Grant Thornton's report is included at Appendix 1 for the Committee's consideration and review, a representative from Grant Thornton will be in attendance at the meeting to present the report.

2. Findings and Management Response

- 2.1. A number of relatively minor deficiencies have been found, which are determined as those that could potentially lead to a risk of inconsequential misstatement.
- 2.2. Management's responses to these deficiencies are also set out within the report, but are largely addressed by the introduction of a new Information Security Policy. The Council's Corporate ICT Manager will also attend the Committee meeting to provide members with any further information or clarification on management's response if necessary.

3. Internal Audit Response

- 3.1. The Corporate Assurance and Improvement Manager will be discussing the findings of the report with IT Internal Audit provider, TIAA, to ascertain whether any further assurance work is required. The outcome of this discussion will be reported to the next meeting of the Committee.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 21 September 2017
Subject Matter: Review of design effectiveness of IT Governance Controls in key financial applications
Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Rugby Borough Council – review of design effectiveness of IT Governance Controls in key financial applications

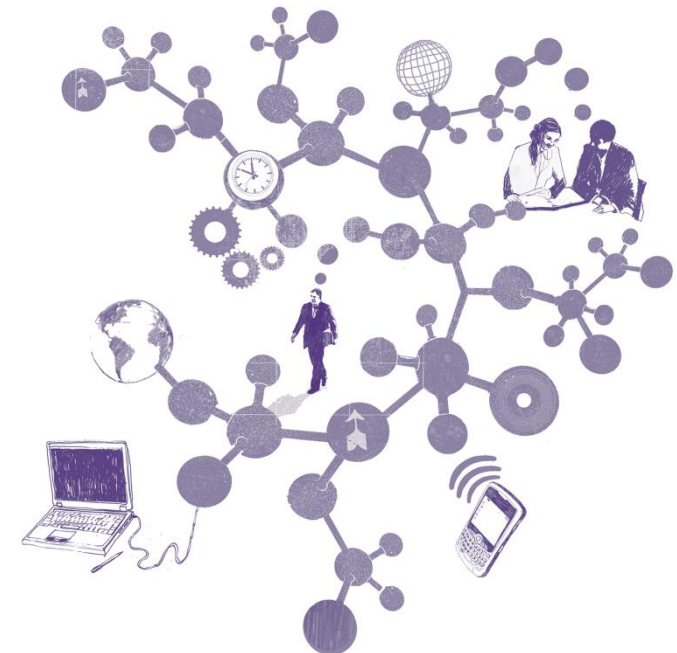
Year ended 31 March 2017

21 September 2017

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Section 1: Executive summary

01. Executive summary

02. Audit findings

Purpose of this report

On a cyclical basis we review the design effectiveness of the controls that the Council has in place in respect of those IT applications that we determine are key to the Council's financial reporting process. This report highlights the findings and outcomes from this work.

For the purpose of this report we have determined that our review would cover the following of the Council's IT applications:

- Agresso – main accounting system
- openRevenues – revenues and benefits system
- iTrent – HR & Payroll system

To undertake the work we utilised our specialist IT team. Our work did not involve the direct testing of controls but a review and evaluation of the design effectiveness of the entity level IT controls in place in the applications above.

Findings

Our review covered seven key risk/process areas. We found no significant deficiencies (those that could potentially lead to a risk of significant misstatement) and 10 deficiencies (risk of inconsequential misstatement) as summarised below:

Risk / Process	Significant Deficiency	Deficiency
Establish effective security environment	-	2
Manage internal user access	-	3
Manage remote and third-party access	-	-
Monitor access to IT systems	-	1
Establish effective maintenance environment	-	3
Design, develop and configure program upgrades and patches	-	1
Continuity management	-	-
Total	-	10

Conclusions and next steps

None of the deficiencies identified would lead to a risk of material misstatement within the Council's financial statements. We have therefore not included the detailed findings within our AFR. We have shared them with management and included their responses in Section 2. We will follow-up on progress as part of our 2017/18 audit.

Section 2: *Audit findings and management responses*

01. Executive summary

02. Audit findings and management responses

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
1.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Change management policies and procedures</p> <p>Documented policies and procedures have not been formally established addressing change management processes and related control requirements within financially critical systems. It is acknowledged that Rugby BC intends to introduce these procedures as part of their on-going redesign of the ICT service. This was also raised as a finding in 2012/13 and 2013/14.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> Without documented change and patch management processes there is a risk that change and patch management may not be effectively administered, leading to loss of data integrity, processing integrity and/or system downtime. 	<p>Documented policies and procedures addressing change management processes and related control requirements (such as change testing, approvals, and documentation requirements) should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them.</p>	<p>Medium - effect on control system</p>	<p>A new Information Security Policy (ISP) and associated supporting policies and procedures – based on ISO27002, GDPR, CCTV Code of Practice, PSN and Cyber Essentials Plus, PCI DSS etc – is in development, as is the re-assignment of the SRIO and IAO roles within the authority. The publication date of these new documents has not yet been set however it is anticipated that they will be in place for April 2018 pending approval by SMT/Cabinet. As part of the ISP, new Baseline Security Configuration Standards, Access Control Policy and Change Management policy have been developed which encompasses all process that affect changes to an environment or its data – both manual or automated – defining which are pre-approved and which require authorisation.</p>	<p>April 2018 Head of ICT</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
2.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Absence of an up to date IT security policy</p> <p>The existing IT Security Policy has not been updated since 2009 and is currently being refreshed. The policy currently being communicated therefore is unlikely to be reflective of the current IT security environment in place. We also noted inconsistencies in the password policies (see finding 10) which are not aligned to the current IT security policy.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> Without a comprehensive IT Security Policy in place which has been approved by senior management there is a risk that a culture of information security awareness will not be effectively embedded within the Council. 	<p>The IT Security Policy should be updated and approved by the relevant management body within the Council. A process to review the IT Security Policy on a periodic basis should also be introduced. This should consider the Council's system security risks to include a re-evaluation of the password policies section in accordance with their own risk profile.</p> <p>The roll-out of the new policy should be supported by appropriate processes to ensure that staff are aware of both the contents of the Policy and their obligations which are contained within it.</p>	<p>Medium - effect on control system</p>	<p>This is addressed by the new ISP and associated policies/procedures described above.</p>	<p>April 2018 Head of ICT</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
3.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>End-users with update access rights to the OpenRevenues database</p> <p>The OpenRevenues system for processing revenues and benefits includes a tool for making edits directly to the database that supports the application. The use of this tool is restricted to four members of staff: the two system administrators and the Benefits and Council Tax managers. Any edits made through using this tool should only be made in response to an instruction from the vendor (Civica) to fix an issue. All changes made through this tool are logged, however there is no review of these audit reports.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> There is a risk that unauthorised changes made be made to data held within the OpenRevenues database, without pro-active review of audit logs this may not be identified. 	<p>The ability to perform database-level edits should be restricted to the two system administrators in order to improve segregation of duties.</p> <p>A process should also be introduced whereby the database change audit logs are reviewed by an individual without this level of access.</p>	<p>Medium - effect on control system</p>	<p>This is partly addressed by the new ISP and associated policies/procedures described above, in relation to change management.</p> <p>The Revenues and Benefits IT Account Manager is to review the operational reasons for service managers having access and we will evaluate the risks accordingly.</p>	<p>April 2018 Head of ICT</p>
4.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Lack of documented batch administration policies and procedures</p> <p>Documented policies and procedures have not been formally established addressing batch administration processes and related control requirements for financially critical systems.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> There is a risk that the effectiveness of batch management processes and controls may be diminished due to environmental and/or operational changes. Batch processes also may not be effectively administered, leading to loss of data integrity and/or system downtime. 	<p>Documented policies and procedures addressing batch administration processes and related control requirements within financially critical systems should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them.</p> <p>Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness.</p> <p>Examples of topics commonly addressed within batch administration policies and procedures include batch monitoring, batch job error handling / resolution, change control over batch jobs and schedules, and descriptions of jobs scheduled.</p>	<p>Medium - effect on control system</p>	<p>This is addressed by the new ISP and associated policies/procedures described above, in relation to change management.</p>	<p>April 2018 Head of ICT</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
5.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Administrative access within Active Directory was granted to the Corporate ICT Manager</p> <p>At time of review, the ability to administer security within Active Directory was granted to the Corporate ICT Manager. From discussions with the IT team, the Corporate ICT Manager is responsible for CIO/IT Director level duties. The combination of strategic IT management responsibilities and the ability to administer end-user security is considered a segregation of duties conflict.</p> <p>This condition poses the following risk to the organisation:</p> <p>a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms.</p> <p>b) Required maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities.</p> <p>c) Security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets.</p> <p>d) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.</p>	<p>Administrative access granted to the Corporate ICT Manager within Active Directory should be revoked, and all end-user security administration privileges and responsibilities within Active Directory should be performed by IT personnel who do not perform strategic IT management duties. Alternatively (if management chooses to accept the risks associated with the Corporate ICT Manager retaining this level of access), formalised (documented) controls should be implemented to monitor their use of administrative functionality within Active Directory. This monitoring can be achieved through after-the-fact reports listing the actions (e.g., transactions posted, queries executed, records updated) performed by the Corporate ICT Manager in production.</p>	<p>Medium - effect on control system</p>	<p>The Corporate ICT Manager role is both Strategic and Operational and as such required administrative access – under a separate AMD account – to undertake project based activities.</p> <p>The role is subject to the same change control procedures as defined in the new ISP policies/procedures described above.</p>	<p>Not applicable</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
6.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Generic account with administrative privileges on iTrent</p> <p>A generic user account with system administrative duties is used by both the HR & Payroll Business Partner and the dedicated Senior ICT officer for iTrent for the purposes of application testing. The password to this account is only known to these two users.</p> <p>Whilst we acknowledge that the system automatically generates an audit log tracking user activity, this process does not identify the person in the team who used the account to perform the process.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> Generic accounts violate the principle of accountability, where all actions performed in a system can be linked to a named individual. This increases the risk that in the event of an error occurring, either by accident or design it cannot be traced to an individual to enable corrective actions to be taken. 	<p>The access rights of those users who perform the reporting functions should be reviewed to enable them to perform these tasks under their own named accounts.</p>	<p>Medium - effect on control system</p>	<p>This is a misinterpretation. The only generic account we have is a Supplier account, which is used by Midland HR when they dial in to fix and test issues. This account is NOT used by RBC staff and is subject to the Supplier account control process.</p>	<p>We (external audit) note the Council's response and on this basis accept the risk is mitigated. We will formally follow this up to as part of our work in 2017/18</p>
7.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Proactive Reviews of logical access within Agresso</p> <p>User permissions within Agresso were not being formally, proactively reviewed for appropriateness. However, we note user IDs were reviewed to evaluate their necessity.</p> <p>This condition poses the following risks to the organisation:</p> <ol style="list-style-type: none"> Gaps in user administration processes and controls may not be identified and dealt with in a timely manner Access to information resources and system functionality may not be restricted on the basis of legitimate business need Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls No-longer-needed permissions may granted to end-users may lead to segregation of duties conflicts Access privileges may become disproportionate with respect to end users' job duties 	<p>It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).</p>	<p>Medium - effect on control system</p>	<p>This will be reviewed in line with the new ISP and associated policies/procedures described above, in relation to Access Control procedures as defined in ISO27002.</p>	<p>April 2018 Head of ICT</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
8.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>No database monitoring</p> <p>The IT group currently edit data directly in the Agresso and openRevenues database to resolve input errors. Although there are procedures in place to document and approve such database-level edits, there is no audit logging enabled at the database-level.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> Databases do not enforce the same level of security permissions as the application. Editing data directly in the database can therefore enable financial or other standing data to be modified without an audit trail created. 	<p>Management should implement audit logging at the database-level to enable the monitoring and documentation of edits. This can be achieved through enabling audit logging at the SQL and Progress database-level for Sun Systems and Credit Solve respectively. A process should then be implemented to review these on a risk based approach to ensure that any potentially inappropriate activities have been identified and are addressed</p>	<p>Medium - effect on control system</p>	<p>This was previously reviewed in 2012 and was found to cause performance and management issues with the system. However, in light of newer Virtual Hosts this will be reviewed again.</p>	<p>April 2018 Head of ICT</p>
9.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Reviews of information security logs created by Agresso, openRevenues, iTrent, and Active Directory</p> <p>Logs of information security activity within Agresso, openRevenues, iTrent, and Active Directory were not being formally, proactively, and routinely reviewed.</p> <p>This condition poses the following risk to the organisation:</p> <ul style="list-style-type: none"> Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not be identified and/or addressed in a timely manner. 	<p>Given the criticality of data accessible through Agresso, openRevenues, iTrent, and Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>	<p>Medium - effect on control system</p>	<p>Due to the sheer volume of logs involved we will take this under advisement and review whether an automated system would be appropriate and cost effective. Manually monitoring logs is not something the authority has the capacity to undertake.</p>	<p>Not Applicable</p> <p>We (external audit) note the Council's response and follow up the Council's considerations in 2017/18</p>

	Assessment	Issue and risk	Recommendations	Priority	Management response	Implementation date and responsibility
10.	<p>●</p> <p>Deficiency - risk of inconsequential misstatement</p>	<p>Inconsistent logical access controls</p> <p>End user access is authenticated through Active Directory. However, there is a single system administrative account used by both HR and IT for the purposes of testing. The password parameters are set to lock out users following 10 unsuccessful attempts. This is inconsistent with other applications and active directory. It was also noted the corporate ICT policy does not specify what the lock out policy for systems should be.</p> <p>This condition poses the following risks to the organisation:</p> <p>a) Compromise of user accounts through password guessing or cracking.</p> <p>b) Misuse of iTrent system administrative account leading to loss of accountability of actions performed</p>	<p>The Corporate ICT Policy should be reviewed and consideration should be given to setting up consistent logical access controls across all applications. The lock out policy for iTrent should then be reduced to this agreed setting.</p>	<p>Medium - effect on control system</p>	<p>The new ISP already standardises lock-out for application and infrastructure level devices in line with PSN guidelines.</p>	<p>April 2018 Head of ICT</p>



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AGENDA MANAGEMENT SHEET

Report Title:	Approval of Accounts 2016/17
Name of Committee:	Audit and Ethics Committee
Date:	21 September 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	ALL
Prior Consultation:	N/A
Contact Officer:	Chris Blundell, Financial Services Manager and Deputy Chief Financial Officer, Tel: 01788 533410
Public or Private:	Public
Forward Plan:	No
Corporate Priorities:	
Statutory / Policy Background:	The Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice.
Summary:	The purpose of this report is to present the Statement of Accounts for consideration by Audit and Ethics Committee prior to approval by Council.
Financial Implications:	There are no financial implications for this report.
Risk Management Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	The Accounts and Audit Regulations 2015 require that the Council must consider and approve the statement of accounts no later than 30 September.

Equality and Diversity:

There are no equality and diversity implications for this report.

Options:

Recommendation:

1. The Statement of Accounts for 2016/17 be considered;
2. The Audit Findings Report for 2016/17 be considered;
3. The Management Representation Letter for 2016/17 be considered; and
4. IT BE RECOMMENDED TO COUNCIL THAT:
The Statement of Accounts for 2016/17 be approved.

Reasons for Recommendation:

The Accounts and Audit Regulations 2015 require the approval of the statutory Statement of Accounts by 30 September.

Audit and Ethics Committee – 21 September 2017

Approval of Accounts 2016/17

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

1. The Statement of Accounts for 2016/17 be considered;
2. The Audit Findings Report for 2016/17 be considered;
3. The Management Representation Letter for 2016/17 be considered; and
4. **IT BE RECOMMENDED TO COUNCIL THAT** the Statement of Accounts for 2016/17 be approved.

1. Purpose of Report

- 1.1 This report presents the statutory Statement of Accounts 2016/17 for review and consideration by the Committee.

2. Background

- 2.1 The Accounts and Audit (England) Regulations 2015, require authorities to prepare Statement of Accounts in accordance with proper practices. These require that the Accounts are prepared by 30 June and approved and published by 30 September after the end of the financial year.
- 2.2 The draft 2016/17 statement of accounts were signed by the Head of Corporate Resources and Chief Financial Officers on 31 May 2017 and published on the Council's website. The draft accounts were presented to the Committee at its meeting on the 29 of June 2017.
- 2.3 The Accounts have since been subject to external audit by Grant Thornton LLP and final audited accounts are now presented to the Committee for its consideration.
- 2.4 In accordance with the Accounts and Audit Regulations and the Council's Constitution, the Statement of Accounts has to be approved by the Council before 30 September, following scrutiny by the Audit and Ethics Committee.

3. The Statement Accounts 2016/17

- 3.1. The statement of accounts, which has been circulated separately, comprises of the following financial statements:
 - i) **The Narrative Report** – includes financial summaries which detail the actual spend and income for the year compared with the original budget; financial and non-financial performance; risks and a financial outlook.

- ii) **Expenditure Funding Analysis** – this is a new disclosure requirement for 2016/17 which shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.
- iii) **Comprehensive Income and Expenditure Statement** – records all of the Council's income and expenditure for the year, in accordance with generally accepted accounting standards. The top half of the statement provides an analysis by service area, in-line with the Council's structure. The bottom half of the statement deals with corporate transactions and funding.

The account is prepared in accordance with International Financial Reporting Standards (IFRS), however, regulations allow local authorities to reverse or replace certain items of income and expenditure. These items are summarised in the MIRS.

- iv) **Movement in Reserves Statement** – this shows the amounts transferred to/from the various reserves held by the Council in order to provide services throughout the year, having taken account of statutory adjustments for financing.

The statement shows that useable reserves reduced by approximately £2.0 million, which was partially due to the planned transfer of £1.0 million of HRA balances for capital investment.

- v) **Balance Sheet** statement is a “snapshot” of the Council's assets, liabilities, cash balances and reserves at the year-end date.

The Council's net worth increased from £109.4m to £161.8m mostly due to an £53 million increase in the valuation of the Council's housing stock, following the completion of the 5 yearly revaluation of this asset class during 2016/17.

- vi) **Cash Flow Statement** – details the main revenue, capital, investment and financing cash movements during the year. Additional information is included within the notes to the accounts.
- vii) **Housing Revenue Account (HRA) Statements** – in accordance with the statutory ring-fence, these show the income and expenditure relating to the provision of Council housing and also the overall amount taken from/contributed to HRA balances for the year.
- viii) **Collection Fund Statement** – shows the transactions relating to business rates and council tax and illustrates the way in which they have been distributed between the Council, Central Government, Warwickshire County Council, Warwickshire Police and Parish Councils.

3.2. The notes of the main financial statements provide additional information to the readers on the figures included within the statements.

4. **Audit of the Accounts**

4.1. The accounts have been audited by Grant Thornton who have issued the attached audit findings report (Appendix 1) which states the financial statements give a true

and fair view of the Council's financial position as at 31 March 2017 and that the auditors anticipate issuing an unqualified audit opinion by 30 September. In addition, they have concluded the Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

- 4.2. Grant Thornton will provide a presentation of the issues arising from the audit to the Committee. The key changes to the statements, compared to the draft accounts, that management wish to bring to the Committee's attention are:
- The inclusion of a Prior Period Adjustment note, which maps out the transition to the new presentation requirements for the Comprehensive Income and Expenditure Statement (CIES). The net cost of services was previously presented based on classifications determined by central government, but is now disclosed in a local reporting format. Guidance produced by CIPFA and other bodies was mixed and limited on the requirement to produce this note and subsequently the note was not included in the draft accounts of many other local authority statements.
 - The restatement of amounts included in the 2015/16 CIES comparatives for trading operations, to correct an error in the treatment of internal recharges. The effect of this error was to overstate the gross income and expenditure figures by approximately £2.0m, however there was no impact on the net surplus or any other balances in the accounts.
 - The correction of an error relating to the treatment of the Council's cash suspense account. A legacy cash credit of approximately £71,000 was held in error in a suspense account. Following the identification of this error during the audit the statements have been corrected to recognise this cash amount as income within the 2016/17 accounts, with the income flowing through to General Fund balances.
- 4.3. Appendix 2 is the Management letter of representation, which is to enable the Council to declare in writing that the statement of accounts and other presentations to the auditor are sufficient and appropriate and without omission of material facts to the best of the management's knowledge.

5. Faster Closedown

- 5.1. For 2017/18 local authorities will be required to approve and publish the accounts by 31 May and 31 July respectively (currently 30 June and 30 September). This represents a significant change to the Council's financial operations and a substantial challenge for the Financial Services team.
- 5.2. Through sound project management and a raft of system and process improvements, the draft Accounts this year were approved 31 May, significantly earlier than in previous years and in-line with next year's 2017/18 reduced statutory deadlines.
- 5.3. However, the Council recognises that in order to meet the requirements to publish the final accounts by 31 July more progress will need to be made. The Council will continue to explore ways to further enhance and expedite the closedown process. In particular, management are committed to working with the auditors and colleagues at other local authorities to further improve processes and working papers to ensure that the Council achieves the earlier statutory deadline.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 21 September 2017
Subject Matter: Approval of Accounts 2016/17
Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.



The Audit Findings for Rugby Borough Council

Year ended 31 March 2017

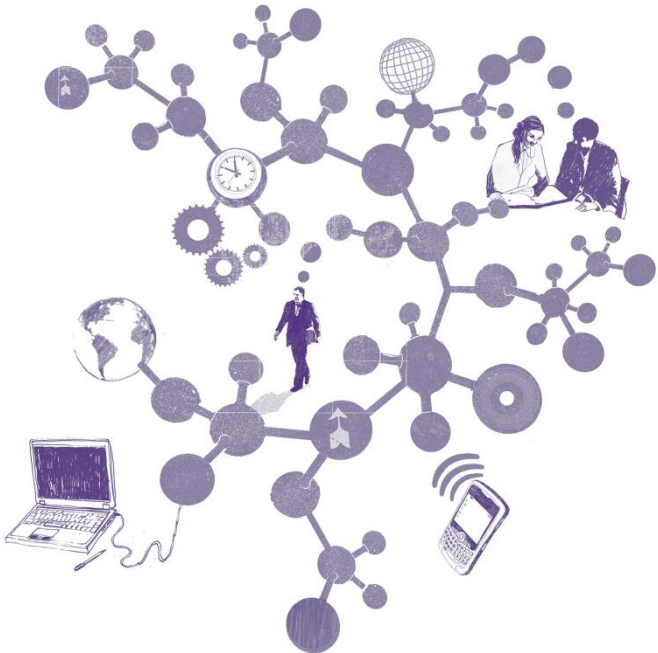
21 September 2017

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21 September 2017

Dear Members of the Audit and Ethics Committee

Audit Findings for Rugby Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Rugby Borough Council, this is the Council but we have determined that the Audit and Ethics Committee is the sub-group with whom we shall communicate throughout the year and ensure the Council sees relevant reports), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) (ISA (UK&I)), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Grant Patterson
Engagement lead

Chartered Accountants

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- A Action plan
- B Audit opinion

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Rugby Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 4 April 2017.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. At the time of writing this report (12 September 2017) our audit is substantially complete although we are finalising our procedures in the following areas:

- review of final version of the accounts
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We identified one adjustment of £71k to allocate an historical cash suspense balance to income which does affect the Council's reported financial position. This value is insignificant compared to our materiality level of £1,213k but as the adjustment exceeds our trivial reporting threshold of £61k (see page 9) auditing standards require us to report this to you.

The draft financial statements for the year ended 31 March 2017 recorded net income of £36,253k the audited financial statements show net income of £36,324k (details are recorded in section two of this report).

There are no unadjusted misstatements and we anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

The key messages arising from our audit of the Council's financial statements are:

- the Council produced a good set of accounts. The accounts contain some innovative presentations which have helped declutter them and make them easier for the public to understand
- the Council has closed its accounts more quickly this year and our audit work was undertaken ahead of previous years but it has highlighted a number of areas where processes and working papers could be improved to ensure that the Council achieves the earlier statutory deadline of the 31 July next year.
- whilst not material, the Code requires that all Investment Properties owned by the Council are revalued each year. The Council had only revalued a proportion in 2016/17 but officers were able to instruct the valuer to perform a desktop valuation for those not revalued in year and demonstrate that there was no material difference between the carrying value and current value
- we queried a number of issues in relation to estimates and critical judgements. There are some key areas in the accounts, such as the asset valuations and the pension liability, where the Council relies on experts to produce estimates in the accounts. As these remain the responsibility of the Council greater evidence should be provided to the challenge that the assumptions used by experts are reasonable and appropriate for the Council.

We recommended a number of adjustments to improve the presentation of the financial statements or to ensure disclosures were consistent with underlying records, which management have actioned. The two most significant of these are that the audited accounts now include:

- a Prior Period Adjustment (PPA) note which discloses the changes made to gross expenditure, gross income, and net expenditure figures reported in 2015/16 to these figures as restated in the accounts for the year ended 31 March 2017. This also includes a £1.996m restatement to gross income and expenditure on the 2015/16 Environmental and Public Realm service line to remove internal trading account service charges and associated income. There is no impact on net expenditure for that service or on the reported outturn for 2015/16; and
- to highlight its significance and allow better year on year comparison the revaluation increase on council dwellings of £41.946m within the Communities and Homes – HRA line of the CIES has been separately disclosed, as permitted by the Code. The same amendment has also been made to the HRA Income and Expenditure Statement.

Further details are set out in section two of this report.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to journals. Our testing identified that the Financial Services Manager posted 97 journals that were not subject to authorization. The journals were posted in April, May and June 2017, and the descriptions were in relation to clearing down codes and year end balance transfers. None of the journals related to cash transactions. This is deemed reasonable by the Council due to the size of the finance team and the pressures of earlier close down.

Our testing provided us with assurance the journals related to the accounts close down procedures and we did not identify any issues from testing carried out in the relevant areas of the accounts to where the journals were posted. It is unusual, however, to see self authorization of journals, and such a high number. We recognise the Council has a small finance team but recommended management to consider whether it is willing to accept the risk arising from self-authorization of journals. In discussions, management confirmed that it is willing to accept this risk given that these journals relate to non-cash related transactions, and that these journals are only raised during year-end closedown.

We also identified that the two misclassification adjustments reported to you last year (neither of which impacted on reported balances and outturn) had been processed manually within the accounts, but not in the ledger.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Ethics Committee which is due on 30 January 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Corporate Resources and Chief Financial Officer.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Corporate Resources and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,081k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and, following receipt of the draft Financial Statements, revised our overall materiality to £1,213k (being 2% of gross revenue expenditure adjusted for the exceptional change resulting from the Existing Use Social Housing Valuation discount factor moving from 34% to 40%).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £54k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation and is now £61k.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made we have set a materiality level of £20k to inform our audit approach and our reporting to you. We recognise that in compiling the disclosure, the Council will apply its own assessment of materiality and (as required by IAS24) also have regard to materiality from the perspective of the other party.	£20,000 (but also need to take into account the significance of the transaction to the other party).
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Rugby Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Rugby Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation Review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>Our journals testing identified that the Financial Services Manager posted 97 journals that were not subject to authorization. The journals were posted in April, May and June 2017, and the descriptions were in relation to clearing down codes and year end balance transfers. None of the journals related to cash transactions. This is deemed reasonable by the Council due to the size of the finance team and the pressures of earlier close down.</p> <p>Our testing provided us with assurance the journals related to the accounts close down procedures and we did not identify any issues from testing carried out in the relevant areas of the accounts to where the journals were posted. It is unusual, however, to see self authorization of journals, and such a high number. We recognise the Council has a small finance team but recommended management to consider whether it is willing to accept the risk arising from self-authorization of journals. In discussions, management confirmed that it is willing to accept this risk given that these journals relate to non-cash related transactions, and that these journals are only raised during year-end closedown.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, including provision of information to the actuary. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. We undertook procedures to confirm the reasonableness of the actuarial assumptions made. We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in relation to the valuation of the pension fund net asset and liability.</p> <p>A key part of the work we carry out in relation to this estimate is to confirm the reasonableness of the actuarial assumptions made. While we have sufficient assurance that these assumptions are reasonable, there is limited evidence of challenge of the assumptions used and the actuarial output by officers of the Council. As this is a material estimate we have suggested to officers that a more detailed working paper could be produced which compares the estimates as at December used by the actuary to the final year end position published in the accounts. We are satisfied that differences were trivial for 2016/17.</p>
<p>Changes to the presentation of local authority financial statements</p> <p>Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> We documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. We reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Authority's internal reporting structure. We reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). We tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. We tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. We tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. We reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice 	<p>We were satisfied that the CIES and MIRS were appropriately restated; the accounting entries in 2016/17 were materially fairly stated; and that segmental reporting complied with the CIPFA Code of Practice.</p> <p>We agreed with management that a PPA note to restate the 2015/16 comparative figures was required to fully comply with the Code.</p> <p>When management prepared the note they identified that expenditure and income for the Environmental and Public Realm service were both overstated by £1.9m as a result of trading account service recharges being overstated. This amendment had no impact on the net expenditure of £7,567k for that service and thus no impact on the reported outturn for that year. As this corrected an error, we agreed with management that a further PPA disclosure was required for this.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls in relation to the completeness assertion to assess whether those controls were in line with our documented understanding undertook cut off testing of purchase orders and goods received not invoiced (both before and after year end) reviewed the year end accrual process reviewed the year end control account reconciliations tested a sample of operating expenses covering the period 1/4/16 to 31/3/17 to ensure they have been accurately accounted for tested a sample of creditor balances at 31/3/17 	<p>Our audit work has not identified any significant issues in relation to operating expenses.</p> <p>Note 35 - Audit Fees has been amended to reflect the audit fee charged for the financial year ended 31 March 2017 in order to comply with the Code.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals are understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented the processes and controls in place around the accounting for employee remuneration and undertaken a walkthrough test to confirm operation of these controls. reviewed the year end control account reconciliations. reviewed monthly trend analysis of total payroll. undertook testing of payroll expenditure from a sample of employees for the remainder of the financial year. tested a sample of payments made in April and May 2017 to ensure payroll expenditure is recorded in the correct year. 	<p>Our audit work has not identified any significant issues in relation to employee remuneration.</p> <p>Note 7 Officers Remuneration and termination benefits was amended to fully comply with the Code (for example where redundancy payments had put individuals into pay bands above £50k requiring disclosure; to include pension related costs; to include payments in lieu of notice).</p>

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that we are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.

Significant matters discussed with management

	Significant matter	Commentary
1.	Working papers to support the accounts and early close	<p>The Council has made significant efforts and progress to produce its accounts earlier and service the earlier audit of the accounts.</p> <p>Our audit started earlier than scheduled in prior years and overall completion will be ahead of that previously achieved. However, the audit has taken longer than originally planned. Our experience elsewhere this year has shown that many Councils have sought to achieve faster close primarily by doing the same things earlier. This has achieved significant improvements but has not always got them over the line. Looking forward, to meet committee deadlines and the processes necessary to formally approve the accounts by 31 July, mandated from 2018, the timeline for next year needs to be shortened by at least a further two weeks. To achieve this we recommend that officers critically review the processes they have in place for close down of the accounts and consider how efficiencies can be made by doing things differently. During the audit we have highlighted to officers key areas where processes could be streamlined and we will continue to work with you during the year to help you meet the deadline next year.</p> <p>We provided officers with a detailed list of working papers required to support the accounts production process as part of planning the audit. While this has been used, the working papers provided against the request did not always provide the assurance needed, often relying on copies of ledger prints with no explanation. Others were sometimes difficult to locate, did not fully support the balances and disclosures, or were difficult to work with. We have worked with officers to gain the information we need to complete the audit, including adding to officers existing working papers or creating our own to demonstrate how balances and disclosures in the accounts are supported. This has slowed the audit down this year.</p> <p>A good working paper should be sufficiently detailed and complete that a fellow professional with no previous experience of the Council can understand the working papers in terms of the work completed, the conclusions reached and the reasoning behind these conclusions. This will need to be a key area of focus next year if the audit is to be completed by the earlier statutory deadline of the 31st July.</p> <p>Some working papers were very good, and officers can perhaps work together to achieve consistency in their production by learning from each others. Many other authorities ensure that this requirement is met via a quality assurance process of the working papers to support the financial statements, with a different officer reviewing the working papers produced and verifying that they are fit for purpose prior to the working papers being made available for audit. This does not have to be completed at the end of the process, it can be an ongoing process as working papers are being produced.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. There are policies covering the major sources of income such as fees and charges, grants, Council Tax, NDR and interest receivable. 	<ul style="list-style-type: none"> The Council's policies are appropriate and consistent with the relevant accounting framework – the Code of Practice on Local Authority Accounting Minimal judgement is involved Accounting policy is properly disclosed 	<p style="text-align: center;">● Green</p>
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> pension fund valuations useful life of capital assets impairments Property, Plant and Equipment (PPE) valuations Business Rates Retention and Business Rates Appeals 	<p>We have considered:</p> <ul style="list-style-type: none"> Appropriateness of the policy under relevant accounting framework, Extent of judgement involved Potential financial statement impact of different assumptions Adequacy of disclosure of accounting policy. <p>Overall, there is sufficient assurance over how key estimates and judgements have been made, however we would note the following points.</p> <p>Council dwellings were independently valued as at 1 April 2016. The Council has applied indices approved by the valuer to reach an estimate of the current value as at 31 March 2017. This approach is not fully compliant with the Code which would require a formal valuation as at 31 March 2017 but we are satisfied that there is no material error in the value disclosed.</p> <p>The Council has not depreciated the Town Hall or the Works Services Unit in 2016/17 on the basis that the valuer has formed the view that residual value over the assets' lives would not differ from market value. This is not in line with the Council's depreciation policy. We are satisfied the sums are trivial this year and will follow up with the Council in 2017/18.</p> <p>Management has updated the accounting policy for depreciation to state that council dwellings are charged a full year of depreciation in the year they are disposed of.</p> <p>Pension Liabilities are a key estimate in the accounts. We have reviewed the estimation technique used in determining this estimate and are satisfied with the methodology used.</p>	<p style="text-align: center;">● Amber</p> <p>(Accounting policy appropriate but scope for improved disclosure)</p>
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;">● Green</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure



Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Ethics Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests for the remaining loans, and all bank and material investment balances. This permission was granted and the requests were sent. All confirmations have been returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements except that a PPA note was required to restate the 2015/16 CIES gross expenditure, income and net expenditure. Management included this note in the audited accounts.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.</p>



Internal controls

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1.	 Deficiency	<p>Our testing identified that the Financial Services Manager posted 97 journals that were not subject to authorization. The journals were posted in April, May and June 2017, and the descriptions were in relation to clearing down codes and year end balance transfers. None of the journals related to cash transactions. This is deemed reasonable by the Council due to the size of the finance team and the pressures of earlier close down.</p> <p>Our testing provided us with assurance the journals related to the accounts close down procedures and we did not identify any issues from testing carried out in the relevant areas of the accounts to where the journals were posted. It is unusual, however, to see self authorization of journals, and such a high number. We recognise the Council has a small finance team but recommended management to consider whether it is willing to accept the risk arising from self-authorization of journals. In discussions, management confirmed that it is willing to accept this risk given that these journals relate to non-cash related transactions, and that these journals are only raised during year-end closedown.</p>	<p>We recommend management to consider:</p> <ul style="list-style-type: none"> • whether it wishes to put in place authorisation processes for journals raised by the Financial Services Manager; or • whether it wishes to document why it is willing to accept the risk arising from specific self-authorization of journals.
2	 Deficiency	<p>When testing to confirm that the 2015/16 balances in the accounts agreed to the ledger, we found that the two misclassification adjustments reported to you last year had not been processed in the ledger. Neither of these changes impact on reported balances and outturn. The adjustments were:</p> <p>CIES – reduce expenditure and income within net cost of services by £9,543k to exclude overhead recharges in the CIES</p> <p>Balance sheet – debtors and creditors £154k each– increase creditors and decrease debtors to correctly classify deferred income as creditors rather than decreasing debtors</p>	<p>Going forward we recommend that management processes all misclassification adjustments in the ledger.</p>

Our audit work also identified a small number of minor improvement opportunities in relation to the IT control environment. None of these findings were significant and related to ways in which the controls could be further strengthened to reflect best practice. We have made a number of recommendations to management to consider and respond to.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

Two adjustments to the draft accounts were identified during the audit process:

1. Our testing of cash balances identified an historical cash suspense balance of £71k that had not yet been allocated to income. Management agreed to do this. This increased income and general fund balances by £71k.
2. When preparing the PPA note explaining how the 2015/16 CIES had been restated to now be disclosed per CIPFA's "Telling the Story" project, management identified that the gross expenditure and gross income relating to the Environmental and Public Realm service had both been overstated by £1,996k due to the inclusion of internal trading account service charges and associated income. The net cost of that service, £7,567k was fairly stated. There is no impact on the reported total comprehensive income of £36,735k that was reported for 2015/16. Management proposed including an additional PPA note to explain this and we concurred with their proposal.

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net income £000
1a 2015/16 Environmental and Public Realm Gross Expenditure	Reduced by 1,996	n/a	nil
1b 2015/16 Environmental and Public Realm Gross Income	Reduced by 1,996	n/a	nil
2 Allocation of cash suspense balance to income codes *	Increased by £71	Increased by £71	nil
Overall impact	£71	£71	nil

* The impact of this adjustment is disclosed within the Narrative Report (pages 15 and 16); the Expenditure and Funding Analysis – Corporate Resources line on page 27; the CIES - Corporate Resources line on page 28; the Movement in Reserves Statement – Total Comprehensive Income & Expenditure line on page 31; the Balance Sheet – cash and cash equivalents line and usable reserves line on page 32; the Cash Flow Statement – operating activities line on page 33; note 11 Expenditure and Income analysed by nature – fees charges and other service income line on page 49; Note 30 Cash and Cash Equivalents on page 77; and note 31 Cash flow statement – operating activities – sales of goods and rendering services line on page 78.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 6, Prior Period Adjustment	We requested management include a PPA note to disclose the impact of restating the 2015/16 CIES gross expenditure, gross income and net expenditure figures as a result of adopting CIPFA's Telling the Story changes to the presentation of the CIES along with new Expenditure Funding Analysis. This was agreed and actioned.
2 Disclosure	£41.946m	CIES	To highlight its significance and allow better year on year comparison the revaluation increase on council dwellings within the Communities and Homes – HRA line of the CIES has been separately disclosed, as permitted by the Code.
3 Disclosure	£41.946m	HRA Income and Expenditure account	See item 3 above. This has also been done in the HRA Income and Expenditure Account.
4 Disclosure	various	Note 35 Audit Fees	The note was corrected to disclose the value of fees payable to the external auditor in relation to 2016/17 rather than the fees paid during the year (some of which related to 2015/16)
5 Disclosure	various	Note 7 Officers' remuneration	<ul style="list-style-type: none"> Termination benefits – benefits paid to three officers were agreed prior to 31 March 2016. These should have been disclosed in the prior year. The note has been amended to reflect this. Senior Employee remuneration table amended to disclose values in the columns required by the Code. Senior employee remuneration table amended to include pensions actuarial strain costs and payments in lieu of notice The remuneration banding table has been amended to take account of redundancy payments which result in remuneration payments exceeding £30k.
6 Misclassification	£2m	Note 39 Financial instruments	One of the investments tested does not mature until December 2018. This has been reclassified as long term investments. This has not impacted the total net assets of the authority as investments overall were materially correctly valued.

Misclassifications and disclosure changes (continued)

Adjustment type	Value	Account balance	Impact on the financial statements	
7	Disclosure	£139.3m	HRA note 2 Vacant Possession	To calculate the vacant possession value of council dwellings, the value of dwellings at April 2017 should be used. The April 2016 values were used in the calculation. The note has been corrected using the April 2017 prices of £454,446k resulting in the economic cost to government being £272,051k. There is no impact on the Council's balances this is purely a disclosure note.
8	Disclosure	£1.9m	Note 26 Leases	The note was amended to reflect underlying records. Amended figures are: Not later than one year £ 84k Later than one year and not later than 5 years £ 142k Later than 5 years £ 1,614k Total £ 1,840k
9	Disclosure	Various	various	A small number of changes were made to enhance presentation, correct typographical errors, or reflect information not available at the time the accounts were drafted.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 4 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was the Council's arrangements for medium term financial planning and identifying savings

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the next page.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial Standing The Council presented the updated MTFs 2017/18 to 2019/20 to Cabinet in February 2017. This has a balanced budget for 2017/18 but indicates a forecast budget shortfall totalling £1.07m across 2018/19 and 2019/20. The Senior Management Team, are building upon the work already done to identify savings opportunities to find ways of eliminating the shortfall.</p>	<p>We have discussed key strategic challenges and the Council's proposed response. Reviewed reports to members on: a) the outturn position for 2016/17 and the budget plans up to 2019/20 b) the Council's progress in updating its medium term financial strategy and progress against savings plans.</p>	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council. • taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans. • has put plans in place to address the budget shortfalls including making challenging decisions in respect of charges for garden waste and entrance to the Rugby Hall of Fame. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Section 4: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Proposed fee £	Final fee £
Council audit	54,968	TBC
Grant certification	6,540	TBC
Total audit fees (excluding VAT)	61,508	TBC

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Audit Related Service	Fees £
<ul style="list-style-type: none"> Pooled capital receipts grant certification (in respect of 2015/16 claim, but billed in 2016/17) 	2,025

Independence and ethics

Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services	Pooled capital receipts grant certification (in respect of 2015/16 claim, but billed in 2016/17)	2,025	None	We have not identified any threats in relation to the service provided.
	TOTAL	£2,025		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	<p>Management should consider:</p> <ul style="list-style-type: none"> whether it wishes to put in place authorisation processes for journals raised by the Financial Services Manager; or whether it wishes to document why it is willing to accept the risk arising from specific self-authorisation of journals. 	Medium	As discussed, we are satisfied this does not pose a risk. These specific journals do not result in cash transactions. They are only raised as part of closedown to close down non-cash codes or to process information received at year end such as IAS 19 pensions information or in relation to property valuations.	N/A
2.	Officers should consider how they can provide greater evidence of challenge of the work of experts, particularly in relation to material estimates such as the asset valuation and the valuation of pension liabilities.	Low	<p>Management have noted the changed approach by the auditors, which has now placed greater emphasis on evidencing the challenge of the work of experts.</p> <p>With regard to asset valuation management have agreed to modify the specification of our contract with the external valuers, incorporating the requirement to collate more formal documentation capturing discussions and related challenge on their material estimates and assumptions.</p> <p>With regard to pension valuations an approach has been agreed with the County Council, in their role as the administering authority, to supply the further information needed to evidence this challenge.</p>	By 31 December 2017
3.	Finance staff should review how the working papers to support the financial statements are produced and filed, so that they are easy to locate and understand by finance staff who have not been involved in the accounts production process. A quality assurance arrangement should be put in place for all working papers produced which should be appropriately evidenced.	Medium	<p>Management are in agreement with the benefits that such a review of working papers will provide. Officers are working with Grant Thornton and colleagues at other authorities to arrange a working paper workshop, focusing on identifying examples of best practice in the production of working papers that could be adopted at the Council.</p> <p>Management are also in agreement with the benefits of quality assurance (QA) arrangement. However, the adoption needs to be considered within the context of the faster closedown requirements and also the relatively small size of the Council's Financial Services team. Therefore, the Council will look to adopt a risk-based approach to QA focusing initially only on working papers that provide material items with the accounts.</p>	By 31 December 2017

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4.	Officers should review year end processes and identify areas where they could be streamlined or undertaken at different times in the year. In particular, where could the accounts rely on greater use of estimates and does the financial reporting system provide the necessary reports to enable an efficient close down.	Medium	<p>The Council will continue to strive for improvements to the closedown process to aid a more efficient and faster closedown. Greater use of estimates will be considered for 2017/18 closedown, alongside other initiatives and process changes, again within the context of a risk-based approach to ensure the material accuracy of the accounts.</p> <p>However, it should be noted that substantial improvements have already been made to the structure of the general ledger for 2016/17 to improve the reporting output of financial reporting system. These improvements have contributed to the Council producing its draft accounts before the end of May, meeting the new requirements a year ahead of schedule.</p>	By 31 December 2017
5.	Management should process misclassification adjustments to the accounts in the general ledger.	Medium	Management have agreed to implement this recommendation. Please note the £71,000 misclassification for the cash suspense item has been processed in the general ledger for 2016/17.	By 31 December 2017

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Draft audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUGBY BOROUGH COUNCIL

We have audited the financial statements of Rugby Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes (which include the Expenditure and Funding Analysis). The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Corporate Resources and Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Head of Corporate Resources and Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Corporate Resources and Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Grant Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
Colmore Plaza
Birmingham
B4 6AT

[Date]



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Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham B4 6AT

28 September 2017

Dear Sirs

Rugby Borough Council
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Rugby Borough Council ('the Council') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

- xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

- xvi We have communicated to you all deficiencies in internal control of which management is aware.

- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.



Approval

The approval of this letter of representation was minuted by the Council's Audit & Ethics Committee at its meeting on 21 September 2017.

Signed on behalf of the Council

Mannie Ketley

Head of Corporate Resources and Chief Financial Officer

Cllr Michael Stokes

Leader of Rugby Borough Council

28 September 2017



Statement of Accounts

Rugby Borough Council • 2016/17

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NARRATIVE REPORT

Narrative Report of the Head of Corporate Resources and Chief Financial Officer Financial Year ended 31st March 2017

Introduction

Dear Reader,

I am pleased to present the Rugby Borough Council Statement of Accounts (the Accounts) for the financial year 2016/17 and I hope you will find them of interest.

The purpose of the Accounts is to summarise the financial performance for the year 2016/17 and the overall financial position of the Council. It is intended that these Accounts will provide a useful and important source of financial information for the community, stakeholders, council members and other interested parties.

The style and format of the Accounts, complies with Chartered Institute of Public Finance & Accountancy (CIPFA) standards and have been updated this year to be presented in a more user-friendly and accessible fashion. The Accounts this year have also been produced earlier than in previous years and the Council has successfully published the draft 2016/17 Accounts in-line with next year's 2017/18 reduced statutory deadlines.

The Narrative Report provides information about Rugby, including the key issues affecting the Council and its Accounts. It also provides a summary of the financial position at 31st March 2017 and is structured as below:

1. About Rugby
2. About Rugby Borough Council
3. Our Priorities
4. World Rugby Hall of Fame
5. How your Council is performing
6. Financial Overview of 2016/17
7. Financial Performance in 2016/17
8. Future Financial Outlook
9. Risks
10. Explanation of the Financial Statements
11. Further Information

Mannie Ketley
Head of Corporate Resources and Chief Financial Officer
31st May 2017



1. About Rugby

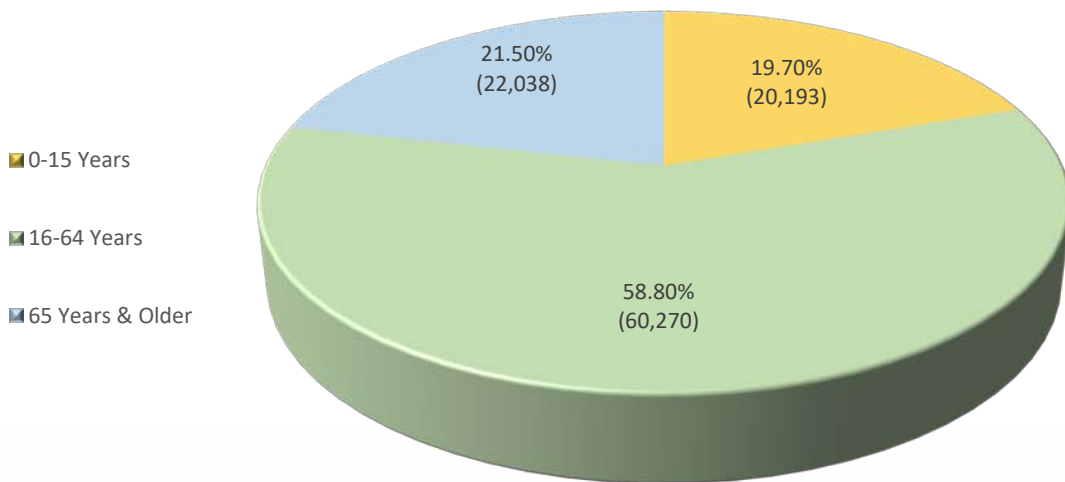
Lying near the centre of England and stretching from Coventry to the west and to the county borders of Northamptonshire and Leicestershire in the east, the borough of Rugby covers the town of Rugby and 40 rural parishes, with a total population of just over one hundred thousand and covering an area of 88,000 acres. The borough is one of the fastest growing in England, with further growth expected with the delivery of Houlton, a new community development on the site of the old Rugby Radio Station.



Population

Office for National Statistics Mid-year estimates for 2014 reported that Rugby's estimated population was 102,500 with the age profile as presented below.

Composition of Rugby Population





2. About Rugby Borough Council

Rugby is the primary local authority for the borough, providing popular services such as waste collection, housing, leisure and culture, and development control. The Council is an active partner in the Coventry and Warwickshire Local Enterprise Partnership (LEP) and the Coventry, Warwickshire and Hinckley and Bosworth joint committee for economic growth and prosperity, and is a non-constituent member of the West Midlands Combined Authority. The Council uses its influence within these organisations to facilitate benefits for the borough including investment in jobs and infrastructure.

Political Structure in the 2016/17 Municipal Year

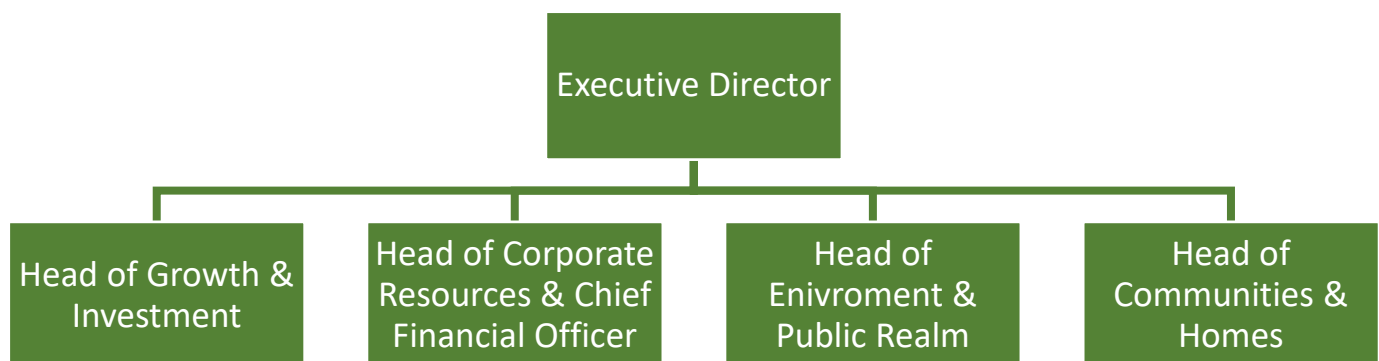
Rugby has 16 wards and the Council consists of 42 Councillors and following the local election on 5th May 2016 the political make-up of the Council was:

Conservative Group	21
Liberal Democrat Group	9
Labour Group	9
Independent Group	2
Independent	1

The result of the local election did not change the overall membership of the Council, with representatives from the Conservative, Liberal Democrat, Labour and the Independent Groups alongside an Independent Councillor holding seats.

Management Structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Senior Management Team, led by Executive Director Adam Norburn.



Council Employees



At the start of April 2016 the Council employed 500 people. By March 2017 this had increased by 15 (3.0%) to 515. The Council has recently been developing its Corporate Values which recognises the value and importance of Council staff in every aspect of the Council's work, sets out processes and procedures for staff engagement and development.

3. Our Priorities

On the 25th April 2017 the Council approved the Corporate Strategy 2017-20, setting out our priorities for the next three years. Our new strapline, "proud of our past, fit for the future," will help us to focus on providing facilities and growth that give us a strong and prosperous future while preserving and celebrating the best of our past.

Under our new strapline we have set three overarching corporate priorities that reflect the need for public services to change and reform.

These are:

- Provide excellent, value for money services and sustainable growth
- Achieve financial self-sufficiency by 2020
- Enable our residents to live healthy, independent lives

We have also created four new portfolios, each with their own priorities. These portfolios, allied with the "can do" approach of our workforce, will allow us to deliver services that will help us be proud of our past, and fit for the future.

More information on our Corporate Strategy can be found at:

https://www.rugby.gov.uk/info/20082/performance_and_strategy/339/corporate_strategy_2017-2020

However, the previous Corporate Strategy covered the period 2012-16 with a view to ending its useful life at the end of the 2016/17 financial year. Therefore, it is the previous Corporate Strategy 2012-16 that covers the period relevant to these Accounts. The Corporate Strategy 2012-16 set out the Council's priorities to achieve outcomes for people, for business, for the environment, and for how the Council operates. All this pointing to our overall objective: a borough that is **Clean, Green and Safe**. Our priorities for 2016/17 were to:

PEOPLE

- Support wider participation in decision making and help communities to deliver services.
- Facilitate the provision and upkeep of good quality housing to meet local needs and to cater for the growth of Rugby.
- Provide leisure facilities and support independent and healthy living.
- Work with partners to reduce crime and antisocial behaviour.
- Provide safe and attractive streets.

BUSINESS

- Actively encourage parish councils and community bodies in neighbourhood development planning.
- Establish an environment that will attract new businesses into the borough and enable existing businesses to flourish.
- Support training in new technologies and promote apprenticeship opportunities.
- Work with developers to provide new housing and infrastructure.
- Facilitate the expansion of Rugby town by identifying and removing barriers to growth.

ENVIRONMENT

- Promote the highest standards of sustainability.
- Actively progress energy-saving initiatives within the Council and by residents and businesses.
- Provide new burial and cremation facilities.
- Increase biodiversity across the borough.
- Promote and maintain high levels of waste recycling.
- Minimise the impact of litter and fly tipping.

COUNCIL

- Increase the availability of information that will help residents and businesses.
- Improve service delivery via customer-focused reviews and the development of our staff.
- Engage in partnerships to meet local needs, reduce costs and increase efficiency.
- Actively seek revenue-generating opportunities and apply charges in order to meet our costs.

4. World Rugby Hall of Fame

The undoubted highlight of 2016/17 for Council came in November 2016 when the inspiring, interactive, immersive World Rugby Hall of Fame opened in the existing Rugby Art Gallery & Museum.

The World Rugby Hall of Fame opened on 17 November, with an induction ceremony for some of the top talent of the sport including Jonny Wilkinson, Shane Williams and Heather Moyse. The new, state-of-the-art visitor attraction gives people the opportunity to experience rugby's greats and the moments that defined the sport in physical location for the first time.



The cost of the works to install the World Rugby Hall of Fame and reconfigure the entrance foyer and atrium was £1.2m (million), which has been underwritten by Rugby Borough Council.

In the first six months of opening, approximately 12,000 people visited the World Rugby Hall of Fame. The partnership with World Rugby, the sport's governing body, is enabling a number of marketing activities to take place at local, regional, national and international levels, promoting the town's unique selling point as the birthplace of the game to a greater extent than previously possible.

A new pricing strategy has been implemented and came into effect at the start of April 2017. This includes admission charges for adults, children, concessions and families. Group packages have also been developed, incorporating the wider rugby town centre offer, including Rugby School, the Webb Ellis Museum, Art Gallery and Museum and guided tours. These were launched at a number of travel and trade exhibitions in early 2017.



A series of events will take place during the year to increase footfall and raise awareness of the attraction, including an annual induction ceremony. It has recently been announced that the World Rugby Hall of Fame will be the future starting location for all future Men's, Women's and Sevens Rugby World Cup Trophy Tours. A number of free admission days will be promoted during the year, open to all visitors but also specially targeted at local residents.

An education programme is being delivered for Key stages 1, 2 & 3, including additional activities within the Rugby Art Gallery & Museum, whilst there is a plan to engage with local rugby clubs for the new season starting in August 2017.

5. How your Council is performing

Aside from the achievements associated with the Hall of Fame, the Council's other key performance information of note for 2016/17 include:

PEOPLE

Housing

The Council continues to invest in its Housing stock, including:

- In the second year of the three-year window and door replacement programme the Council has completed over 1,350 properties, investing £4.3m.
- 126 gas central heating installations were completed during the year costing £350,000.
- 123 new kitchens were installed during 2016/2017, costing £412,000.

The roll out of Universal Credit has contributed to an increase in the number of our tenants in arrears, due to the time it is taking for DWP to process the claims. There were approximately 400 tenants in receipt of universal credit at the end of March 2017 and the rent arrears exceeded total £330,000.

The Council leased its first Private Sector Leasing scheme property via a private landlord in June 2016. Since then 23 units of private sector accommodation have been secured, which will house local people in housing need. It is anticipated that as a result, the Bed & Breakfast spend will reduce in 2017/18 by over £125,000.

Rugby Borough Council led a partnership bid from the Warwickshire Together Homelessness Early Intervention Project to secure a £855,000 grant from the Department for Communities and Local Government's Homelessness Prevention Trailblazers fund.

Crime and Disorder

Through our on-going Crime and Disorder initiatives, the following was evidenced:

- Serious Violent crime was reduced by 7.5 per cent
- Domestic burglary was reduced by 9 per cent
- Personal Anti-Social Behaviour - every victim that we supported saw a reduction in their vulnerability

Overall the social and economic costs of those priority crime types were reduced by £1,686,700 having spent £57,000 in crime reduction initiatives. Representing a borough wide saving of £29.59 for every £1 spent.

Leisure and Independent and Healthy Living

The Council's commitment to providing leisure facilities and supporting healthy and independent living is demonstrated by:

- Averaging 36,000 contacts per quarter with children and young people aged 5-19
- Retention of 2000+ Swim School members accessing swimming lessons at The Queen's Diamond Jubilee Centre
- In partnership with Hill Street Youth Centre, securing 3 years' youth funding for On Track & Play Services totalling £90,000
- Securing additional £145,000 for Year 3 of Public Health Warwickshire funding for 'Change Makers' Family Lifestyle Programme across the County

In January 2017 work to improve a flood-prone stretch of the Great Central Way started, thanks to a grant from the Veolia Environmental Trust. Rugby Borough Council secured the £52,000 grant, awarded through the Landfill Communities Fund, to tackle flooding on the footpath and cycle way between the Clifton Road bridge and Hillmorton's Pytchley Road.

BUSINESS

Public Realm and Town Centre

A number of improvements were made to enhance the public realm of the town centre, including the following:

- The replacement and refurbishing of timber benches is ongoing and the programme is now working towards the periphery of the town centre
- Town centre car park lighting has been upgraded to energy efficient LED lamp heads
- Town centre car park pay & display machines have either been totally replaced or had new tops fitted on them



Growth and Investment

The Council's pro-growth agenda continued to facilitate investment and growth in Rugby, as evidenced by:

- Commencement of development at the Houlton site, a new community development on the site of the old Rugby Radio Station.
- Phase 2 Elliot Fields is situated immediately west of the recent Elliott's Field regeneration, totaling 150,000sqft retailing. Due to open October 2017.
- Rugby Borough Council was awarded the Best 'Small Business Friendly' campaign award as part of the Federation of Small Business' annual Local Authority Awards. The award was for the Council's work on generating wealth for the economy before, during and after the Rugby World Cup
- In 2016 the Council launched "The Rugby Town" promotional branding and website for the town centre, to assist with destination marketing. See www.therugbytown.co.uk.

Encourage parish councils and community bodies in neighbourhood development planning

Wolvey, Wolston, Ryton on Dunsmore and Brandon and Bretford Parish Council have all commenced the neighbourhood plan process and now all have Neighbourhood Area Designation status.

Apprenticeships

The Council introduced a Corporate Apprenticeship scheme in 2012, to date there have been twenty-four apprentices since the scheme started. Our apprentices provide a range of valuable support to a number of different services across the Council and have, at times, filled essential gaps that can appear at times when there is no contingency. This investment also places the Council in a strong position to meet the obligations arising from the national Apprenticeship Levy introduced in April 2017.

ENVIRONMENT

Parks and Open Spaces

2016/17 was also a successful year for the Council's parks and open spaces, with recognition for:

- Rugby gaining a Gold award in both the regional Heart of England in Bloom and the National Britain in Bloom campaigns.
- Gained a Green Flag award for both Caldecott Park and Centenary Park.
- In addition, Centenary Park has been recognised officially as the most improved park in the country, by the Fields in Trust
- Successfully gained funding via the Woodland Trust to plant over 28,000 trees on our parks and open spaces.
- Successfully worked with our communities to transform Millennium Green and Gladstone Green as part of the Government's Pocket Parks programme
- Successfully secured £182,000 from the Landfill tax scheme to improve our parks and open spaces
- Supported over 8,000hrs of volunteering on our green spaces.
- Supported the creation of the second National Hedgehog improvement area around Rugby



Minimise the impact of litter and fly tipping



A pile of rubbish was dumped in Caldecott Park on 21st March 2017 to mark the launch of a new campaign to crackdown on fly-tipping. The Council staged the fly-tipping stunt to promote the launch of #CrimeNotToCare, a nationwide campaign coordinated by Keep Britain Tidy. In 2016, the Council dealt with more than 1,400 fly-tipping incidents, leaving the taxpayer to foot a clean-up bill of nearly £57,000



COUNCIL

Increased Availability of Information

The Visitor Centre has made the shortlist of three for the Visitor Information Provider of the Year Award, which honours quality customer service and satisfaction at the country's leading tourist destinations. Based at Rugby Art Gallery and Museum - home of the World Rugby Hall of Fame - the Visitor Centre was judged on a range of criteria, including the quality of information on offer, the staff's knowledge and enthusiasm, use of social media, and the products sold in the centre's shop.

2016 also saw the launch of the Rugby Multilink project, offering free advice and support to the borough's Polish-speaking community. The project links established Polish-speaking residents with new residents in need of help and support through a Polish Facebook page and Polish language online form.

https://www.rugby.gov.uk/info/20053/community_development/334/rugby_multi-link

Partnership working

- During 2016/17 Rugby Borough Council became a non-constituent member of the West Midlands Combined Authority.
- Renewal of the Warwickshire Direct Partnership, resulting in service improvement and cost savings.
- Member of the Warwickshire Counter-Fraud Partnership, working with other authorities in Warwickshire to reduce the incidence and cost of fraud.
- The Council also continues to work in partnership with the community and voluntary sector to great effect across a wide and varied range of services.

Further details of the Council's partnership working can be found within Note 36 Related Party Transactions.

Improved Service Deliveries via Customer Focused Reviews

An end-to-end review of void HRA properties was completed, leading to a reduced void levels which now stand at 28 days for 2016-17, a significant reduction from 39 days in 2015-16. This reduction equates to an increased rental income for the Council of approximately £50,000 per annum.

6. Financial Overview

Local authorities have taken the biggest hit in terms of central government cuts since 2010. The Council has seen significant reductions in some of its core funding streams since 2010, for example our Revenue Support Grant has reduced from £3.2m in 2013/14 to £1.1m in 2016/17.

Even with these cash funding reductions, the Council was able to set a balanced budget for 2016/17. The 2016/17 balanced budget position was underpinned by the Council's strong track-record of delivering organisational transformation and efficiency savings, to meet the challenges of the national deficit reduction programme. Through sound financial management and an embedded culture of organisational efficiency, as demonstrated through our service reviews and systems thinking methodology, the Council has protected front-line services whilst also keeping council tax low for residents.

The Council has also benefited from additional income from retained business rates and New Homes Bonus (NHB). It has been well publicised that Rugby is one of the fastest growing towns in the country and the fastest in the West Midlands and this was reflected in the level of income the Council budgeted to receive from these schemes. The Medium Term Financial Plan (MTFP) forecast that the Council would retain an extra £329,000 of business rates in 2016/17 and a further £426,000 in 2017/18. In terms of NHB, the Council's "going for growth" agenda has led to further increase in income with an additional £782,000 budgeted in 2016/17.

Partially offsetting the strong business rates growth, was the need to significantly increase the provision for losses against appeals, relating to potential reductions in the rateable value of a number of key sites, including supermarkets, warehouses and distributions depots, in addition to losses from the national claim on GP surgeries. The Council's 40% share of this loss equates to around £1.4m which under regulatory provisions had to be budgeted for in 2016/17 as a collection fund deficit. This loss was met in the 2016/17 budget by a contribution from the Business Rates Equalisation reserve.

Throughout the budget setting process, the intention was to raise council tax by 1.99%, however following the Final Settlement announcement, Members made the decision to increase council tax by £5 on the average Band D. This was the first time that a council tax rate increase had been seen in Rugby since 2010.

However, despite the balanced budget position for 2016/17, the budget setting process concluded with the Council standing in a mixed and uncertain medium term financial position. This uncertainty centred around the future of local government finance system, most notably the reform of NHB and 100% Retained Business Rates. Due to the aforementioned uncertainty, the future years' projections produced in the 2016-20 Medium Term Financial Plan (MTFP) were identified as to be treated as indicative figures only, with potential shortfalls of approximately £1.9m in 2018/19 and £2.1m in 2019/20.

For the Housing Revenue Account (HRA) a number of policy and other changes emerged following the 2015 election. The most significant for the budget was the requirement reduce rents by 1% each year from 2016/17 until 2019/20.

The substantial loss of rental income under the new regulations meant the HRA would fall into an illegal deficit within 2 years. To mitigate this, a detailed review of balances was undertaken and recommended reducing HRA balances by £1.350m and a HRA savings target of £800,000 was also incorporated into the 2016/17 budget and the HRA medium term financial plan.

7. Financial Performance in 2016/17

General Fund

In 2016/17 the Council had total Portfolio expenditure of £15.167m against a revised budget, of £15.433m resulting in an underspend of £266,000. Net revenue expenditure budgets include service specific income, such as fees and charges and specific grants.

The year-end position on portfolio net expenditure is set out in the table below.

Portfolio	Revised Budget £'000	Actual £'000	Variance £'000
Growth & Investment	3,107	3,224	117
Corporate Resources	2,126	2,085	(41)
Environmental & Public Realm	7,467	7,083	(384)
Communities and Homes	1,083	1,066	(17)
Executive Director	1,650	1,638	(12)
Net Portfolio Expenditure	15,433	15,167	(337)
Corporate items	260	106	(154)
Total Net Revenue Expenditure	15,693	15,273	(491)

Some of the key variances included:

- £200,000 of budgeted sponsorship income for the Hall of Fame will be recognised in future years
- A £55,000 saving following the contract revision for Town Centre & CCTV Management.
- £40,000 of additional burial and licence income for the Cemeteries service.
- A reduction in budgeted costs for the Recycling Gate fee of £110,000, due to reduced unit costs charged by the contractor.
- Increased costs for the provision of temporary accommodation of £50,000 following an increase in demand locally. New Universal Credit procedures also means the level of income we have been able to recover is now reduced.

The sources of income from which the Council's net revenue expenditure was financed, together with the final expenditure position against the revised budget is set out in the table below.

	Revised Budget £'000	Actual £'000	Variance £'000
Revenue Support Grant	(1,098)	(1,098)	-
Retained Business Rates	(4,226)	(4,175)	51
Council Tax	(6,746)	(6,746)	-
New Homes Bonus Grant	(3,221)	(3,221)	-
Other Grants	(427)	(446)	(19)
Collection Fund Deficit	1,365	1,365	-
Other	(1,243)	(1,243)	-
Total Funding	(15,596)	(15,564)	32
NET POSITION	97	(291)	(499)

The table above shows that the final position was an underspend of £459,000 and after accounting for carry forward requests and other in-year budget adjustments the net position of £363,000 was added to General Fund balances.

General Fund Balances

After accounting for all in-year budget adjustments and reserve transfers, £363,000 will be added to General Fund revenue balances to leave a total in balances of £2.230m at the end of 2016/17.

Corporate Savings

Included within this year-end position is £488,000 of savings achieved against the Council's revised annual corporate savings target of £405,000, as a result of greater efficiencies realised throughout the year.

Key savings contributing to the achievement of this target include:

- A further £120,000 saving from Refuse and Recycling, in relation to savings achieved through reduced gate fee charges
- A restructure of the Council's Democratic Services function, which realised on-going annual savings of approximately £40,000 per year.
- Software savings from better procurement in the region of £20,000
- £12,000 saving from the re-negotiation of the Warwickshire Direct Partnership
- Salary savings from vacant posts exceeding £80,000

Budget Stability Reserve

£269,000 was taken from the reserve in 2016/17 to fund the Local Plan & CIL programme (£49,000) and also items included in the 2016/17 budget resolution (£210,000). This contribution was offset by a transfer to the reserve of £192,000 from the overachievement of Planning income, leaving the balance in the budget stability reserve will be £75,000 at year-end. There are no immediate plans in 2017/18 to use this reserve but the balance is to be set aside to mitigate future budget volatility.

Business Rates Equalisation Reserve

The opening balance on the reserve was £1.353m, however £914,000 was budgeted to be used in 2016/17 to meet the actual 2015/16 Collection Fund deficit. The closing balance on this reserve in 2016/17 is £439,000.

Other Reserves

In addition to the transfers set out above, a further £637,000 has been added to other General Fund earmarked reserves in 2016/17, giving a net transfer of £348,000 to be taken reserves.

At 31st March 2017 the Council had total earmarked General Fund reserves of £3.409m.

Note 13 details the movements in these earmarked reserves for 2016/17.

Capital Grants and Receipts

At 31st March 2017 the Council also held £7.9m of capital receipts and £0.7m capital grants that had not yet been applied for financing expenditure.



Collection Fund

Council Tax

The amount credited to the General Fund in 2016/17 for council tax income is fixed to the budgeted amount of Council Tax billed during the year, not the cash actual collected. Any difference between the actual amount collected and the forecast will feed through into a surplus or deficit on the Collection Fund, to be met from or credited to future year's budgets.

For 2016/17 the actual cash position for council tax was an overall surplus of £837,000 on council tax. This will be distributed between Rugby Borough Council, Warwickshire County Council and The Office of the Police and Crime Commissioner for Warwickshire in the relevant shares. The Council's share of the surplus is £99,000 and this will be credited to the General Fund budget in 2018/19.

Business Rates

The impact on the General Fund for business rates partially follows the council tax collection fund model, in that only some of the transactions go through the Collection Fund, whereas others are a direct charge for the General Fund.

The actual business rates income collected, does go through the Collection Fund and in 2016/17 we have achieved in year surplus of £209,000. This will be distributed between Rugby Borough Council, Warwickshire County Council and Central Government in the relevant shares. The Council's share of the surplus is £84,000 and this will be credited to the General Fund budget in 2018/19.

The Council has to make a levy payment to Government each year, which is equivalent to 50% of its share in the growth of local business rates. However, this levy payment is based on actual cash performance each year, bi-passing the Collection Fund, and is therefore a direct charge to the General Fund in-year.

As a result of improved performance and additional growth in business rates in 2016/17, as set out above, the Council will have to make a larger levy payment to Government than budgeted. A net levy of £1.8m has been charged to the General Fund and this has resulted in a shortfall of £50,000 compared to the original business rates budget in year.

In summary, as a result of this partial Collection Fund model for business rates, there is an adverse variance against budget even though the actual 2016/17 cash performance was positive. The benefit of this favourable performance will be credited to the 2018/19 budget.

Housing Revenue Account

The original budget approved in March 2016 recommended reducing HRA balances by £1.350m, maintaining a prudent overall balance, whilst mitigating the impact of the 1% rent reduction instigated by Government for the period 2016/17 to 2019/20. During the year further net budget changes of £65,000 were approved to be taken from balances. The following table shows how the actual surplus compared to the revised budget:

	Revised Budget £'000	Actual £'000	Variance £'000
Expenditure	18,280	17,060	(1,220)
Income	(18,325)	(18,217)	108
Net cost of HRA Services	(45)	(1,157)	(1,112)
Corporate items	110	1,204	1,094
Surplus (-) / Deficit for year	65	47	(18)

In overall terms £1.397m was taken HRA revenue balances to leave a total of £1.431m at 31st March 2017.

In accordance with the Council's accounting policy on Property, Plant and Equipment, a formal valuation of council dwellings was undertaken as at 1st April 2016. In addition to the formal valuation, revised guidance was issued by the Department for Communities and Local Government (DCLG) which included a revision to the regional adjustment factor for housing stock. The total resultant increase in the value of council dwellings (£39.540m) has been reflected in the balance sheet and included in the Comprehensive Income and Expenditure Statement. This accounting entry is reversed in the Movement in Reserves Statement resulting in no impact upon the Council's cash balances.

The HRA also held £16.693m in earmarked reserves at 31st March 2017, in addition to £2.463m in the Major Repairs Reserve.

Capital

Capital expenditure is defined as expenditure on the purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure for the year was £10.465m. The expenditure analysed by portfolio was:

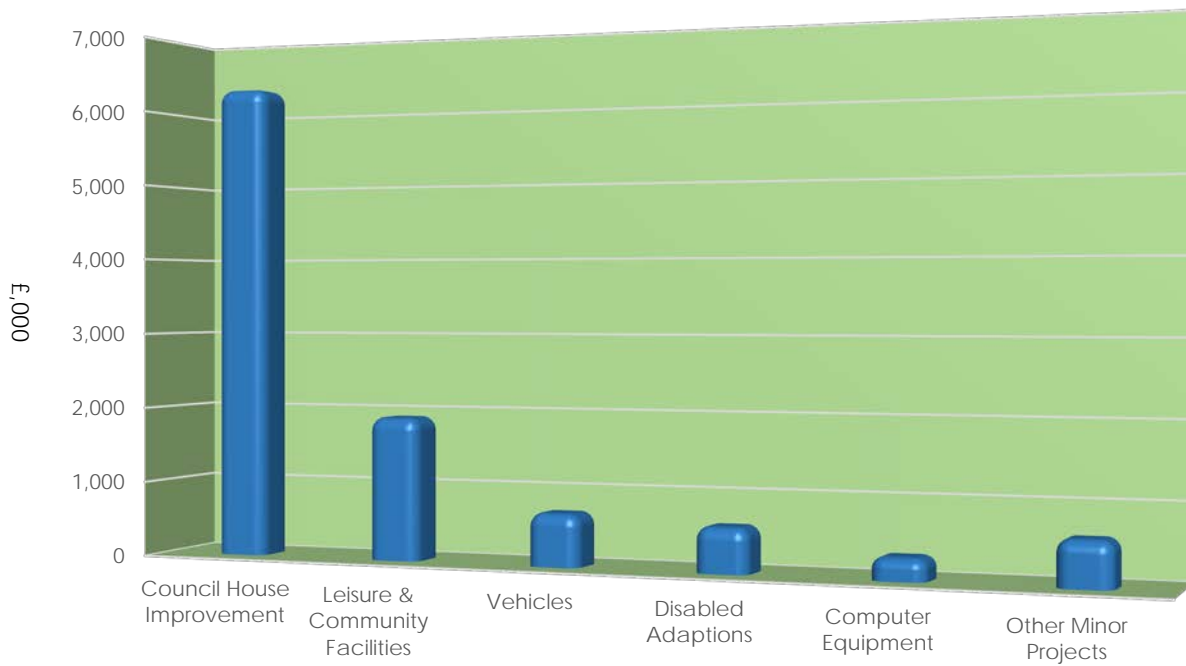
Portfolio	Revised Budget £'000	Actual £'000	Variance £'000
Corporate Resources	7,576	6,916	(660)
Growth & Investment	1,336	1,355	19
Environmental & Public Realm	1,744	1,299	(445)
Communities & Homes	1,436	895	(541)
	12,092	10,465	(1,627)

Some of the main reasons for the budget underspend of £1.6m were:

- Ongoing contract roll-out for CSW superfast broadband (£160,000)
- Energy Efficiency external cladding at Long Lawford (completed April 2017) (£294,000);
- Delayed implementation of Route Optimiser system (£127,000);
- Ongoing commitment of Carbon Management Plan - Phase 4 Solar Panel installation (£265,000)

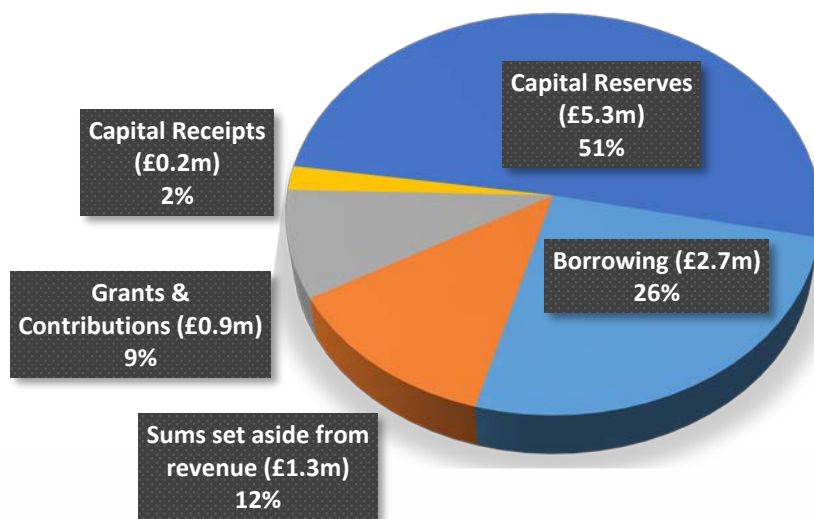
The graphs below show how the money was spent and how it was financed.

Capital Expenditure 2016/17



The capital expenditure was funded from a variety of sources including the following:

Capital Financing 2016/17





Pension Fund

The Accounts shows that the Pension Fund now has a deficit of £40.2m, this is an increase in the deficit of £6.8m since last year. The main reason for the decrease in the deficit was due to £5.1m of actuarial losses from changes in financial assumptions. Actuarial losses are recognised in Other Comprehensive Income and Expenditure; however, they have no impact on General Fund Balances in 2016/17. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government Pension Scheme will be made good over 19 years by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Current Borrowing and Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2016/17, earlier years, and for future years. The balance currently stands at £101.8m (both short and long term borrowing) as shown on the balance sheet. Future capital expenditure will be financed from borrowing, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed. The Council had £3m deposited across these institutions. During 2013/14 the Council sold its remaining claim in Landsbanki via auction in conjunction with the majority of other local authorities affected by this matter. The Glitnir claims were paid in full in 2011/12, although a proportion of the disbursement remains held in Icelandic Krona until such time as currency controls are lifted. Details of the remaining funds held in escrow are included at Note 9.

8. Future Financial Outlook

The Council is committed to achieving financial self-sufficiency and recognises that whilst the Council has responded successfully to the challenge so far, the Council will have to continue to adapt and alter its operations over the medium term in order to meet its objective of becoming financially self-sufficient by 2020. With this objective in mind the Council has taken a pro-active approach and took early and decisive action to address the gaps in the MTFP that was presented to Cabinet in February 2016.

In May 2016 the Council completed its restructure of the senior management team, moving from two Executive Directors and six Heads of Service to one Executive Director and four Heads of Service, resulting in savings of approximately £200,000 per year for the General Fund.

Following a series of employee briefings over the spring and summer of 2016, where Senior Management set out the financial position to the wider workforce, staff were invited to express an interest in taking voluntary redundancy. Proposals from nine officers were accepted, at a cost of £205,000, but providing annual year-on-year savings of £222,000 and therefore paying back the initial costs within twelve months.

Senior Management also continued to apply recruitment restrictions to vacant posts and as a result identified a number of them for disestablishment, providing savings of £100,000 in the 2017/18 budgets.

Our Digitalisation transformation project is underway, which will harness improved use of IT for delivering services to our customers and improving efficiency. Examples of initiatives underway include the introduction of "route optimisation" software, for the waste service and the use of electronic forms for Benefit claims. Across the medium term it is expected that digitalisation will produce annual efficiency savings for the Council in the region of £250,000.

The Council is also continuing to explore opportunities for income generation and alternative service delivery models including commercial opportunities, social enterprises and trusts. Within the 2017-20 MTFP a prudent £200,000 is programmed in for achievement from such sources from 2019/20.

However, despite the savings realised from these transformation programmes, the Council still had to consider and implement a number of key policy changes in order to set a balanced budget for 2017/18 and reduce the budget deficits in the later years of the MTFP.

Firstly, on 7th February 2017 Council approved the introduction of a charge for garden waste collection service from the 1st April 2017/18. The budget forecast for 2017/18 was based on 10,000 subscriptions providing an income of £400,000 for the Council. However, by the end of May 2017 more than 19,500 residents had subscribed to the garden waste collection service, generating an income of more than £700,000. This outstanding take-up puts the Council in a stronger position to close the budget gaps in our MTFP.

At the same Council meeting the introduction of a charge for entry to the Hall of Fame was also approved. An annual income of £165,000 has been included in the budget from this charge. Finally, later in February, Council approved a £5 increase in the council tax for 2017/18 providing an additional £50,000 for the financial year.

Despite this positive progress in transforming the organisation and its finances, from a funding perspective the landscape for the local government sector remains challenging. Although some of the uncertainty surrounding the future of NHB has been resolved, crucially there continues to be substantial uncertainty surrounding the shape of the 100% retained business rates.



Fundamental changes to the NHB scheme were announced within the 2017/18 Local Government Finance Settlement. Including a reduction in the number of years that NHB is allocated for, reducing from 6 years to 4 years, and the introduction of a “deadweight” factor that means that NHB will not be received for approximately the first 150 homes that are delivered each year in Rugby. Consequently, Rugby stands to lose approximately £3.8m over the remaining three years of the settlement period, compared to the initial scheme design. Furthermore, when coupled with a similar reduction in Revenue Support Grant (RSG) and further reductions in other government grants, Rugby has seen a £1.2m cash reduction in grant funding in 2016/17, equivalent to a 7.5% reduction in the net revenue budget.

Prior to the announcement of the General Election, the Government had set out to implement 100% Business Rates scheme by 2020/21, however this timetable may now shift under a newly formed government. The move to 100% business rate retention will build on the current rate-retention system, introduced in 2013/14, where local government retains 50% of business rates. The Government is consulting on how the new system will work and the Council responded to a number of consultations, most recently in May 2017. The main risk the Council faces from the move to 100%, is a potential full reset of the system at the point of implementation, resulting in a redistribution of the growth generated since 2013/14 across authorities nationally. This approach could mean that Rugby Borough Council would not be able to retain the £2m growth generated since 2013/14. The loss of £2m in our base budget would be extremely challenging for the Council.

The Council has provided a strong response to the consultations so far and will continue to argue in further consultations that authorities that have taken a proactive approach to generate growth in their local economies should be sufficiently rewarded by the system.

In summary, the Council has taken a pro-active approach and made sound progress in addressing the budget gaps in its MTFP. This action has seen the deficits fall to £350,000 in 2018/19 and £500,000 in 2019/20. However, the reform to business rates poses a significant risk to the Council’s finances in the medium terms and there is still work to be done to achieve our objective of becoming financially self-sufficient by 2020.

9. Risks

The Risk Management Strategy is a foundation for embedding effective risk management within the day-to-day work of the Council. The Strategy is formally reviewed, endorsed and approved by Cabinet on an annual basis to ensure it remains fit for purpose.

The Council monitors and manages its corporate risks through the Strategic Risk Register. The Strategic Risk Register is focussed to reflect the risks associated with delivery of the Corporate Strategy and the corporate priorities that it identifies. The Strategic Risk Management Group review the register on a quarterly basis, ensuring that it remains valid and up to date, as part of a broader review of Risk Management within Rugby Borough Council.

The Strategic Risk Register is subsequently endorsed by Cabinet on an annual basis, and is subject to scrutiny and review by the Audit & Ethics Committee. The current risk register will be issued for endorsement by Cabinet in June 2017.

The rolling programme of operational risk register reviews is continuing, and following approval of the Council's new Corporate Strategy a full formal review will be completed by September 2017. All managers and service heads are aware that operational risk registers are subject to ongoing review.

10. Financial Statements

The Accounts sets out the Council's income and expenditure for the year, and its financial position at 31st March 2017. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which in turn is underpinned by International Financial Reporting Standards; A Glossary of key terms can be found at the end of this publication.

The **Expenditure and Funding Analysis** shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The **Comprehensive Income and Expenditure Statement** records all of the Council's income and expenditure for the year, in accordance with generally accepted accounting standards. The top half of the statement provides an analysis by service area, in-line with the Council's structure. The bottom half of the statement deals with corporate transactions and funding. Expenditure represents a combination of:

- services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning and waste collection; and,
- discretionary expenditure focussed on local priorities and needs.

A **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "useable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes.



The **Balance Sheet** statement is a “snapshot” of the Council’s assets, liabilities, cash balances and reserves at the year-end date.

The **Cash Flow Statement** shows the reason for changes in the Council’s cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Notes to support the primary statements provide more detail about the Council’s accounting policies and individual transactions.

The **Housing Revenue Account** reflects the statutory obligation to maintain a revenue account for local authority housing provision. It includes the debit and credit items required to be taken into account in determining the surplus or deficit on the HRA for the year. The HRA is incorporated into the Comprehensive Income and Expenditure Statement

The **Collection Fund Statement** includes transactions relating to council tax and business rates income. Rugby Borough Council is responsible for collecting local taxes on behalf of Warwickshire County Council, Office of the Police and Crime Commissioner for Warwickshire, Parish Councils and the Borough Council itself, these are all accounted for within the Collection Fund.

The **Annual Governance Statement** sets out the governance structures of the Council and its key internal controls.

Main Changes to the Accounts

Following the completion of the ‘Telling the Story’ review by CIPFA on improving the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

The new Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and HRA. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Therefore, local authorities are no longer required to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with the format specified in Section 3 of SeRCOP and its formal definition of Total Cost in Section.

The 2016/17 Code also introduces a new streamlined MiRS which:

- presents the Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement as one line - on the basis that the columnar analysis of the usable and unusable reserves automatically separates the movements between the Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure, and
- excludes the transfers between earmarked reserves and the columnar analysis of earmarked reserves as these are not a formal part of financial reporting and are not required by statutory prescription



11. Further Information

If you would like to receive further information about the Accounts please contact the Financial Services Team at Town Hall, Evreux Way, Rugby, CV21 2RR.



STATEMENT OF RESPONSIBILITIES

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility of those affairs. In Rugby Borough Council, this is the Head of Corporate Resources and Chief Financial Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the Statement of Accounts.

The Head of Corporate Resources and Chief Financial Officer's Responsibilities

The Head of Corporate Resources and Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Corporate Resources and Chief Financial Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice;

The Head of Corporate Resources and Chief Financial Officer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Head of Corporate Resources and Chief Financial Officer's certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents a true and fair view of the financial position of the Council at 31st March 2017 and its expenditure and income for the year then ended.

Mannie Ketley

Head of Corporate Resources and Chief Financial Officer

Date:

Approval of Statement of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Council.

Michael Stokes

Leader of the Council

Date:

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£000	£000		£000	£000	£000
2,341	909	3,250	Growth and Investment	2,003	1,057	3,060
5,685	1,882	7,567	Environmental and Public Realm	5,714	1,640	7,354
603	950	1,553	Communities and Homes General Fund	410	443	853
(10,972)	(2,486)	(13,458)	Communities and Homes HRA	(10,375)	(40,782)	(51,157)
1,589	(46)	1,543	Corporate Resources	1,857	51	1,908
2,235	50	2,285	Executive Directors Office	1,626	32	1,658
952	-	952	Rugby World Cup	-	-	-
2,433	1,259	3,692	Net Cost of Services	1,235	(37,559)	(36,324)
(7,751)	(2,527)	(10,278)	Other Income and Expenditure	786	(11,024)	(10,238)
(5,318)	(1,268)	(6,586)	Surplus or Deficit	2,021	(48,583)	(46,562)
(20,466)			Opening General Fund and HRA Balance	(25,784)		
(5,318)			Plus / Less Surplus (-) or Deficit on General Fund and HRA Balance in Year	2,021		
(25,784)			Closing General Fund and HRA Balance at 31st March	(23,763)		

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Authorities raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

31 st March 2016 Restated				31 st March 2017		
Exp £000	Inc £000	Net £000		Exp £000	Inc £000	Net £000
5,381	(2,131)	3,250	Growth and Investment	5,332	(2,272)	3,060
16,487	(8,920)	7,567	Environmental and Public Realm	16,583	(9,229)	7,354
2,686	(1,133)	1,553	Communities and Homes – General Fund	2,578	(1,725)	853
5,138	(18,596)	(13,458)	Communities and Homes - HRA	6,601	(18,218)	(11,617)
0	0	0	Exceptional item – full stock revaluation & change to regional adjustment factor	0	(39,540)	(39,540)
26,019	(24,476)	1,543	Corporate Resources	22,816	(20,908)	1,908
2,466	(181)	2,285	Executive Directors Office	1,944	(286)	1,658
1,066	(114)	952	Rugby World Cup	-	-	-
59,243	(55,551)	3,692	Cost of services	55,854	(92,178)	(36,324)
		2,716	Other operating expenditure (Note 14)			3,197
		2,996	Financing and investment income and expenditure (Note 15)			2,746
		(15,990)	Taxation and non-specific grant income (Note 16)			(16,181)
		(6,586)	Surplus (-) / Deficit on provision of services			(46,562)
		(42)	Gains (-) / Losses on hedging instruments (Note 40)			(268)
		(18,180)	Surplus (-) / Deficit on revaluation of property, plant & equipment (Note 22)			(10,605)
		(155)	Downward valuation of financial instruments (Note 42)			(58)
		(11,772)	Re-measurements of the net defined benefit liability (Note 38)			5,091
		(30,149)	Other comprehensive income (-) and expenditure			(5,840)
		(36,735)	Total comprehensive income (-) and expenditure			(52,402)

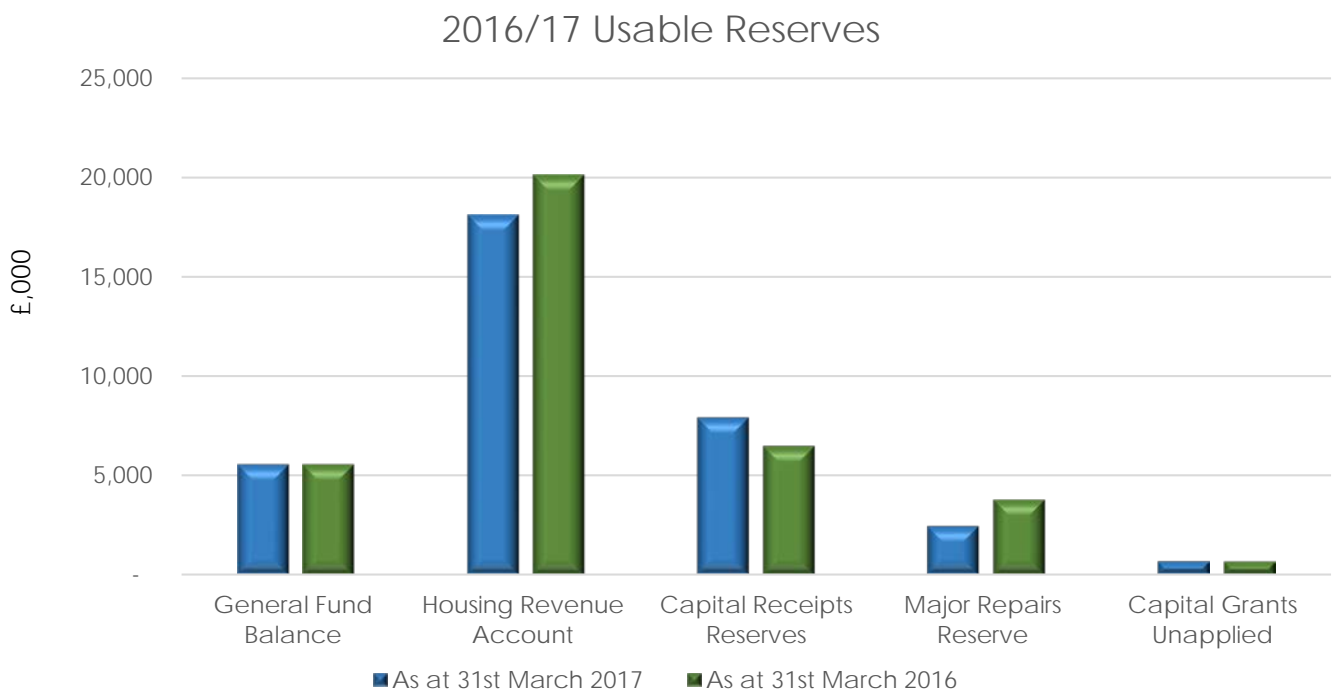
The 2015/16 gross income and expenditure figures within Cost of Services have been restated to reflect the change in the presentation of Comprehensive Income and Expenditure statement. Furthermore, amounts presented under Financing and Investment Income and Expenditure have also been restated to reflect a change in accounting policy for Trading Operations. There is no impact upon the Surplus or Deficit on Provision of Services and further details are provided within Note 6 Prior Period Adjustment, Changes in Accounting Policies and Estimates and Errors.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following the adjustments.

The graph below shows how the Council's usable reserves have changed during 2016/17.



The reasons for the movement on some of the reserves is as follows:

General Fund Balance

The General Fund Balance at 31st March 2017 consists of £2.230m within the general balance and £3.409m within earmarked reserves, totalling £5.639m at year-end. In 2016/17 a total of £363,000 was added to general balances at year-end, however this includes a net transfer of £348,000 from earmarked reserves in 2016/17 to support General Fund services and mitigate budget volatility, resulting in an aggregated increase of £15,000 on total General Fund balances compared to 2015/16. Details of the £348,000 earmarked reserve transfers can be seen in Note 13.

HRA Reserves

The HRA Balance at 31st March 2017 consists of £1.431m within the revenue balance, £954,000 within the Housing Repairs Account, and balances held for capital investment of £15.687m. In 2016/17 a total of £2.037m was taken from balances at year-end. Within this figure, £1.397m was taken from the revenue balance to mitigate the impact of the 1% rent reduction; £323,000 was added to the Housing Repairs Account to ensure resilience for responsive and planned repairs in future years; and £1.014m was taken from capital investment balances. The latter provides resources to fund new build properties, strategic land acquisition, and suitable properties from the open market. Up to 30% of the cost of such acquisitions can be met from Right-to-Buy receipts (see Capital Receipts Reserve)

Capital Receipts Reserves

The Council sold 26 properties under the Right-to -Buy scheme in 2016/17 generating net receipts (after pooling) of £1.6m which will be utilised to fund replacement properties (up to 30% of cost) in future years. The level of acquisitions is forecast to rise in future years to provide one-for-one replacement subject to market conditions.

Major Repairs Reserve

The Council is currently mid-way through a total door and window replacement programme of £12m for its housing stock. It is anticipated that the level of the reserve will fall from 2015/16 until 2017/18 when this programme of works is completed.

2016/17	General Fund (GF) Balance £000	Housing Revenue Account (HRA) £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000
Balance at 31 st March 2016	(5,624)	(20,160)	(6,539)	(3,839)	(709)	(36,871)	(72,533)	(109,404)
Movement in reserves during 2016/17								
Total Comprehensive Income & Expenditure	1,326	(47,888)	-	-	-	(46,562)	(5,840)	(52,402)
Adjustments between accounting basis & funding basis under regulations	(1,341)	49,924	(1,382)	1,376	20	48,597	(48,597)	-
(Increase) or Decrease in 2016/17	(15)	2,036	(1,382)	1,376	20	2,035	(54,437)	(52,402)
Balance at 31 st March 2017 carried forward	(5,639)	(18,124)	(7,921)	(2,463)	(689)	(34,836)	(126,970)	(161,806)

2015/16	General Fund (GF) Balance £000	Housing Revenue Account (HRA) £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000
Balance at 31 st March 2015	(5,365)	(15,101)	(5,299)	(5,109)	(574)	(31,448)	(41,221)	(72,669)
Movement in reserves during 2015/16								
Total Comprehensive Income & Expenditure	4,100	(10,686)	-	-	-	(6,586)	(30,149)	(36,735)
Adjustments between accounting basis & funding basis under regulations	(4,359)	5,627	(1,240)	1,270	(135)	1,163	(1,163)	-
(Increase) or Decrease in 2015/16	(259)	(5,059)	(1,240)	1,270	(135)	(5,423)	(31,312)	(36,735)
Balance at 31 st March 2016 carried forward	(5,624)	(20,160)	(6,539)	(3,839)	(709)	(36,871)	(72,533)	(109,404)

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves cannot be used to provide services, such as reserves that hold unrecognised gains and losses (for example the Revaluation Reserve), where amounts only become available if assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 st March 2016 £000		Notes	31 st March 2017 £000
175,979	Property, Plant & Equipment	18	229,490
20,857	Heritage Assets	25	21,753
695	Investment Property	19	695
427	Intangible Assets		370
9,499	Long Term Investments	39	11,834
1,067	Long Term Advances	27	1,066
202	Long Term Debtors	28	208
208,726	Long Term Assets		265,416
15,619	Short term Investments	39	33,560
23	Assets Held for Sale less than 1 year	20	76
234	Inventories		171
5,024	Short Term Debtors	28	5,195
17,009	Cash and Cash Equivalents	30	12,386
37,909	Current Assets		51,388
(7,329)	Short Term Borrowings	39	(19,668)
(3,828)	Short Term Creditors	29	(9,462)
(436)	Short Term Provisions	43	(1,058)
(11,593)	Current Liabilities		(30,188)
(89,585)	Long Term Borrowing	39	(82,109)
(33,394)	Pension Liability Account	37	(40,174)
(1,487)	Capital / Revenue Grants Receipts in Advance	17	(1,521)
(1,172)	Long Term Provisions	43	(1,006)
(125,638)	Long Term Liabilities		(124,810)
109,404	Net Assets		161,806
(36,871)	Usable reserves	MIRS	(34,836)
(72,533)	Unusable reserves	MIRS	(126,970)
(109,404)	Total Reserves		(161,806)

Signed		Date	Dd/mm/yy
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M Ketley, CPFA, Head of Corporate Resources and Chief Financial Officer

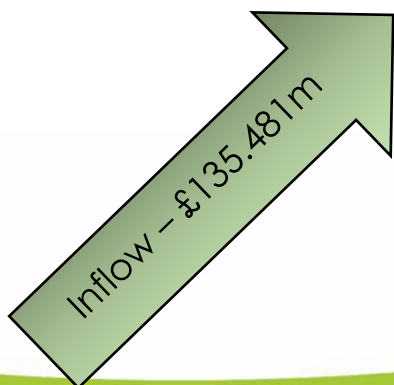
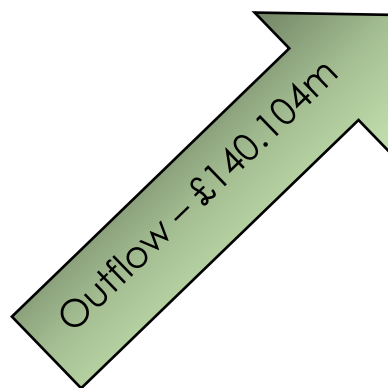
Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2015/16 £'000		Notes	2016/17 £'000
(7,877)	Operating Activities	31	(13,940)
4,949	Investing Activities	32	26,825
492	Financing Activities	33	(8,262)
(2,436)	Net increase (-) or decrease in cash and cash equivalents		4,623
14,573	Cash and cash equivalents at the beginning of the period	30	17,009
17,009	Cash and cash equivalents at the end of the reporting period	30	12,386

Opening Cash and Cash Equivalents

£17.009m
Within the above figure includes:
Cash held by the Council
Money Market Funds



Closing Cash and Cash Equivalents

£12.386m
Within the above figure includes:
Cash held by the Council
Money Market Funds

NOTES TO THE ACCOUNTING STATEMENTS

Note 1. Basis for Preparation

The notes to the financial statements on the following pages are in order of significance, primarily based on aiding an understanding of the key drivers of the financial position of the Council, whilst maintaining the grouping of notes between the income and expenditure statement and the balance sheet where appropriate. The notes relating to specific financial statement lines include the corresponding accounting policy. As a result, there is not a separate principal accounting policies note. However, Note 2 details general accounting policies where there are not any accompanying notes.

Details of the order of the notes can be found in the index.

Note 2. General Accounting Policies (where there is no accompanying note)

General

The Statement of Accounts (the Accounts) summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare annual Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

The Council's revenue and capital activity is accounted for in the year that it takes place, by including sums due to or from the Council in the year, not simply when cash payments are made or received.

Where material income and expenditure amounts have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected (bad debts).

This concept is not applied to electricity and gas supplies and other routine on-going business expenses. However, the Accounts do reflect twelve months' supply in each year and this does not have a material effect on the Accounts.

Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance are identifiable and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Normal examples are those of software or software licences, which have a value, but over a fairly short life of 3 –10 years and are therefore written down over that useful life.

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including any held jointly
- Its liabilities, including any share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly

The Council has a 50% interest in the Rainsbrook Crematorium Joint Committee with the other 50% relating to Daventry District Council. The decision making and operational arrangements of the Joint Committee fulfil the features associated with a jointly controlled operation in that:

- Each operator incurs its own expenses and liabilities and raises its own finance, which represent its own obligations; and
- The joint operation agreement provides a means by which the revenue from the service and any expenses incurred in common are shared among the operators.

Therefore, in line with the contractual arrangements set out in the joint agreement, the Council recognises its share of the operational assets and liabilities of the Joint Committee on its Balance Sheet and also debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate. Further detail on this Joint Operation is also provided in Note 36 Related Party Transactions.



Overheads and Support Services

The cost of overheads and support services are charged to the Council's Portfolios in accordance with the Council's arrangements for accountability and financial performance.

Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Value Added Tax (VAT)

VAT is included in service revenue or capital income and expenditure accounts only when it is not recoverable.

Note 3. Accounting Standards that have been Issued but have not yet been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The 2017/18 Code consultation includes two standards that will apply from 1st April 2018, i.e. in the 2018/19 Code: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It includes:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39, and
- new provisions on hedge accounting.

There is a possibility that the changes introduced by the standard will have a timing and budgetary impact on local authorities, depending on the individual circumstances of each authority.

Early adoption will not be permitted and there is therefore no impact on the 2016/17 Accounts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the Council expects to be entitled in exchange for those goods or services.

Early adoption will not be permitted and there is therefore no impact on the 2016/17 Accounts.

Note 4. Critical Judgements in Applying Accounting Policies

There is a high degree of uncertainty about future funding for Local Government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Note 5. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provision for Business Rate Appeals	The possible refund from a business rate appeal can vary depending on factors such as; the type of appeal and type of property, together with its geographical location and the probability of appeal success.	Following a comprehensive assessment of the outstanding business rates appeals at 31 st March 2017, a total provision of £4.9m was made for potential future appeal refunds. Rugby Borough Council's 40% share of this provision is £1.9m. The effect of a change in the provision is as follows: 25% higher/lower: £494,250 50% higher/lower: £988,500
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are expected to increase, change in retirement ages, mortality rates and expected returns on pension fund assets. Warwickshire County Council utilise consulting actuaries to provide all Warwickshire authorities with expert advice about the assumptions to be applied.	The effect on the pension net liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate would result in a decrease in the pension liability of £13.079m. However, the assumptions interact in complex ways and actuaries model thousands of possible outcomes in order to establish what the world might look like over the long term. A sensitivity analysis upon other variables affecting the net liability is set out in Note 37 Pension Costs.

As per our accounting policy, other estimation techniques are used for the purposes of producing the Accounts.

Note 6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Presentation of Comprehensive Income and Expenditure Statement

The Council has restated its 2015/16 Comprehensive Income and Expenditure Statement following the change in requirements in the CIPFA Code of Practice on Local Authority Accounting 2016/17. The net cost of services was previously presented based on SeRCOP classifications and is now disclosed in the local reporting format, by Portfolio.

Trading Operations

As part of the adoption of the changes to the presentation of the Comprehensive Income and Expenditure Statement for this year's Accounts, a detailed review of the content of each line was undertaken. In accordance with the Code's requirements gross income and expenditure from the Council's trading operations for 2016/17 have been included within the relevant line within Cost of Services.

However, previously the net surplus from the operation of the Council's trading operations has been presented within the Financing and Investment Income and Expenditure line. Therefore, the 2015/16 gross income and expenditure figures within Cost of Services and also the Financing and Investment Income and Expenditure line have been restated in the Comprehensive Income and Expenditure Statement to reflect this change in accounting policy.

Within the draft accounts, gross expenditure and income for the 2015/16 comparatives had been increased by £8.171m and £8.194m respectfully, resulting in a £23,000 decrease in Cost of Service compared to the figures published in the 2015/16 accounts. This was offset by a corresponding £23,000 adjustment to Financing and Investment Income and Expenditure and therefore there was no impact upon the Surplus or Deficit on Provision of Services, or any other of the Core Statements.

However, during the audit it was identified that the restated figures presented within the draft Comprehensive Income and Expenditure Statement for trading operations had been overstated due to an error relating to the presentation of internal recharges. Therefore, a secondary adjustment has been made to gross income and expenditure and the adjustment for trading operations has been revised downwards by £1.996m. This has resulted in updated adjustments of £6.175m gross expenditure and £6.198m gross income to the final 2015/16 comparatives for trading operations, compared to the published amounts within the 2015/16 accounts. This secondary adjustment has had no impact on net Cost of Services.

Furthermore, the content and presentation of Note 34 Trading Operations has been updated to reflect the requirements of the Code to disclose all material activities that are subject to commercial or trading risks. Previously, this note included the surplus generated from the Works Services Unit, but has now been revised to include income and expenditure from Trade Waste, the Crematorium, Car Parking and the Benn Hall. The 2015/16 surplus or deficits for these services have been included for comparative purposes.

Disclosure

The tables on the following pages show the comparative movement between SeRCOP and Portfolio formats and also incorporates the changes to the treatment of trading operations, as set out above.

Net Expenditure	As reported in the Comprehensive Income and Expenditure Statement 2015/16	Adjustments between SERCOP classifications and Internal reporting classifications	As restated 2015/16	
SERCOP Service Line	£000's	£000's	£000's	Council Services
Central services to the public	1,373	(1,373)	-	
		865	865	Corporate Resources
		371	371	Executive Directors Office
		101	101	Environment and Public Realm
		(22)	(22)	Growth and Investment
		57	57	Communities and Homes
Cultural services & related services	4,434	(4,434)	-	
		1,717	1,717	Growth and Investment
		1,766	1,766	Environment and Public Realm
		952	952	Rugby World Cup
Environmental & regulatory services	5,613	(5,613)	-	
		5,347	5,347	Environment and Public Realm
		243	243	Growth and Investment
Highways and transport services	341	(341)	-	
		340	340	Environment and Public Realm
Local authorities housing (HRA)	(13,689)	13,689	-	
		(13,689)	(13,689)	Communities and Homes - HRA
Housing services	1,696	(1,696)	-	
		424	424	Corporate Resources
		1,260	1,260	Communities and Homes
		11	11	Environment and Public Realm
Planning services	1,548	(1,548)	-	
		1,311	1,311	Growth and Investment
		236	236	Communities and Homes
Corporate and democratic core	2,148	(2,148)	-	
		1,914	1,914	Executive Directors Office
		231	231	Communities and Homes - HRA
		3	3	Corporate Resources
Non distributed costs	251	-	251	Corporate Resources
Cost of Services	3,715	(23)	3,692	

- The adjustment to the Environmental and Regulatory Services line totals £23,000
- This represents the net adjustment made for trading operations.
- Adjustments made to all other lines net to nil

Gross Expenditure	As reported in the Comprehensive Income and Expenditure Statement 2015/16	Adjustments between SERCOP classifications and Internal reporting classifications	As restated 2015/16	
SERCOP Service Line	£000's	£000's	£000's	Council Services
Central services to the public	2,411	(2,411)	-	
		1,378	1,378	Corporate Resources
		545	545	Executive Directors Office
		101	101	Environment and Public Realm
		196	196	Growth and Investment
		191	191	Communities and Homes
Cultural services & related services	5,734	(5,734)	-	
		2,552	2,552	Growth and Investment
		2,116	2,116	Environment and Public Realm
		1,066	1,066	Rugby World Cup
Environmental & regulatory services*	7,318	(7,318)	-	
		13,250	13,250	Environment and Public Realm
		243	243	Growth and Investment
Highways and transport services	1,007	-	1,007	Environment and Public Realm
Local authorities housing (HRA)	4,907	-	4,907	Communities and Homes - HRA
Housing services	26,653	(26,653)	-	
		24,380	24,380	Corporate Resources
		2,259	2,259	Communities and Homes
		13	13	Environment and Public Realm
Planning services	2,626	(2,626)	-	
		2,389	2,389	Growth and Investment
		236	236	Communities and Homes
Corporate and democratic core	2,161	(2,161)	-	
		1,921	1,921	Executive Directors Office
		231	231	Communities and Homes - HRA
		9	9	Corporate Resources
Non distributed costs	251	-	251	Corporate Resources
Cost of Services	53,068	6,175	59,243	

- The adjustment to the Environmental and Regulatory Services line totals £6.175m and represents the gross income adjustment made for trading operations.
- Adjustments made to all other lines net to nil

Gross Income	As reported in the Comprehensive Income and Expenditure Statement 2015/16	Adjustments between SERCOP classifications and internal reporting classifications	As restated 2015/16	
SERCOP Service Line	£000's	£000's	£000's	Council Services
Central services to the public	(1,038)	1,038 (24,469) (174) (218) (133)	- (24,469) (174) (218) (133)	Corporate Resources Executive Directors Office Growth and Investment Communities and Homes
Cultural services & related services	(1,300)	1,300 (836) (350) (114)	- (836) (350) (114)	Growth and Investment Environment and Public Realm Rugby World Cup
Environmental & regulatory services*	(1,705)	1,705 (7,903)	- (7,903)	Environment and Public Realm
Highways and transport services	(666)	-	(666)	Environment and Public Realm
Local authorities housing (HRA)	(18,596)	-	(18,596)	Communities and Homes - HRA
Housing services	(24,957)	24,957 (999) (2)	- (999) (2)	Communities and Homes Environment and Public Realm
Planning services	(1,078)	-	(1,078)	Growth and Investment
Corporate and democratic core	(13)	13 (7) (7)	- (7) (7)	Executive Directors Office Corporate Resources
Cost of Services	(49,353)	(6,198)	(55,551)	

- The adjustment to the Environmental and Regulatory Services line totals £6.198m and represents the gross income adjustment made for trading operations.
- Adjustments made to all other lines net to nil

Note 7. Officers Remuneration

Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include salaries, wages and other employment related payments and are recognised as an expense in the year in which the service is rendered by the employees. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the following financial year.

The remuneration of the Council's senior employees is as follows:

Post Holder		Salary, Fees & Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contributions	Total	Notes
		£	£	£	£	£	
Executive Director (A)	2016/17	32,160	-	83,650	3,810	119,620	1
	2015/16	69,240	820	-	9,830	79,890	
Executive Director (B)	2016/17	88,440	690	-	13,270	102,400	
	2015/16	78,990	270	-	11,220	90,480	
Head of Communities & Homes	2016/17	63,320	-	-	9,500	72,820	
	2015/16	61,650	-	-	8,750	70,400	
Head of Corporate Resources	2016/17	64,120	190	-	9,480	73,790	
	2015/16	40,260	-	-	8,260	48,520	
Head of Environment & Public Realm	2016/17	63,320	2,050	-	9,500	74,870	
	2015/16	61,650	2,600	-	8,750	73,000	
Head of Growth & Investment	2016/17	63,320	-	-	9,500	72,820	
	2015/16	61,650	-	-	8,750	70,400	
Head of Business Transformation	2016/17	-	-	-	-	-	
	2015/16	61,650	80	32,490	8,750	70,480	2
Head of Housing & Property	2016/17	22,430	10	58,510	780	81,730	3
	2015/16	61,650	190	-	8,750	70,590	

As part of a Senior Management Restructure:

- 1) the Executive Director (A) left the Council on a voluntary redundancy agreement in August 2016. The cost of this redundancy was recognised in the 2015/16 accounts through a provision for the Senior Management Restructure.
- 2) The Head of Business Transformation took voluntary redundancy at the end of the financial year in 2015/16.
- 3) Head of Housing & Property was made redundant in April 2016. The cost of this redundancy was also recognised in the 2015/16 accounts through a provision for the Senior Management Restructure.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts.

Remuneration Band	2015/16 Number of employees	2016/17 Number of employees
£50,000 - £59,999	2	2
£60,000 - £69,999	-	1
£70,000 - £79,999	-	1

The two officers presented in the bandings between £60,000 and £79,000 include payments for the compensation for the loss of office. These redundancy payments will result in long term savings for the Council.

Termination Benefits

Termination benefits are amounts payable as a result of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Rugby Borough Council terminated the contracts of 25 employees in 2016/17, incurring liabilities of £571,020 (£66,300 in 2015/16). The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost bands (including special payments)	Number of compulsory redundancies		Number of agreed other departures		Total number of exit packages by cost band		Total cost of exit packages in each cost band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
£0 - £20,000	2	-	1	13	3	13	£35,470	£152,470
£20,001 - £40,000	-	-	-	8	-	8	-	£216,400
£40,001 - £60,000	-	1	1	1	1	2	£49,820	£99,510
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	1	-	1	-	£83,650
Total	2	1	2	23	4	24	£85,290	£552,030

Note 8. Members Allowances

The total costs of Members' allowances paid in the year were as follows:

2015/16 £		2016/17 £
342,440	Allowances	334,460
7,810	Employers' National Insurance	5,940
13,390	Expenses	12,420
363,640	Total	352,820

Note 9. Deposits in Icelandic Banks

During 2008 the Icelandic banking system collapsed. At the time of the crisis, the Council had £3m invested with Icelandic institutions in receivership as detailed below:

Bank	Investment Start Date	Planned Maturity Date	Original Investment £'000	Outstanding Amount # £'000
Glitnir Bank	27/11/2006	27/11/2008	2,000	540
Landsbanki Islands HF	13/08/2007	13/07/2009	1,000	0

including amounts held in escrow

Glitnir

Following a decision by the Icelandic Supreme Court to grant UK Local Authorities priority status, the Winding Up Board made a full distribution to creditors in a basket of currencies in March 2012.

An element of the distribution (£446,000) was made in Icelandic Kroner (£540,000 as at 31st March 2017) which has been placed in an escrow account in Iceland. This element of the distribution has been retained in Iceland due to currency controls and as a result is subject to exchange rate risk over which the Council has no control.

Landsbanki

During 2013/14 the Council, in conjunction with other local authority creditors arranged for the sale of its outstanding claim with the Landsbanki Winding Up Board (WUB).

The Landsbanki administration process was completed in 2013/14.

Note 10. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£000	£000	£000	£000
Growth and Investment	981	76	-	1,057
Environmental and Public Realm	1,441	199	-	1,640
Communities and Homes General Fund	356	87	-	443
Communities and Homes HRA	(40,880)	98	-	(40,782)
Corporate Resources	23	28	-	51
Executive Directors Office	7	25	-	32
Rugby World Cup	-	-	-	-
Net Cost of Services	(38,072)	513	-	(37,559)
Other income and expenditure from the Expenditure and Funding Analysis	(10,553)	1,177	(1,648)	(11,024)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(48,625)	1,690	(1,648)	(48,583)

Adjustments between Funding and Accounting Basis 2015/16				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£000	£000	£000	£000
Growth and Investment	755	148	6	909
Environmental and Public Realm	1,448	443	(9)	1,882
Communities and Homes General Fund	774	179	(3)	950
Communities and Homes HRA	(2,706)	212	8	(2,486)
Corporate Resources	(87)	44	(3)	(46)
Executive Directors Office	3	54	(7)	50
Rugby World Cup	-	-	-	-
Net Cost of Services	187	1,080	(8)	1,259
Other income and expenditure from the Expenditure and Funding Analysis	(5,062)	1,384	1,151	(2,527)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(4,875)	2,464	1,143	(1,268)

1) Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing (i.e. Minimum Revenue Provision and other revenue contributions) are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

2) Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past services costs.
- For **Financing and investment income and expenditure** the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

3) Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** an adjustment is made for the amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.
- For **Financing and investment income and expenditure** adjustments are made for the movement in the fair value of the Council's investment properties.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in the Surpluses or Deficits on the Collection Fund.

Note 11. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

	2015/16 £000	2016/17 £000
Expenditure		
Employee benefits expenses	17,557	17,290
Other service expenses	41,291	36,465
Depreciation, amortisation, impairment	(16)	(37,440)
Interest payments	3,631	3,512
Precepts and levies	696	715
Payments to Housing Capital Receipts Pool	662	497
Loss on the disposal of assets	1,374	1,983
Total expenditure	65,195	23,022
Income		
Fees, charges and other service income	(14,897)	(15,453)
HRA dwelling rents	(16,732)	(16,322)
Interest and investment income	(502)	(766)
Income from council tax, non-domestic rates	(9,289)	(10,641)
Government grants and contributions	(30,361)	(26,402)
Total income	(71,781)	(69,584)
Surplus or Deficit on the Provision of Services	(6,586)	(46,562)

The downwards movement in both the Other services expenses and Government grants and contributions lines is primarily due to a reduction in housing benefit payments and related subsidy income in 2016/17 compared to 2015/16. This reduction has occurred due to an increase in claimants being transferred from Housing Benefit to Universal Credit.

Note 12. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resource that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial years. The balance however, is not available to be applied to funding HRA activities.

Housing Revenue Account

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or where in deficit is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet the expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2016/17	Usable Reserves				
	General Fund Balances	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Amounts involving the Capital Adjustment Account					
Depreciation and impairment of non-current assets	(2,165)	(2,703)	-	-	-
Revaluation losses on property plant and equipment	(457)	43,601	-	-	-
Movements in the fair value of investment properties	-	-	-	-	-
Amortisation of intangible assets	(136)	(69)	-	-	-
Capital grants and contributions applied	724	51	-	-	-
Revenue expenditure funded from capital under statute	(606)	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9)	(4,121)	-	-	-
Insertion of items not debited or credited to the CIES					
Statutory provision for the financing of capital investment	1,215	6,453	-	-	-
Capital expenditure charged against revenue balances	266	1,014	-	-	-
Adjustments involving the Capital Grants Unapplied Account					
Interest credited to Section 106's	2	-	-	-	(2)
Capital grants and contributions unapplied credited to the CIES	24	-	-	-	(24)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	46
Adjustments involving the Capital Receipts Reserve					
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal/unattached receipts to the CIES	43	2,103	(2,146)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	267	-	-
Contribution from the Capital Receipts Reserve to finance payments to the government capital receipts pool	(497)	-	497	-	-
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-
Adjustments involving the Major Repairs Reserve (MRR)					
Interest credited to MRR	31	-	-	(31)	-
Reversal of Major Repairs Allowance credited to the HRA	-	3,893	-	(3,893)	-
Use of the MRR to finance new capital expenditure	-	-	-	5,301	-
Adjustments involving the Pension Reserve					
Reversal of items relating to retirement benefits	(3,500)	(582)	-	-	-
Employers pension contributions and direct payments to pensioners payable in the year	2,109	284	-	-	-
Adjustments involving the Collection Fund Adjustments Account					
Amount by which council tax and business rates income credited to the CIES is different from income calculated in the year in accordance with statutory requirements	1,615	-	-	-	-
Adjustments involving Accumulated Absences Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-
Total Adjustments	(1,341)	49,924	(1,382)	1,376	20

2015/16	Usable Reserves				
	General Fund Balances	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Amounts involving the Capital Adjustment Account					
Depreciation and impairment of non-current assets	(2,180)	(1,966)	-	-	-
Revaluation losses on property plant and equipment	(252)	4,687	-	-	-
Movements in the fair value of investment properties	97	-	-	-	-
Amortisation of intangible assets	(133)	(24)	-	-	-
Capital grants and contributions applied	1,310	9	-	-	-
Revenue expenditure funded from capital under statute	(607)	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(29)	(3,606)	-	-	-
Insertion of items not debited or credited to the CIES					
Statutory provision for the financing of capital investment	974	-	-	-	-
Capital expenditure charged against revenue balances	124	988	-	-	-
Adjustments involving the Capital Grants Unapplied Account					
Interest credited to Section 106's	2	-	-	-	(2)
Capital grants and contributions unapplied credited to the CIES	208	-	-	-	(208)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	75
Adjustments involving the Capital Receipts Reserve					
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal/unattached receipts to the CIES	36	2,241	(2,277)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	383	-	-
Contribution from the Capital Receipts Reserve to finance payments to the government capital receipts pool	(662)	-	662	-	-
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	-	-	(8)	-	-
Adjustments involving the Major Repairs Reserve (MRR)					
Interest credited to MRR	47	-	-	(47)	-
Reversal of Major Repairs Allowance credited to the HRA	-	3,759	-	(3,759)	-
Use of the MRR to finance new capital expenditure	-	-	-	5,076	-
Adjustments involving the Pension Reserve					
Reversal of items relating to retirement benefits	(3,963)	(737)	-	-	-
Employers pension contributions and direct payments to pensioners payable in the year	1,951	284	-	-	-
Adjustments involving the Collection Fund Adjustments Account					
Amount by which council tax and business rates income credited to the CIES is different from income calculated in the year in accordance with statutory requirements	(1,297)	-	-	-	-
Adjustments involving Accumulated Absences Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	15	(8)	-	-	-
Total Adjustments	(4,359)	5,627	(1,240)	1,270	(135)

Note 13. Transfers to / from (-) Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

	Balance at 1 st April 2015	Transfers Out 2015/16	Transfers in (-) 2015/16	Balance at 31 st March 2016	Transfers Out 2016/17	Transfers in (-) 2016/17	Balance at 31 st March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Business Rates Equalisation Reserve	(319)	238	(1,272)	(1,353)	914	-	(439)
Budget Stability Reserve	(635)	636	(142)	(141)	259	(192)	(74)
Section 106 (Developer Contributions)	(1,552)	132	(88)	(1,508)	111	(36)	(1,433)
New Homes Bonus Reserve	(209)	139	-	(70)	70	-	-
Revenue Grants & Contributions from 3 rd Parties	(191)	59	(70)	(202)	46	(386)	(542)
Hall of Fame Reserve	-	-	-	-	-	(300)	(300)
Works Services Unit Operational Reserve	(35)	-	(72)	(107)	35	(55)	(127)
Other smaller reserves	(352)	59	(83)	(376)	83	(201)	(494)
Total GF Earmarked Reserves	(3,293)	1,263	(1,727)	(3,757)	1,518	(1,170)	(3,409)
Housing Repairs Account	(842)	3,329	(3,118)	(631)	3,007	(3,330)	(954)
Capital Investment Balances	(11,534)	988	(6,155)	(16,701)	1,014	-	(15,687)
Sheltered Accommodation	-	-	-	-	-	(52)	(52)
Total HRA Earmarked Reserves	(12,376)	4,317	(9,273)	(17,332)	4,021	(3,382)	(16,693)



Earmarked Reserves

Business Rates Equalisation Reserve

This reserve was established in 2013/14 in order to allow mitigation of fluctuations in the business rates base and resultant income. £914,000 has been taken from this reserve in 2016/17 to part-fund the cost of the budgeted collection fund deficit on business rates.

Budget Stability Reserve

This was also created in 2013/14 to allow short term contributions towards balancing the budget. There are various items within the Council's budget that are subject to significant degrees of volatility or variation from one year to another, often due to factors that are outside the Council's control or influence; this reserve assists the mitigation of such volatility by allowing the Council to call upon it in years where budget overspends occur and conversely replenish it in years where underspends arise.

£192,000 has been added to the reserve in 2016/17 from the overachievement of planning fee income, whereas £259,000 has been taken from it to fund expenditure related to items included in the 2016/17 budget resolution in addition to the production of the Local Plan.

Section 106 Developer Contributions

These represent amounts of money paid to the Council during development for specific projects and agreements with developers for the provision of additional facilities as and when land or schemes become available to provide those facilities.

Revenue Grants & Contributions from 3rd Parties

These are grant payments and contributions from 3rd parties where either the grant conditions have been met or no conditions exist. The monies are held in this reserve until required to fund expenditure in future years.

Hall of Fame Reserve

The cost of the works to install the World Rugby Hall of Fame and reconfigure the entrance foyer and atrium was £1.2m. The Council has a four-year licence for the operation of the Hall of Fame from 2016/17 to 2020/21. However, this capital outlay will be financed from revenue budgets in the form of four £300,000 Minimum Revenue Provision (MRP) payments from 2017/18 to 2021/22, resulting in a timing difference between the operational budgets and financing requirements. To address this difference, £300,000 has been contributed to an earmarked reserve in 2016/17 to give a more accurate reflection of the Hall of Fame's financial performance for the year within the service's revenue budget. This £300,000 balance will be maintained until 2020/21 when it will be called upon to meet the final MRP instalment.

New Homes Bonus Reserve

The New Homes Bonus reserve was initially set up in the first year of receipt of New Homes Bonus funding in 2011/12 and has been used to finance one-off schemes and initiatives. The Council receives grant funding each year based on additional new and affordable homes in the Borough. Since the first year however and following the on-going reduction in core government funding, subsequent allocations have been used as part of the Council's mainstream income.

Works Services Unit Operational Reserve

The primary purpose of this reserve is to mitigate any budget volatility from the Works Services Unit's trading activities from one year to the next, with annual surplus and deficits being transferred to and from the reserve respectively. The secondary purpose is to utilise any accumulated balances for the funding of one-off investment in the Works Services Unit, for example funding will be employed in 2017/18 for the implementation of the Route Optimiser software for the Waste Collection Service.

Other Smaller Reserves E.g. Plant & Equipment Reserves

Plant and equipment reserves are typically set aside to either fund specific capital expenditure or for the maintenance of existing assets.

Housing Repairs Account and HRA Capital Investment Balances

Annually transfers are made from these reserves towards the cost of in year council house repairs and maintenance or capital projects. In addition, transfers are made to these reserves from income generated within the Housing Revenue Account towards the cost of future repairs and maintenance or capital schemes.

Note 14. Other Operating Expenditure

2015/16 £'000		2016/17 £'000
696	Parish council precepts	715
662	Payments to the Government Housing Capital Receipts Pool	497
(16)	Other income – unattached receipts	(43)
1,374	Gains (-) / Losses on the disposal of non-current assets	2,028
2,716	Total	3,197

Note 15. Financing and Investment Income and Expenditure

2015/16 Restated £'000		2016/17 £'000
2,247	Interest payable and similar charges	2,322
1,384	Net interest on the net defined benefit liability	1,177
(502)	Interest receivable and similar income	(718)
(143)	Income and expenditure in relation to investment properties and changes in their fair value	(47)
42	Loss on forward contract	12
(32)	Gain(-) / Impairment of financial assets	-
2,996	Total	2,746

Note 16. Taxation and Non Specific Grant Income

2015/16 £'000		2016/17 £'000
(6,524)	Council tax income	(6,850)
(16,421)	Retained business rates	(17,561)
13,656	Business rates tariff payment	13,770
(5,454)	Non-ring fenced government grants	(5,296)
(1,247)	Capital grants and contributions	(244)
(15,990)	Total	(16,181)

Note 17. Grant Income

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council and credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non Specific Grant line in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where it has been applied to finance capital expenditure, it is posted to the Capital Adjustment Account. Where the grant has yet to be applied, it is posted to the Capital Grant Unapplied reserve. Amounts in the Capital Grant Unapplied reserve are subsequently transferred to the Capital Adjustment Account once they have been used to fund capital expenditure.

Rugby Borough Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement	2015/16 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	1,775	1,098
New Homes Bonus	2,446	3,221
Business Rates Section 31 Grants	769	531
Other Non-Specific Revenue Grants	484	446
Non ring-fenced government grants	5,454	5,296
Section 106 Capital Funding	272	1
Local Public Service Agreement Property Purchases Funding	43	55
Play Areas Contribution from SitaTrust	35	80
Play Areas Contribution from DCLG	20	-
Play Areas Contribution from Veolia Environmental Trust	100	52
Play Areas Contribution from WREN Community Action Fund	75	50
Homes & Communities Agency funding for Woodside Park	692	-
Other grants (Less than £25,000)	10	6
Capital grants and contributions	1,247	244
Total Grants Credited to Taxation and Non Specific Grant Income	6,701	5,540

	2015/16 £'000	2016/17 £'000
Credited to Services		
DWP - Housing Benefits Rent Allowances Subsidy	13,214	10,691
DWP - Housing Benefits Rent Rebates Subsidy	9,592	8,677
DWP- Trailblazer Homelessness Early Intervention Prevention	-	285
DWP - Discretionary Housing Allowance Subsidy	104	112
DWP - Local Authority Data Share	-	26
DCLG - Preventing Homelessness	117	67
The Cabinet Office - Individual Electoral Registration	45	46
Warwickshire Police & Crime Commissioner - Safer and Stronger Communities	35	35
Sport England ESC Lottery Grant	-	29
Warwickshire County Council Partnership Grant for Green Waste Collection	-	25
The Arts Council - Museum Resilience	69	-
Section 106 Revenue Funding utilised for the Rugby World Cup	47	-
Other Revenue Grants (Less than £25,000)	116	182
Other Section 106 Revenue Funding	81	131
Revenue Grants	23,420	20,306
DCLG - Disabled Facilities Grant	275	493
Section 106 Capital Funding	6	63
Capital Grants	281	556
Total Grants Credited to Services	23,701	20,862

The Council has received the following grants and contributions that have yet to be recognised as income as there are conditions attached to them that require the monies to be returned to the awarding body if unspent on relevant expenditure. The balances at the year-end are as follows:

	2015/16 £'000	2016/17 £'000
Revenue Section 106 Funding	686	704
Amounts Held in Perpetuity / Specific Reasons	145	145
Dept. Energy & Climate Change - District Heating Network	33	33
DCLG - Preventing Homelessness	67	-
Other Revenue grants (Less than £25,000)	54	57
Revenue Receipts Held in Advance	985	939
Capital Section 106 funding	434	582
Local Public Service Agreement Property Purchases Funding	55	-
Other Capital grants (Less than £25,000)	13	-
Capital Receipts Held in Advance	502	582
Total Receipts Held in Advance	1,487	1,521

Note 18. Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred. The Council has established a de-minimis level of £10,000. Expenditure on assets under this level is not capitalised within the Accounts and the assets are fully depreciated within the year.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have any commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets, community assets and assets under construction are carried at historic cost, net of depreciation where appropriate.
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. This includes assets such as the Queen's Diamond Jubilee Leisure Centre, Benn Hall and the John Barford Car Park.

Where non-property assets have short useful lives and/or low values, such vehicles and IT equipment, they are measured at depreciated historical cost as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and building assets under £10,000 are not revalued with the exception of investment properties. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains, or may be credited to the Comprehensive Income & Expenditure Statement to reverse a previous downward revaluation.

Where decreases in value are identified, they are accounted for:

- Where there is a balance of revaluation gains for the asset in the Revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income & Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as per decreases in value noted above.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Impairment Losses

No impairments were recognised in the year following a review of asset compliance with our componentisation policy.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable useful life (i.e. freehold land and Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where depreciation is provided for, assets are depreciated using the straight-line method over the following periods:

- Dwellings and other buildings – 5-60 yrs.
- Vehicles, plant and equipment – 3-25 yrs.
- Infrastructure – 7-40 yrs.

Depreciation is charged on council dwellings in the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for determining whether an asset needs to be componentised and an individual asset cost of more than 25% to determine whether an asset is considered as a component.

The carrying amount of a replaced or restored part of an asset (component) is derecognised, with the carrying amount of the new component being recognised subject to the principles set out in Recognition and Measurement above. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

Subsequent Expenditure on Property Plant and Equipment

Subsequent costs incurred on an asset previously recognised as Property, Plant and Equipment will only be capitalised if they result in items with physical substance and meet the recognition principle that

- It is probable that future economic benefits or service potential associated with the item will flow to the Council; and
- The cost of the item can be measured reliably.

Exceptions to the general approach of comparing the outcome of expenditure compared to previously assessed levels of performance:

- Where subsequent expenditure will actually increase the level of performance of an asset in generating economic benefits or providing service potential but does not increase the level of performance previously assessed by the Council for that asset, then the assessment can be updated (through a revaluation adjustment) and the new expenditure capitalised
- Where subsequent expenditure represents the replacement of a component of an existing asset provided that the old component can be written out of the Balance Sheet

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, whereas amounts below are classed as revenue income. A proportion of receipts relating to Right-to-Buy housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund or HRA Balance in the Movement in Reserves Statement.

The writing off of the remaining net book value of assets which are disposed of is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Valuations

Council dwellings have been included on the basis of their valuation by an external professional valuer, Mr A George (MRICS) of George & Company Chartered Surveyors, as at 1st April 2016. All valuations (formal and desktop) are carried out on a 5 year rolling programme basis in accordance with the Guidance on Stock Valuation for Resource Accounting (the Valuation Guidance).

In addition, as per last year, a desktop review was carried out in 2016/17 using house price indexation for the West Midlands to assess any general market changes in value. The result was an increase in value of approximately £7.7m. This approach was reviewed by Mr A George (MRICS) of George & Company Chartered Surveyors, whose own data suggests a similar result to the increase in values at a local level. Further to the potential issue with the varying shifts in value between flats and houses highlighted in previous years, Mr George notes that over the year the values between the different housing styles have again remained at a comparative level.

Other land and buildings owned by both the General Fund and the Housing Revenue Account have also been valued on the basis of a five year rolling programme by the Council's contracted external valuer, Mr P Mawson (FRICS) of Godfrey-Payton, Chartered Surveyors.

In January 2017 Mr Mawson valued a number of properties for 2016/17 totalling £8.2m giving a land and buildings split, an estimated useful life and assuming a residual value for depreciation purposes. A further programme of valuations will continue in 2017/18 to maintain the five-year rolling programme.

Where the revaluations resulted in a lower value for assets than previously held, they were assessed for impairment. This results in a charge being made to the Comprehensive Income and Expenditure Statement where there are insufficient balances in the Revaluation Reserve. However, it should be noted that this does not impact on council tax as this charge is reversed out through the Movement in Reserves Statement.

In addition to land and buildings noted above, Mr Mawson was also asked to review and confirm that the carrying value of all other land and buildings at the 31st March 2017 did not differ materially from the fair value of those assets at the end of the reporting period.

Each year guidance is sought from the Valuer in order to identify the appropriate bases for valuation; these are disclosed within the accounting policies in addition to the bases for depreciation calculations.



2016/17	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Non-Operational Assets	Assets under Construction	Total
Cost or Valuation	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
At 1 st April 2016	131,161	31,786	11,500	5,761	798	5,624	707	187,337
Additions	5,743	363	1,363	294	46	2	615	8,426
Derecognition – disposals	(1,482)	-	(254)	(2)	-	-	-	(1,738)
Derecognition - componentisation	(2,635)	-	-	-	-	-	-	(2,635)
Reclassification	(174)	647	-	-	-	-	(647)	(174)
Revaluation increases / decreases (-) recognised in the revaluation reserve	10,459	144	-	-	-	-	-	10,603
Revaluation increases / decreases (-) recognised in the surplus / deficit on the provision of services	41,946	(1,661)	-	-	-	-	-	40,285
Other movements in cost or valuation	-	-	-	-	-	-	-	-
At 31 st March 2017	185,018	31,279	12,609	6,053	844	5,626	675	242,104
Depreciation and impairments								
At 1 st April 2016	(1,868)	(1,340)	(6,815)	(1,312)	(20)	(3)	-	(11,358)
Charge for 2016/17	(2,633)	(471)	(1,068)	(302)	-	(4)	-	(4,478)
Derecognition – disposals	21	-	243	1	-	-	-	265
Reclassification	3	-	-	-	-	-	-	3
Depreciation written out to the surplus / deficit on the provision of services due to revaluation	1,854	1,100	-	-	-	-	-	2,954
Impairment losses / reversals (-) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
At 31 st March 2017	(2,623)	(711)	(7,640)	(1,613)	(20)	(7)	-	(12,614)
Balance Sheet at 31 st March 2017	182,395	30,568	4,969	4,440	824	5,619	675	229,490

2015/16	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Non-Operational Assets	Assets under Construction	Total
Cost or Valuation	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
At 1 st April 2015	126,203	31,388	10,600	5,000	798	3,283	504	177,776
Additions	5,337	1,104	1,522	671	-	41	702	9,377
Derecognition – disposals	(1,105)	-	(754)	-	-	-	-	(1,859)
Derecognition - componentisation	(2,305)	-	-	-	-	-	-	(2,305)
Reclassification	9	237	132	133	-	(8)	(499)	4
Revaluation increases / decreases (-) recognised in the revaluation reserve	68	203	-	-	-	2174	-	2,445
Revaluation increases / decreases (-) recognised in the surplus / deficit on the provision of services	2,954	(1,146)	-	(43)	-	139	-	1,904
Other movements in cost or valuation	-	-	-	-	-	(5)	-	(5)
At 31 st March 2016	131,161	31,786	11,500	5,761	798	5,624	707	187,337
Depreciation and impairments								
At 1 st April 2015	(1,815)	(1,391)	(6,444)	(1,040)	(20)	(64)	-	(10,774)
Charge for 2015/16	(1,871)	(626)	(1,095)	(275)	-	(3)	-	(3,870)
Derecognition – disposals	32	-	724	-	-	-	-	756
Reclassification	-	-	-	-	-	-	-	-
Depreciation written out to the surplus / deficit on the provision of services due to revaluation	1,786	677	-	3	-	64	-	2,530
Impairment losses / reversals (-) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
At 31 st March 2016	(1,868)	(1,340)	(6,815)	(1,312)	(20)	(3)	-	(11,358)
Balance Sheet at 31 st March 2017	129,293	30,446	4,685	4,449	778	5,621	707	175,979

	Council dwellings	Other land and buildings	Surplus Non-Operational assets	Investment Non-Operational assets	Assets held for sale	Total non-current assets carried at current value	Assets carried at other value	Total Valuation (All Assets)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost	-	15	-	-	-	15	10,570	10,585
Valued at current cost in:								
2016/17	182,395	8,801	-	-	76	191,272	-	191,272
2015/16	-	1,686	5,619	695	-	8,000	-	8,000
2014/15	-	5,165	-	-	-	5,165	89	5,254
2013/14	-	9,855	-	-	-	9,855	249	10,104
2012/13	-	5,046	-	-	-	5,046	-	5,046
Total	182,395	30,568	5,619	695	76	219,353	10,908	230,261

The above statement shows the progress of the Council's rolling programme for the revaluation of current assets. The Council's housing stock was revalued as at 1st April 2016 by George & Co. Surveyors, although a desktop exercise has been undertaken in 2016/17 by George & Co. Surveyors to restate the asset values in light of market conditions.

Note 19. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustments Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (see criteria in Note 2 General Accounting Policies)

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property

The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

The following table shows there has been no net movement in the fair value of investment properties over the 2016/17.

	2015/16	2016/17
	£'000	£'000
Balance at start of the year	598	695
Net gains/(losses) from fair value adjustments	97	-
Balance of end the year	695	695

Note 20. Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

	2015/16	2016/17
	£'000	£'000
Balance outstanding at start of year	272	23
Revaluation losses	(13)	(95)
Assets sold	(227)	(23)
Reclassification	(9)	171
Balance outstanding at year-end	23	76

Note 21. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the next table, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Government Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund or HRA Balance in the Movement in Reserves Statement. Where it has been used to finance capital expenditure it is posted to the Capital Adjustment Account. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Amounts in the Capital Grant Unapplied reserve are subsequently transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Revenue Expenditure funded from Capital under Statute

Expenditure incurred during the year that may be funded from capital financing sources under statutory provisions, but does not result in the creation of non-current assets for the Council is charged to the relevant service in the Comprehensive Income and Expenditure Statement in the year. In the main this relates to expenditure on Disabled Facilities Grants and other Home Improvement Loans. Where the cost of this expenditure is met from existing capital resources a transfer in the Movement in Reserves Statement from the General Fund or HRA Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of council tax.

Minimum Revenue Provision (MRP)

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal), by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. This ensures that depreciation, revaluation and impairment losses and amortisations have no overall effect on council tax or housing rent levels.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require local authorities to approve an MRP policy at the beginning of each financial year on setting aside a sum of money from revenue for the repayment of principal on outstanding debt. During 2015/16 the Council approved a policy such that, for capital expenditure incurred before 1st April 2008, the MRP is based on 2% straight-line method of the Council's Capital Financing Requirement for the General Fund. For General Fund capital expenditure incurred after 1st April 2008, the MRP is based upon the estimated life of those assets where the financing was provided by borrowing.

There is no equivalent requirement for the Housing Revenue Account but voluntary contributions may be made for debt repayment.

	2015/16 £'000	2016/17 £'000
Opening Capital Financing Requirement (CFR)	90,025	91,503
Capital Investment:		
Property, Plant, and Equipment	9,377	8,427
Heritage Assets	27	1,285
Intangible Assets	406	147
Revenue Expenditure Funded from Capital under Statute	607	606
Long Term Debtors	-	-
Capital Investment Total	10,417	10,465
Sources of Financing:		
Capital Receipts	(383)	(267)
Government Grants & Other Contributions	(1,394)	(822)
Sums Set Aside from Revenue	(1,112)	(1,280)
Earmarked Reserves	(5,076)	(5,301)
Minimum Revenue Provision / Voluntary Revenue Provision	(974)	(7,668)
Financing Total	(8,939)	(15,338)
Closing Capital Financing Requirement (CFR)	91,503	86,630
Explanation of movements in year:		
Increase in underlying need to borrow (unsupported by government financial assistance)	1,478	(4,873)
Increase / decrease (-) in Capital Financing Requirement	1,478	(4,873)

Capital commitments

Capital commitments as at 31st March 2017 amounted to £4.0m. This amounts to the contractual arrangements to deliver doors and windows replacement. Capital commitments as at 31st March 2016 amounted to £8.1m.

Note 22. Revaluation Reserve

This reserve represents mainly the balance of the gains and losses arising on the periodic revaluation of current assets.

2015/16 Total £'000		General Fund £'000	HRA £'000	2016/17 Total £'000
(11,427)	Balance as at 1 st April	(28,373)	(915)	(29,288)
(18,464)	Upward revaluation of assets	(194)	(10,476)	(10,670)
284	Downward revaluation of assets & impairment losses not charged to the surplus / deficit on the provision of services	50	17	67
(29,607)	Surplus on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(28,517)	(11,374)	(39,891)
319	Difference between fair value depreciation and historical cost depreciation	299	114	413
-	Accumulated gains on assets sold or scrapped	-	142	142
(29,288)	Balance as at 31 st March	(28,218)	(11,118)	(39,336)

Note 23. Capital Adjustment Account

This account represents the amounts set aside from revenue resources or capital receipts to finance expenditure on non-current assets or for the repayment of loans as well as other capital financing transactions as required by the Accounting Code of Practice.

2015/16 £'000		2016/17	
		£'000	£'000
(72,966)	Balance as at 1 st April		(78,211)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
2,180	General Fund charges for depreciation of non-current assets	2,165	
1,966	HRA charges for depreciation of non-current assets	2,703	
(4,435)	Revaluation and impairment loss: Property, Plant and Equipment	(43,144)	
157	Amortisation of intangible assets reversal	205	
607	Revenue Expenditure Funded from Capital Under Statute written down	606	
3,635	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	4,130	
4,110			(33,335)
(319)	Adjusting amounts written out of the Revaluation Reserve		(555)
(69,175)	Net written out amount of the cost of non-current assets consumed in the year		(112,101)
	Capital financing applied in the year:		
(383)	Use of the Capital Receipts Reserve to finance new capital expenditure	(267)	
(1,112)	Capital expenditure charged against the General Fund & HRA balances	(1,280)	
(5,076)	Use of the Major Repairs Reserve to finance new capital expenditure	(5,301)	
(1,394)	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	(822)	
(974)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(7,668)	
(8,939)			(15,338)
(97)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-
(78,211)	Balance at 31 st March		(127,439)

Note 24. Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. These arise from mortgages on sales of council houses which are included under Long Term Advances – Loans Outstanding. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

2015/16 £'000		2016/17 £'000
(40)	Balance at 1 st April	(32)
8	Transfer to the Capital Receipts Reserve upon receipt of cash	-
(32)	Balance at 31 st March	(32)

Note 25. Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge and culture. They are a distinct class of asset which is reported separately from property, plant, and equipment. Previously the majority of these assets had been held as Community Assets with the exception of one or two which were held in Infrastructure Assets or Other Land and Buildings. The heritage assets held by the Council have been categorised as follows:

- Art & Social History Collections
- Monuments & Statues
- Historic sites / buildings
- Civic Regalia

The Code requires councils to recognise heritage assets where the Council has information on the cost or value of the asset. However, the unique nature of many heritage assets makes reliable valuation complex. Where it is not practical to obtain a valuation for an asset (at a cost which is commensurate with the benefits to users of the financial statements) and cost information is available, the asset will be carried at historical cost (less any accumulated depreciation, amortisation and impairment losses) as permitted by the Code.

Valuations may be made by any method that is appropriate and relevant to the heritage asset: this includes insurance valuations for museum collections, monuments & statues, historic sites, and civic regalia. It is not a requirement of the Code for valuations to be carried out or verified by external valuers. Although there is no prescribed minimum period between full valuations, the Council considers it appropriate to seek a full valuation every five years.

Impairment reviews will only take place where there is physical deterioration or new doubts as to the authenticity of the heritage asset. Any impairment recognised will be treated in accordance with the Council's policy on impairments.

Reconciliation of the carrying value of Heritage assets held by the Council:

	Intangibles £'000	Art & Social History Collections £'000	Monuments & Statues £'000	Historic Sites / Buildings £'000	Civic Regalia £'000	Total Assets £'000
Cost or valuation						
1 st April 2015	-	4,123	671	457	95	5,346
Additions	-	-	27	-	-	27
Revaluations	-	-	(18)	15,772	-	15,754
Reclassifications	-	-	5	-	-	5
Depreciation	-	-	-	(275)	-	(275)
31 st March 2016	-	4,123	685	15,954	95	20,857
Cost or valuation						
1 st April 2016	-	4,123	685	15,954	95	20,857
Additions	1,216	-	-	69	-	1,285
Revaluations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Depreciation	(114)	-	-	(275)	-	(389)
31 st March 2017	1,102	4,123	685	15,748	95	21,753

Revaluations of Heritage Assets

In accordance with the Council's accounting policy on Heritage Assets, valuations may be made by any method that is appropriate and relevant to the heritage asset. During 2015/16 historic sites, principally the Great Central Walk bridges, were assessed for insurance purposes by council engineers on the basis of re-instatement costs, leading to a revaluation of £15.754m. These assets had previously been reported in the balance sheet at historic cost.

Additions and Disposals of Heritage Assets

Additions in the year of £1.285m relate to purchases for the World Rugby Hall of Fame Exhibition of £1.200m, £69,000 infrastructure work on the Great Central Walk and £16,000 for a film work purchase.

Art Collections

The Council's collections of art work are reported in the Balance Sheet at insurance valuation which is based on market values. The Rugby Art Collection was revalued by Sotheby's in 2012/13. The collections include the following items:

- The Rugby Art Collection – 20th century and contemporary British art
- The Local Art Collection
- Andrew Varah Furniture
- Social History Collection – mainly donated artefacts
- Redding Collection – glass plate negatives

The Rugby Art Collection

The Rugby Collection of 20th century and contemporary British art was established in 1946, and now holds more than 170 important paintings, drawings, prints and film works. The collection includes work by Eduardo Paolozzi, Stanley Spencer, Walter Sickert, Barbara Hepworth, Bridget Riley and L.S. Lowry. It is not on permanent display, but parts of it are shown every year in the Rugby Collection show, usually around March – June. At other times, visitors and researchers can view individual works in store by appointment. From time to time, pieces from the collection are loaned to other regional, national or international institutions.

The Social History Collection

Rugby Museum's Social History Collection has been built up since 2000, almost entirely from artefacts donated by local people. It reflects Rugby's rich engineering heritage, as well as the social and domestic lives of the people of the borough. It contains around 6,000 items, mostly of low value. Part of the collection is on display in the Rugby Museum, the remainder is in store.

The Redding Collection

The Redding Collection of glass plate negatives came to Rugby Museum following the closure of a local photographic business. It contains around 20,000 glass plate negatives, mostly from the 1950s and 1960s, many of them portraits and a significant number representing the immigrant communities in the borough. The collection is not on display as it is vulnerable; the content will be made accessible to the public following a digitisation programme.

Monuments & Statues

- Echo sculpture (Caldecott Park)
- Water feature (Caldecott Park)
- Stone carved benches
- Frank Whittle Arch
- William Webb Ellis statue
- Rupert Brooke statue

Historic Sites / Buildings

- Great Central Walk
- Newbold Quarry
- Regent Place / Jubilee Gardens (site of Rugby Motte & Bailey Castle)

Civic Regalia

- Mayoral Badges of Office
- Mayoral & Councillor Robes
- Borough Mace / Various Silverware and Ceramic Items

Intangibles

This is for the purchase of the rights to the Rugby World Cup Collection used in the Hall of Fame exhibition which is exclusively licensed by the Council for 4 years.

Note 26. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. This definition includes rental agreements, contract hire and licences.

The Council as a Lessee

Finance leases

The Council has acquired the Land at Brownsover for use as a public park under a finance lease for 999 years. The asset is carried as a Community Asset in the Balance Sheet at a net value of £1 at 31st March 2017. At inception, no upfront premium was payable and the minimum lease payment of "one peppercorn" has not been charged.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as a cost to the services benefiting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

The Council holds a limited number of operating leases, mainly relating to the lease of 36 photocopiers with an annual rental of £17,000 and also lease land at Hillmorton Road for the purpose of a public recreation ground with a rental of "one peppercorn" per annum.

The Council as Lessor

Finance leases

The Council as lessor did not hold any finance leases in 2016/17.

Operating leases

The Council has leased out properties under operating leases for the provision of community services (such as sport facilities or community centres) or economic development purposes to provide local businesses with affordable accommodation.

Future minimum lease payments receivable under non-cancellable leases in future years are:

	31 st March 2016 £'000	31 st March 2017 £'000
Not later than one year	82	84
Later than 1 year and not later than 5 years	147	142
Later than 5 years	1,664	1,614
	1,893	1,840

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 no contingent rents were receivable by the Council.

Note 27. Long Term Advances – Loans Outstanding

	Balance at 31 st March 2016 £'000	Advances £'000	Amounts Repaid £'000	Balance at 31 st March 2017 £'000
Local Authority Mortgage Scheme	1,011	-	-	1,011
Loans for the Purchase and Improvement of Private Dwellings	32	-	-	32
Repossession Fund	4	-	(1)	3
Local Capital Finance Company	20	-	-	20
	1,067	-	(1)	1,066

Note 28. Debtors (amounts due to the Council)

Net 1 st April 2016 £'000		Debt £'000	Bad Debt Provision £'000	Net 31 st March 2017 £'000
	Amounts due within one year			
978	Government Departments	434	-	434
900	Other Local Authorities (inc. Police)	1,114	-	1,114
15	Homelessness	41	(27)	14
510	Rent-payers	658	(195)	463
246	Council tax payers	312	(26)	286
284	Non Domestic Rate payers	293	(88)	205
3	Car Parking	2	(1)	1
1,174	Housing Benefit Overpayments	2,214	(852)	1,362
914	Other Entities and Individuals	1,345	(29)	1,316
5,024		6,413	(1,218)	5,195
	Amounts due in more than one year			
124	Employee Vehicle Loans	130	-	130
78	Work in Default	78	-	78
202		208	-	208
5,226	Total	6,621	(1,218)	5,403

Note 29. Creditors (amounts owed to others by the Council)

As at 31 st March 2016 £'000		As at 31 st March 2017 £'000
256	HM Revenue and Customs (HMRC)	285
930	Government Departments	3,909
1,115	Other Local Authorities (Inc. Police)	2,566
148	Rent payers	195
85	Council tax payers	93
-	Non Domestic Rate payers	-
1,294	Other entities and individuals	2,414
3,828	Total	9,462

The increase in the creditors balances for amounts owed to Government Departments and Other Local Authorities at the end of 2016/17, compared to 2015/16, is largely due to the surplus arising during the year recorded in the Collection Fund for business rates.

Note 30. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than one month from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

The balance of Cash & Cash Equivalents is made up of the following elements:

2015/16 £'000		2016/17 £'000
1,740	Cash held / overdrawn (-) by the Council	(476)
-	Bank current accounts	-
15,269	Money Market Funds	12,862
17,009	Total	12,386

Note 31. Cash Flow Statement – Operating Activities

2015/16 £'000		2016/17 £'000
(23,921)	Taxation	(25,952)
(28,106)	Grants	(27,011)
(8,567)	Housing Rents	(9,249)
(6,026)	Sales of Goods and Rendering Services	(7,557)
(442)	Interest received	(642)
(67,061)	Cash inflows generated from operating activities	(70,411)
12,670	Cash paid to and on behalf of employees	13,028
13,739	Housing Benefit paid out	11,181
13,656	Business Rates Tariff Payment	13,770
348	Precepts paid	715
573	Payments to the Capital Receipts Pool	556
13,627	Cash paid to suppliers of goods and services (Inc. net VAT outflow)	12,532
2,789	Interest paid	1,583
1,782	Other payments for operating activities	3,106
59,184	Cash outflows generated from operating activities	56,471
(7,877)	Net cash flows from operating activities	(13,940)

Note 32. Cash Flow Statement – Investing Activities

2015/16 £'000		2016/17 £'000
9,189	Purchase of property, plant and equipment, investment property and intangible assets	9,504
50,496	Purchase of short-term and long-term investments	64,129
(2,277)	Proceeds from the sale of property, plant, and equipment, investment property and intangible assets	(2,140)
(51,315)	Proceeds from short-term and long-term investments	(43,572)
(1,144)	Other receipts from investing activities	(1,096)
4,949	Net cash flows from investing activities	26,825

Note 33. Cash Flow Statement – Financing Activities

2015/16 £'000		2016/17 £'000
(15,000)	Cash receipts of short and long-term borrowing	(15,100)
1,460	Other receipts from financing activities	(3,156)
14,300	Repayments of short and long-term borrowing	10,000
(268)	Other payments for financing activities	(6)
492	Net cash flows from financing activities	(8,262)

Note 34. Trading Operations

Rugby Borough Council has a number of services that operate in a commercial environment and the service manager is required to balance their budget by generating income. Details of those units with a turnover greater than £100,000 or a deficit greater than £100,000 in 2016/17 are as follows:

2015/16 Restated Surplus (-) / Deficit £'000's	Service	Expenditure £'000s	Income £'000s	2016/17 Surplus (-) / Deficit £'000s
(115)	Trade Waste	769	(885)	(116)
(89)	Crematorium	654	(806)	(152)
(216)	Car Parking	297	(549)	(252)
114	Benn Hall	340	(232)	108
(306)	Total	2,060	(2,472)	(412)

Trading Operations are incorporated into the Comprehensive Income and Expenditure Statement, including some integral parts of the Council's services to the public (e.g. Refuse Collection and Street Cleansing). The expenditure of these operations is allocated or recharged to the relevant service headings within Cost of Services.

Note 35. Audit Fees

In 2016/17 Rugby Borough Council incurred the following fees relating to external audit and inspection:

	2015/16 £'000	2016/17 £'000
Fees payable to the appointed auditor, Grant Thornton, regarding external audit services	55	55
Fees payable to the appointed auditor, Grant Thornton for the certification of grant claims and returns	9	17
Other non-external audit fees paid to Grant Thornton	16	5
Total	80	77

Note 36. Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Notes 16 and 17. Amounts outstanding at the end of the financial year are included in Notes 28 and 29.

Council Members and Chief Officers

Based on existing key data sources, no material related party transactions have been identified amongst either the members or chief officers. Declarations are made under section 81 of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) (England) Order 2001. The below sources make up the Council's core elements for managing the risk of Fraud, Bribery and Corruption and are:

- **The Register of Members' Interests** – maintained in accordance with the Local Authorities (Members' Interests) Regulations 1992 (Statutory Instrument 1992/618);
- **Disclosure of direct or indirect pecuniary interests** - as defined by the Council's Code of Conduct for Councillors; and
- **The Staff Register of Interests** – maintained in accordance with the Council's Constitution and Anti-Fraud, Bribery & Corruption Strategy.

Senior Council Officers remuneration paid during 2016/17 is set out in Note 7; Councillors Allowances are stated in Note 8.

During 2016/17, 6 Borough Councillors were also Warwickshire County Councillors (*Cllr Peter Butlin; Cllr Heather Timms; Cllr Richard Dodd; Cllr Jerry Roodhouse; Cllr O'Rourke and Cllr H Roberts*).

In addition to their normal involvement on various Council Committees, most members and some Senior Officers and staff also act as the Council's representative on a wide range of Outside and Voluntary Bodies – some such representation follows from their Committee membership(s).

A list of representatives relevant to 2016/17 was approved at the Annual Meeting of the Council on 19th May 2016.

A total of £238,000 grants were awarded to voluntary organisations in 2016/17, of which £97,00 was paid to voluntary organisations in which 12 members had an interest. All payments were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the payments.

A full list of all Borough Councillors and their various interests of this type can be made available upon request at the Town Hall, Rugby.



Other Public Bodies (subject to control by Central Government)

Warwickshire County Council (WCC) and the Office of the Warwickshire Police & Crime Commissioner
These authorities issue precepts on the Council and these are shown in the Collection Fund Statement. WCC is the administering authority for the Pension Fund and employer's contributions paid by this council total £2,393,000 for 2016/17.

A £25,000 partnership grant was received from WCC to assist with the continued the delivery of the Green Waste collection service for the last quarter of 2016/17.

£35,000 of grant was received from the Office of the Police and Crime Commissioner for Warwickshire to fund various Community Safety Projects across the Rugby Borough.

Parish Precepts

For 2016/17 the precepts issued to parish councils totalled £715,000.

West Midlands Combined Authority

The Council is also a non-constituent member of the West Midlands Combined Authority (WMCA). The WMCA is a group of councils across the region that is working together to seek greater decision-making powers from the government in a process known as devolution.

In the Scheme sent to Government only constituent members have voting rights. However, once the WMCA is established constituent members can give voting rights to non-constituent members, for example, allowing them to vote on matters to do with economic development. Constituent members may only be signed up to one combined authority, whilst non-constituent members can be signed up to one or more combined authorities.

In 2016/17 Rugby Borough Council paid the WMCA a £25,000 contribution to help fund its programmes and initiatives.

Read more about the WMCA at: <https://www.wmca.org.uk/>

Shared Procurement & Training Agreements

The Council is part of a shared Procurement Service with Nuneaton & Bedworth Borough Council. Nuneaton & Bedworth Borough Council is the lead authority in this shared service and in 2016/17 £36,000 was contributed by Rugby Borough Council to the scheme.

Further shared service agreements are in place with Nuneaton & Bedworth Borough Council where the Council contributes to the shared salary costs to provide IT and Human Resources training. In 2016/17 £23,000 was contributed by Rugby Borough Council to these schemes.

Shared Building Control Service

The Council is part of a shared Building Control Service with Warwick District Council and Daventry District Council. Warwick District Council are the lead authority who host and provide the Building Control Service for the partnership. In 2016/17 Rugby Borough Council contributed £59,000 into the scheme.

Entities Controlled or Significantly Influenced by the Authority

The Council provided financial assistance to certain voluntary and outside bodies during 2016/17; these are mainly local government associations or local groups that the Council supports with grant aid and advice. Examples include the Local Government Association, West Midlands Local Government Association, Rugby First, Rugby Citizens Advice Bureau, Rugby Age Concern and Rugby Business Improvement District (BID) Company. The majority of individual transactions may be material for the recipient organisations but are relatively immaterial in financial terms for this organisation.

Rugby First Ltd - BID Division

As Growth & Investment Portfolio Holder, Cllr Mrs Timms and as Environment & Public Realm Portfolio Holder, Cllr Lisa Parker, are on the Board of Rugby First Limited. An amount of £1.024m was paid to the BID Company in 2016/17 of which £582,000 related to the collection of BID Levy income, the remaining £443,000 is used to provide a CCTV Monitoring and Town Centre Management Service.

Rainsbrook Crematorium

Rainsbrook Crematorium is a joint project between Rugby Borough Council and Daventry District Council. The Crematorium is operated by Rugby Borough Council's bereavement services team on behalf of a joint committee which represents both authorities. Each council has an equal share in the entity. Rugby Borough Council paid £140,000 to Daventry District Council in 2016/17 in relation to their share of the annual operating surplus.

Queen's Diamond Jubilee Centre

The Queen's Diamond Jubilee Centre is owned by Rugby Borough Council and is operated by Greenwich Leisure Ltd (GLL). Rugby Borough Council received £277,000 from GLL for the annual contract fee and profit share as per the contract agreement in 2016/17.

The Hall of Fame – World Rugby

The Hall of Fame is a joint venture between World Rugby Ltd and Rugby Borough Council £1.2m was spent by Rugby Borough Council in capital expenditure to fund the construction and implementation of the Hall of Fame project in 2016/17. A further £6,000 Operational Expenditure was also spent in 2016/17.

Note 37. Pension Costs

Pension Benefits

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that the employees earn their future entitlement.

Participation in pension schemes

Rugby Borough Council participates in two post-employment schemes:

- **The Local Government Pension Scheme (LGPS)**, which is administered locally by Warwickshire County Council – this is a funded defined benefit career average salary scheme, meaning the Council and its employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. In 2016/17 the Council paid an employer's contribution total of £2.263m, which represented 20.38% of employees' pensionable pay of £11.102m into the Pension Fund. The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations and the current rate was determined by the latest valuation undertaken up to 31st March 2016.
- **discretionary post-retirement benefits** upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. In 2016/17 the cost of the added years benefit awarded in the past amounted to £130,000, representing 1.17% of pensionable pay.

The pension scheme is operated under the framework of the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions investment sub-committee of Warwickshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (e.g. large-scale withdrawals), changes to inflation, bond yields and the performance of the equity investments held by the scheme. However, these are mitigated to a certain extent by the statutory provisions as set out below.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arise on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Recognition and Measurement

The LGPS is accounted for as a defined benefit scheme:

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; which is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (broadly equivalent to the yield available on high quality corporate bonds with duration, consistent with the term of the liabilities).
- The fair value of the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Market quoted investments – current bid price on the final day of the accounting period
 - Fixed interest securities – net market value based on their current yields
 - Unquoted investments – professional estimate

The change in net pensions liability is analysed into the following components:

- **Service Cost** - comprising:
 - **Current year service cost** – the increase in the liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - **Past service cost** – the increases in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - **Net interest on the net defined liability** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- **Remeasurements** - comprising:
 - **The return on plan assets** – excluding amounts including in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - **Actuarial gains and losses** – change in the net pensions liability that arise because event have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Transactions relating to Post-Employment Benefits

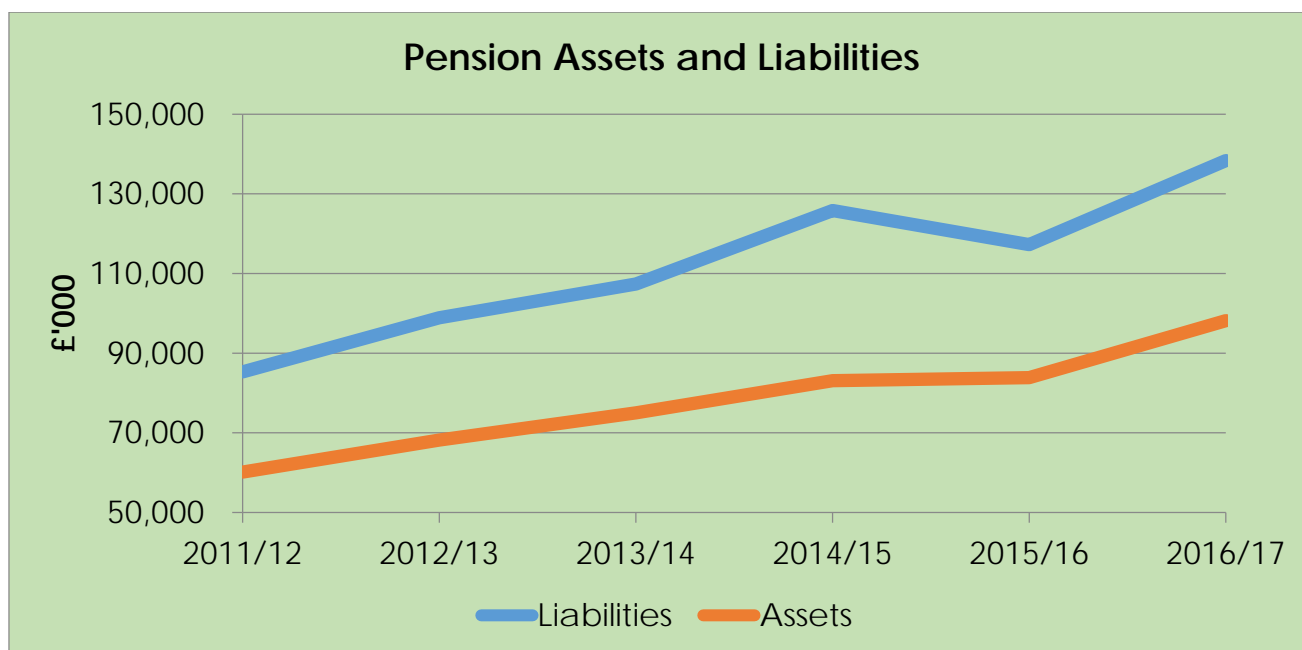
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax and HRA rents is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and HRA via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund and HRA balances via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services</i>				
• Current Service Costs	3,315	2,831	-	-
• Past Service Costs	1	74	-	-
<i>Financing and Investment Income and Expenditure</i>				
• Net Interest Expense	1,323	1,118	61	59
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	4,639	4,023	61	59
<i>Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement</i>				
Re-measurement of the net defined benefit liability comprising:				
• Return on Plan Assets (excluding the amount included in the net interest expense)	993	(12,523)	-	-
• Actuarial gains and losses arising on changes in demographic assumptions	-	(1,355)	-	(22)
• Actuarial gains and losses arising on changes in financial assumptions	(11,078)	19,638	(33)	60
• Other experience	(1,554)	(750)	(103)	43
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(7,000)	9,003	(75)	140
Movement in Reserves Statement				
• Reversal of net charges made to the Surplus or Deficit on the Provision of Services for Post-Employment Benefits in accordance with the Code	(4,639)	(4,023)	(61)	(59)
<i>Actual amount charged against the General Fund and HRA Balances for Pensions in the year:</i>				
• Employer's contributions payable to the scheme	2,101	2,263	-	-
• Retirement benefits payable to pensioners	-	-	134	130

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Present Value of the Defined Benefit Obligation	(115,505)	(136,585)	(1,759)	(1,769)
Fair Value of Plan Assets	83,870	98,180	-	-
Net Liability Arising from the Defined Benefit Obligation	(31,635)	(38,405)	(1,759)	(1,769)



The liabilities show the underlying commitments that the Council has in the long term to pay post-employment (retirement) benefits. The total net liability of £40.174m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets:

	2015/16 £'000	2016/17 £'000
Opening Balance at 1 st April	83,099	83,870
Interest Income on Plan Assets	2,645	2,914
Return on Plan Assets, excluding the amount included in the net interest expense	(993)	12,523
Contributions from Employer	2,235	2,393
Contributions from Scheme Participants	716	708
Benefits Paid	(3,832)	(4,228)
Closing Balance at 31 st March	83,870	98,180

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Opening Balance at 1 st April	123,835	115,505	1,968	1,759
Current Service Cost	3,315	2,831	-	-
Interest cost	3,968	4,032	61	59
Contributions by Scheme Participants	716	708	-	-
Re-measurement Gain/(Loss):				
• Actuarial gains/losses arising from changes in demographic assumptions	-	(1,355)	-	(22)
• Actuarial gains/losses arising from changes in financial assumptions	(11,078)	19,638	(33)	60
• Other experience	(1,554)	(750)	(103)	43
Benefits Paid	(3,698)	(4,098)	(134)	(130)
Past Service Costs	1	74	-	-
Closing Balance at 31 st March	115,505	136,585	1,759	1,769

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method valuation, an estimate of the pensions that will be payable in future years' dependent on assumptions about mortality rate, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the scheme fund being based on the latest full valuation of the scheme as at 31st March 2016.

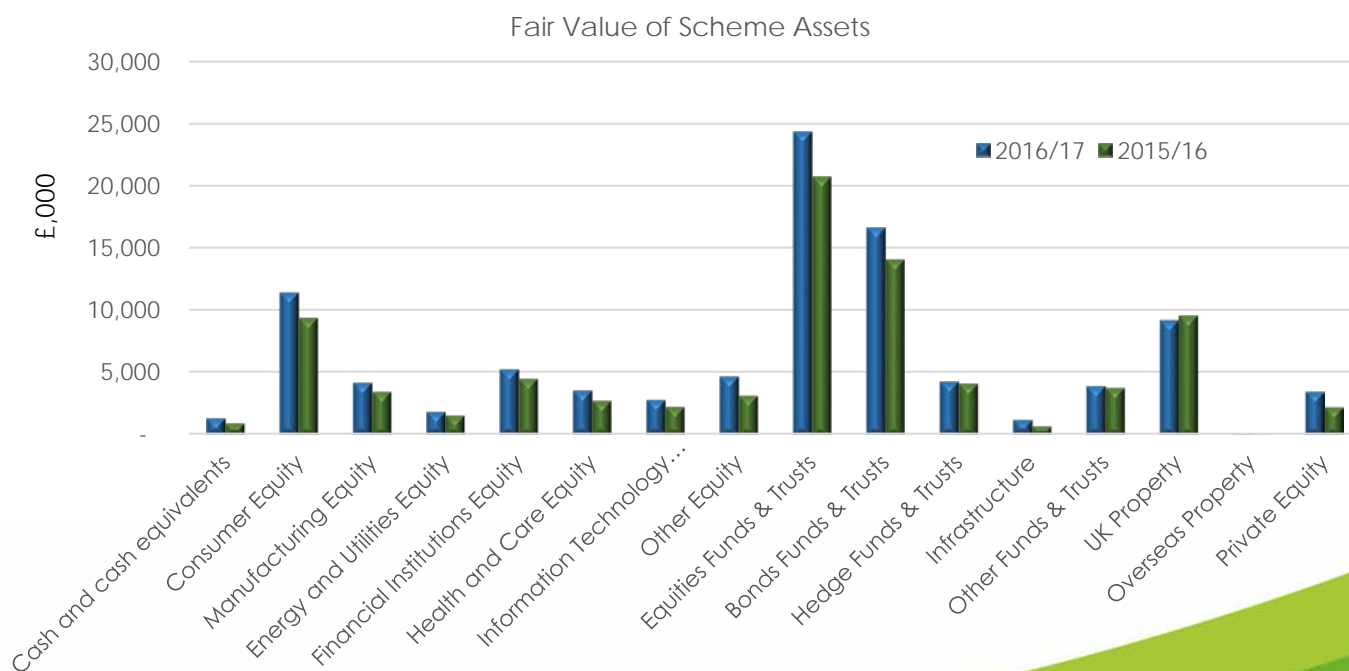
The significant assumptions used by the actuary have been:

	2015/16 £'000	2016/17 £'000
Mortality assumptions:		
Longevity at 65 for current pensioners (years):		
• Men	22.4	22.5
• Women	24.4	24.7
Longevity at 65 for future pensioners (years):		
• Men	24.3	24.3
• Women	26.6	26.7
Rate of Inflation (CPI)	2.20%	2.4%
Rate of increase in salaries	4.20%	3.0%
Rate of increase in pensions	2.40%	2.4%
Rate of discounting of scheme liabilities	3.50%	2.6%
Take-up option to convert annual pension into retirement lump sum	50%	50%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses shown in the next table have been determined based on reasonably possible changes on the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

The assumption in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumption may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Local Government Pension Scheme Assets Comprised:



IAS19 *Employee Benefits* requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Impact on the Defined Benefit Obligation in the Scheme		
	Approximate Monetary Amount £'000	Approximate % increase to Employer Liability
Rate of increase in salaries (increase by 0.5%)	2,028	1%
Rate of increase in pensions (increase by 0.5%)	10,858	8%
Rate for discounting scheme liabilities (decrease by 0.5%)	13,079	9%

Impact on the Council's Cash Flows

The contributions paid by Rugby Borough Council are set by the Fund Actuary at each triennial actuarial valuation (the most recent being at 31st March 2016). The objectives of the scheme are to keep employers' contributions at as constant a rate as possible; the contributions payable over the period to 31st March 2017 are set out in the Rates and Adjustments Certificate. Warwickshire County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. The next triennial valuation is due to be completed as at 31st March 2019. Employer contributions for the period to 31st March 2018 are estimated to be approximately £2.344m.

Note 38. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits become payable.

2015/16 £'000		2016/17 £'000
42,703	Balance at 1 st April	33,394
(11,774)	Re-measurement of the net defined liability	5,091
4,700	Reversal of items relating to retirement benefits credited to the Surplus of Provision of Services in the CIES	4,082
(2,235)	Employer's pension contributions and direct payments to pensioners payable in the year	(2,393)
33,394	Balance at 31 st March	40,174

Note 39. Financial Instruments

Financial Liabilities (e.g. Borrowing)

Financial liabilities are initially measured at fair value and carried on the Balance Sheet at that value plus any interest due. Annual charges to the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for that particular financial instrument. For most borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year in the loan agreement.

Financial Assets (e.g. Investments)

Financial Assets are classified into two types:

- Loans and receivables – Investments that have fixed determinable payments but are not quoted in an active market
- Available-for-sale-assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current (Short Term)	
	31 st March 2016 £'000	31 st March 2017 £'000	31 st March 2016 £'000	31 st March 2017 £'000
Investments:				
Loans & receivables	-	6,015	3,544	4,544
Available-for-sale financial assets	9,499	5,944	12,075	28,891
Total investments	9,499	11,959	15,619	33,435
Debtors:				
Loans & receivables	124	130	1,315	1,827
Total debtors	124	130	1,315	1,827
Borrowings:				
Financial liabilities at amortised cost	(89,585)	(82,109)	(7,329)	(19,668)
Total borrowings	(89,585)	(82,109)	(7,329)	(19,668)
Creditors:				
Financial liabilities at amortised cost – trade creditors	-	-	(1,294)	(2,414)
Total creditors	-	-	(1,294)	(2,414)

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2016/17	Financial Liabilities Amortised Cost £'000	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Interest expense	2,322	-	-	2,322
Change in fair value	12	-	-	12
Interest payable & similar charges	2,334	-	-	2,334
Interest and investment income	-	(486)	(232)	(718)
Net Gain (-) / Loss for the year	2,334	(486)	(232)	1,616

2015/16	Financial Liabilities Amortised Cost £'000	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Interest expense	2,247	-	-	2,247
Change in fair value.	42	(32)	-	10
Interest payable & similar charges	2,289	(32)	-	2,257
Interest income	-	(165)	(337)	(502)
Interest and investment income	-	(165)	(337)	(502)
Net Gain (-) / Loss for the year	2,289	(197)	(337)	1,755

Hedge Accounting

In accordance with the Code, the Council will apply Hedge Accounting on a transaction by transaction basis.

The Council will carry out hedging activities, from time to time, to limit its exposure to different financial risks, such as interest rate risk. These activities commonly consist of entering into a forward dated contract with a counterparty to eliminate or limit risk. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

A hedging relationship that qualifies for hedge accounting will be recognised when the following conditions are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Council's risk management objective and strategy for undertaking the hedge. The documentation will include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;

- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- For a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is assessed on an on-going basis and determined actually to have been effective throughout its life.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in the Comprehensive Income and Expenditure Statement and any ineffective portion is recognised immediately in Other Comprehensive Income and Expenditure. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in the Comprehensive Income and Expenditure Statement are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in the Comprehensive Income and Expenditure Statement are recognised in Financing and Investment Income and Expenditure.

Hedging

On 5th August 2011, the Council entered into a forward dated contract with BAE Systems Pension Fund to borrow £10m on 30th December 2011 to fund the Queen's Diamond Jubilee Leisure Centre project. The forward contract was settled on 30th December 2011 by delivery of the underlying loan and its fair value of £437,000 was transferred to the hedging reserve and recognised as a loss in Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement. This sum was scheduled to be released to the income and expenditure account over ten years to 30th December 2021 to match the interest payable on the loan.

On 30th June 2016 the Council and Bae Systems Pension Fund entered into a revised agreement, terminating the previous contract. Consequently, the underlying loan and the fair value of the forward contract have been written out of the balance sheet and hedge reserve. The sum released in the 2016/17 financial year was £13,000 (2015/16: £42,000) recognising the period 1st April 2016 to 30th June 2016.

No financial assets or liabilities were designated as hedging instruments at 31st March 2017 (2016: £nil).

Fair Values of Assets and Liabilities

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation technique used to measure fair value	31 st March 2016 Fair Value £'000	31 st March 2017 Fair Value £'000
Available for Sale – CCLA Property Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	2,332	2,295
Available for Sale – Lothbury Property Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	2,002	2,035
Available for Sale – Corporate Bonds / Certificates of Deposit	Level 1	Unadjusted quoted prices in active markets for identical shares	17,240	30,504
			21,574	34,834

The Council held £30.5m in corporate bonds and certificates of deposit. The fair value has been calculated using published price quotations. There were no transfers between input levels during the financial year 2016/17. There has been no change in valuation technique used during the year for financial instruments.

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for financial assets carried at fair value (described above) all other financial liabilities and financial assets represented by loans and receivables, and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, (Level 2) using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) payable, premature repayment rates from the PWLB have been applied to provide fair value under PWLB debt redemption procedures;
- For non-PWLB loans payable, prevailing market rates have been used to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
 - No early repayment or impairment is recognised
 - Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount

The fair values are calculated as follows:

As at 31 st March 2016			As at 31 st March 2017	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
57,598	60,869	PWLB Debt	50,697	54,760
39,316	41,144	Non-PWLB Debt	51,080	57,254
96,914	102,013	Total Borrowings	101,777	112,014
15,619	15,617	Money Market Loans < 1 year	35,560	35,560
9,499	9,499	Money Market Loans > 1 year	9,834	9,834
25,118	25,116	Total Loans and Receivables	45,394	45,394

The fair value of total borrowing is more than the carrying amount because the Council's loans are fixed at a higher rate than was available at the 31st March 2017. This shows a notional future loss (based on economic conditions at 31st March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £54.760m compares the terms of these loans with the new borrowing rates available from the PWLB. However, if the Council were to seek to repay these loans early to the PWLB, the PWLB would raise a penalty charge, based on redemption interest rates, for early redemption of £6.459m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £57.156m.

Note 40. Hedge Reserve

The Council established a cash flow hedging relationship between a forward contract element and the interest cash flows payable on a loan.

Upon settlement of the forward contract its fair value was transferred to the Hedge Reserve and recognised as a loss in Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

This sum was scheduled to be released to the income and expenditure account over ten years to 30th December 2021 to match the interest payable on the loan.

On 30th June 2016 the Council and Bae Systems Pension Fund entered into a revised agreement, terminating the previous contract. Consequently, the underlying loan and the fair value of the forward contract have been written out of the balance sheet and hedge reserve.

2015/16 £'000		2016/17 £'000
310	Balance at 1 st April	268
(42)	Release to income and expenditure account to match interest payable on loan	(268)
268	Balance at 31 st March	-

Note 41. Nature and Extent of Risk Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimize these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act.

The Council manages risk in the following ways:

- **by formally adopting** the requirements of the Code of Practice;
- **by approving annually in advance** prudential and treasury indicators for the following three years limiting
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year; and
- **by approving an investment strategy** for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which stipulates limits on credit criteria, deposit amounts and duration for deposits with each financial institution. Details of the Investment Strategy can be found on the Council's website.

The following analysis summarises the Council's maximum exposure to credit risk by comparing global corporate finance average default rates against the Council's deposits to produce an estimated maximum exposure to default.

As at 31 st March 2016		Deposits with banks and financial institutions	As at 31 st March 2017	
Carrying Amount on Balance Sheet £'000	Estimated maximum exposure to default £'000		Carrying Amount on Balance Sheet £'000	Estimated maximum exposure to default £'000
7,194	-	AAA rated counterparties/products	10,850	-
3,015	1	AA rated counterparties/products	17,852	4
9,046	7	A rated counterparties/products	11,821	9
5,863	13	BBB rated counterparties/products	4,870	11
1,439	43	Trade Debtors	1,957	59
26,557	64	Total	47,350	83

At 31st March 2017 sundry debts outstanding, arising from a contractual obligation, stood at £0.6m. Of this balance, £290,000 is past its due date for payment (30 days) and can be analysed by age as follows:

	31 st March 2016 £'000	31 st March 2017 £'000
Less than three months	94	174
Three to six months	64	9
Six months to one year	21	30
More than one year	67	77
Total	246	290

During the reporting period the Council held no collateral as security.

Liquidity risk

There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments as the Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB, whilst providing access to longer term funds, also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council manages its liquidity position through the risk management procedures outlined as well as through cash flow management procedures required by the Treasury Code of Practice.

The maturity analysis of financial assets is as follows:

	31 st March 2016 £'000	31 st March 2017 £'000
Less than one year	13,590	35,561
Between one and two years	3,027	3,819
Between two and three years	4,167	2,004
More than three years	4,334	4,010
Total	25,118	45,394

All trade and other payables (creditors) are due to be paid in less than one year and are not shown in the table above.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. To mitigate the longer term risk to the Council relating to managing the exposure to replacing financial instruments as they mature, the Council approves Prudential indicator limits and an annual Treasury Management Strategy.

The Financial Services team address the operational risks within the approved parameters, by;

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved maximum limits	Approved minimum limits	Actual 31 st March 2017	Actual 31 st March 2016	Actual
	%	%	£'000	£'000	%
Less than one year*	20	-	16,223	6,901	16
12 months to 2 years	30	-	22,683	14,216	23
Between 2 and 5 years	60	-	35,537	42,289	36
Between 5 and 10 years	60	-	19,106	27,572	19
Between 10 and 20 years	75	-	515	4,475	1
Between 20 and 30 years	75	-	512	515	1
Between 30 and 40 years	75	-	434	434	-
More than 40 years	75	-	3,766	512	4
Total*			98,776	96,914	100

* excludes short term borrowing less than 365 days.

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates – the fair value of the borrowing liability will fall;
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. A prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

The Financial Services team monitors market and forecast interest rates within the year to adjust exposures appropriately. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs. A 1% change in variable interest rates would be immaterial to the Council because it has no variable rate debt and a small value of variable rate investments.

Foreign exchange risk – Other than those sums held in Icelandic kroner (ISK) previously mentioned in Note 9, the Council has no financial assets or liabilities denominated in foreign currencies. In co-operation with other local authorities and legal advisors, the Council is examining options to facilitate the release of funds held in Iceland at the earliest opportunity. Fluctuations in foreign exchange values are, in part, mitigated by interest earned on these sums whilst held in escrow.

Note 42. Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Disposed of and the gains are realised.

2015/16 £'000		2016/17	
		£'000	£'000
(73)	Balance at 1 st April		(228)
(211)	Upward revaluation of investments	(68)	
157	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	135	
(101)	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	(124)	
(155)	Net Movement		(57)
(228)	Balance at 31 st March		(285)

Note 43. Provisions

Provisions represent amounts set aside to meet future liabilities which are likely or certain to be incurred but where it is not possible to determine exactly the amounts or timing of such events.

Provisions in respect of bad and doubtful debts are maintained, including amounts relating to rent, council tax and business rate arrears, which have been estimated in accordance with recommended practice and past experience and are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement. When payments are eventually made these are charged to the provision carried in the Balance Sheet.

Provision for Business Rate Appeals

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the business rates came into effect on 1st April 2013. Billing authorities acting as agents on behalf of the major preceptors (10%), central government (50%) and themselves (40%) are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

On 1st April 2016 the Council's provision for business rate appeals was £3.6m. During the course of the financial year £0.7m was charged to the provision for successful appeals in 2016/17 which have been previously provided for.

After reflecting the amounts charged to the provision in 2016/17, the Council carried out an assessment of the future risk of appeal losses. Following this, the 2016/17 overall provision in the business rates Collection Fund has been increased to £4.9m. Rugby Borough Council's 40% share of the total provision is £1.9m of which it is expected that £971,000 will be settled in the next twelve months and £1m in 2017/18 or later years.

Provision for Redundancy Costs

A provision has been included at 31st March 2017 to cover the redundancy costs of a post that was placed at risk prior to the end of the financial year. In addition, the probable cost of the restructure of the operational management of Waste Collection service has also been provided for.

During 2016/17 the opening balance relating to a post at risk at 31st March 2016 was also used in the year.

Provision for Management Restructure

At the end of 2015/16 a provision to recognise the probable cost of the Senior Management restructure included in the Accounts. The restructure was completed during 2016/17 and therefore the provision was used in the year.

	2016/17 Business Rates Appeals £'000	2016/17 Management Restructure £'000	2016/17 Redundancy £'000	2016/17 Total Provision £'000
Short – Term Provisions				
Balance at 1 st April	(262)	(160)	(14)	(436)
Amounts used in the year	301	160	14	475
Increase/decrease in provision	(1,010)	-	(87)	(1,097)
Balance at 31 st March	(971)	-	(87)	(1,058)
Long – Term Provisions				
Balance at 1 st April	(1,172)	-	-	(1,172)
Amounts used in the year	-	-	-	-
Increase/decrease in provision	166	-	-	166
Balance at 31 st March	(1,006)	-	-	(1,006)
Total	(1,977)	-	(87)	(2,064)

Note 44. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in the accounts.

Contingent Assets A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but are disclosed in the accounts where it is probable that there will be an inflow of economic benefits or service potential.

There are no material contingent liabilities or assets to disclose for 2016/17.

Note 45. Events after the Reporting Period

Events taking place after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Accounts are authorised for issued. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of 2016/17 – the Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the 31st March 2017 – the Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made of the nature of the event and their estimated financial effect.

Disclosure

In June 2017 the Council accepted the Central Bank of Iceland's offer to purchase its assets that were held in an escrow account denominated in Icelandic Kroner. The Council received £610,000, representing a gain of £81,000 against the carrying value of £529,000 at balance sheet date.

This concludes all matters pertaining to the administration process of the former Icelandic bank, Glitnir hf.

In August 2017, working in partnership with a local Housing Association, the Council placed an offer to secure 22 affordable housing units from a developer on the Cawston Meadows site. If secured these properties will expand the Council's social housing stock, particularly in the much needed one and two-bedroom tenure.

HOUSING REVENUE ACCOUNT

Income and Expenditure Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2015/16		2016/17
£'000		£'000
	Income	
(16,732)	Dwelling Rents	(16,322)
(276)	Non-dwelling rents	(213)
(1,355)	Charges for services	(1,427)
(233)	Contributions towards expenditure	(256)
(18,596)	Total Income	(18,218)
	Expenditure	
3,328	Repairs and maintenance	3,007
4,218	Supervision and management	4,592
2	Rents, rates, taxes and other charges	2
0	Exceptional item full stock revaluation/change to regional adjustment factor	(39,540)
(2,697)	Depreciation and impairment of non-current assets	(1,289)
6	Debt management costs	24
50	Movement in allowance for bad debts	55
4,907	Total Expenditure	(33,149)
(13,689)	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement	(51,367)
229	HRA Share of Corporate and Democratic Core costs	210
(13,460)	Net Expenditure of HRA Services	(51,157)
1,365	Gain (-) / Loss on sale of HRA non-current assets	2,017
1,287	Interest payable and similar charges	1,324
(111)	Interest and investment income	(221)
241	Pension interest and expected return on pension assets	200
(8)	Capital grants and contributions receivable	(51)
(10,686)	Surplus (-) / Deficit for the year on HRA services	(47,888)

Movement on the HRA Statement

2015/16		2016/17
£'000		£'000
(2,725)	HRA revenue balance brought forward	(2,828)
(10,686)	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	(47,888)
5,627	Adjustments between accounting basis and funding basis under statute	49,924
(5,059)	Net increase or decrease (-) before transfers to or from reserves	(2,036)
4,956	Transfers to (-) or from earmarked reserves	(639)
(103)	Increase (-) / decrease in the HRA Revenue Balance	1,397
(2,828)	HRA revenue balance carried forward	(1,431)

Note to the Movement on the HRA Statement

	Adjustments between accounting basis and funding basis under statute	
(1,966)	Charges for depreciation and impairment of non-current assets	(2,703)
4,687	Revaluation losses(-) / gains on Property Plant and Equipment	43,601
(24)	Amortisation of intangible assets	(69)
(3,606)	Amounts of non-current assets written off on disposal or sale	(4,121)
2,241	Sale proceeds credited as part of the gain/loss on disposal	2,103
(8)	Transfer to Accumulated Absences account	-
988	Capital expenditure financed from revenue balances	1,014
9	Capital grants and contributions applied	51
(737)	Net charges made for retirement benefits (IAS 19)	(582)
3,759	Reversal of Major Repairs Allowance credited to the HRA	3,893
-	Statutory provision for the financing of capital investment	6,453
284	Employers Contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	284
5,627		49,924

	Transfers to or from (-) earmarked reserves	
(211)	Transfer to or from (-) Housing Repairs Account	323
5,167	Transfer to or from (-) HRA Capital balances	(1,014)
-	Transfer to or from (-) other earmarked reserves	52
4,956		(639)

Note 1. HRA Assets

The number and types of dwellings in the Council's housing stock is as follows:

2015/16		2016/17
2,180	Houses/Bungalows (including part-ownerships)	2,162
1,635	Flats	1,634
3,815		3,796

The change in the stock was as follows:

2015/16		2016/17
3,848	Stock at 1 st April	3,815
(35)	Less sales (including part-ownership)	(26)
(1)	Less removal from stock	-
-	Add: new build properties	-
3	Add: purchase of properties	7
3,815	Stock at 31 st March	3,796

The balance sheet includes Housing Revenue Account assets as follows:

2015/16 £'000		2016/17 £'000
	Balance Sheet values as at 31 st March	
129,293	Operational Assets: Dwellings	182,395
170	Operational Assets: Other Land & Buildings	790
149	Operational Assets: Equipment	278
685	Operational Assets: Infrastructure	704
724	Non-Operational Assets	76
-	Assets Under Construction	611
131,021		184,854

Note 2. Vacant Possession

2015/16 £'000		2016/17 £'000
378,428	Vacant Possession Value of Dwellings at April 2016 prices	454,446
(129,293)	Balance Sheet Value of Dwellings	(182,395)
249,135	Economic cost to Government	272,051

The vacant possession value of the dwellings is the equivalent of the market value of the properties.

For balance sheet purposes it is necessary to adjust this value in order to show the cost of the properties at social value. This represents a value for a property if it were sold with sitting tenants enjoying rents at less than open market rents and rights such as Right to Buy. The difference between the two values represents the economic cost to the Government of providing council housing at less than open market rents. An adjustment factor is provided by the Government, which measures the difference between market and local authority rents at a regional level. The adjustment factor for Rugby is set at 40%.

Note 3. Major Repairs Reserve

The Major Repairs Reserve is an earmarked reserve for the capital financing of the planned element of replacement expenditure on council houses. The Reserve earns interest on all balances which must also be used for this purpose.

2015/16 £'000		2016/17 £'000
(5,109)	Balance at 1 st April	(3,839)
(1,949)	Depreciation on non-current assets	(2,703)
(1,810)	Appropriations to/from HRA Revenue	(1,191)
(47)	Interest received	(31)
(8,915)	Sub-total	(7,764)
5,076	Capital financing	5,301
(3,839)	Balance at 31 st March	(2,463)

Note 4. Housing Repairs Account

2015/16 £'000		2016/17 £'000
(842)	Balance at 1 st April	(631)
(3,118)	Contributions during the year	(3,330)
3,329	Repairs and maintenance charged	3,007
(631)	Balance at 31 st March	(954)

Note 5(i). HRA Capital Expenditure and Financing

2015/16 £'000		2016/17 £'000
5,377	Council dwellings	6,017
701	Other assets	556
230	Housing Management Systems	46
17	Other expenditure	2
6,325	Sub-total	6,621
	Financed by:	
988	Direct Revenue Finance	1,014
9	Government Grant	51
-	S.106 Funding	-
252	Right to Buy Receipts	255
5,076	Major Repairs Reserve	5,301
6,325		6,621

Note 5(ii). HRA Capital Receipts

2015/16 £'000		2016/17 £'000
2,241	Sales of Council Houses under Right to Buy (RTB)	2,080
10	RTB Discounts repaid	-
7	Council House Mortgage Principal Repayments	-
2,258		2,080

Note 6. Depreciation of Property Plant and Equipment

2015/16 £'000		2016/17 £'000
	Operational Assets	
1,871	Dwellings, other land, buildings	2,633
75	Equipment	49
20	Non-operational assets	21
1,966		2,703

A full valuation of the stock has to be undertaken every 5 years. The latest one was carried out as at 1st April 2016. The results have been incorporated into the values shown in the balance sheet.

Note 7. Contribution to/from Pensions Reserve

The HRA share of IAS19 *Employee Benefits* pension adjustments is based on the number of employees charged to the HRA. Also see Note 37 Pension Costs and Note 38 Pensions Reserve.

Note 8. Tenant Arrears

During 2016/17 rent arrears as a proportion of gross rental income have changed from 3.60% of the amount due to 3.80%. The figures, excluding service charges and debts of up to three weeks are as follows:

2015/16 £'000		2016/17 £'000
485	Arrears of current tenants (not including current weeks)	471
109	Arrears of former tenants	165
594	Total tenants arrears at 31 st March	636

Bad Debts

The total provision for bad debts was £194,730 (as at 31st March 2017). Amounts actually written off during the year totalled £23,270. The level of bad debt provision is calculated with reference to the HRA (Arrears of Rents and Charges) Directions 1990. An analysis of the Bad Debt Provision Account is as follows:

2015/16 £'000		2016/17 £'000
(187)	Balance at 1 st April	(163)
74	Write off	23
(50)	Provision made in the year	(55)
(163)	Balance as at 31 st March	(195)

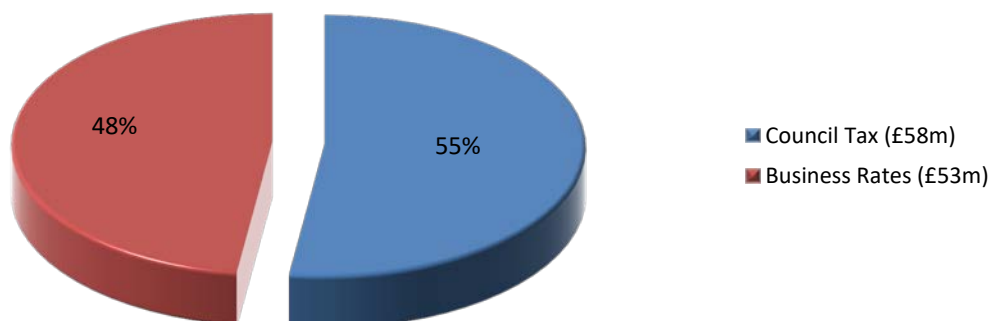
COLLECTION FUND STATEMENT

As a billing authority the Council acts as an agent collecting council tax and business rates (national non-domestic rates) on behalf of the major preceptors, Central Government and itself.

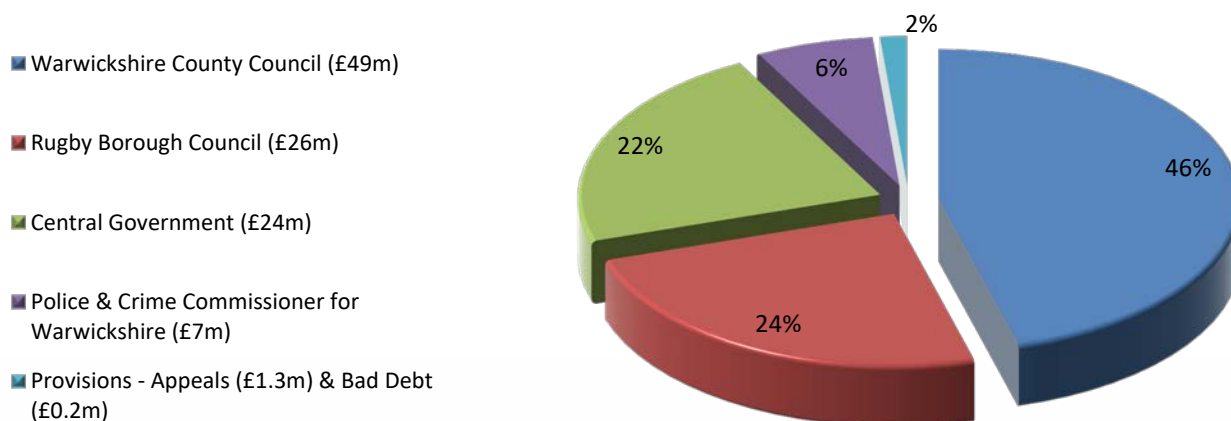
Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted. Transactions and balances in respect of council tax and business rates therefore need to be allocated between the billing authority, major preceptors and Central Government, in accordance with the proportionate shares set out in legislation.

The Council's share of council tax income and retained business rate income alongside the related business rates tariff payment and levy payment will be recognised in the Comprehensive Income & Expenditure Statement in the line Taxation & Non-Specific Grant Income. The difference between the business rate and council tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserve Statement.

2016/17 Collection Fund Income £111m



2016/17 Collection Fund Expenditure £107m

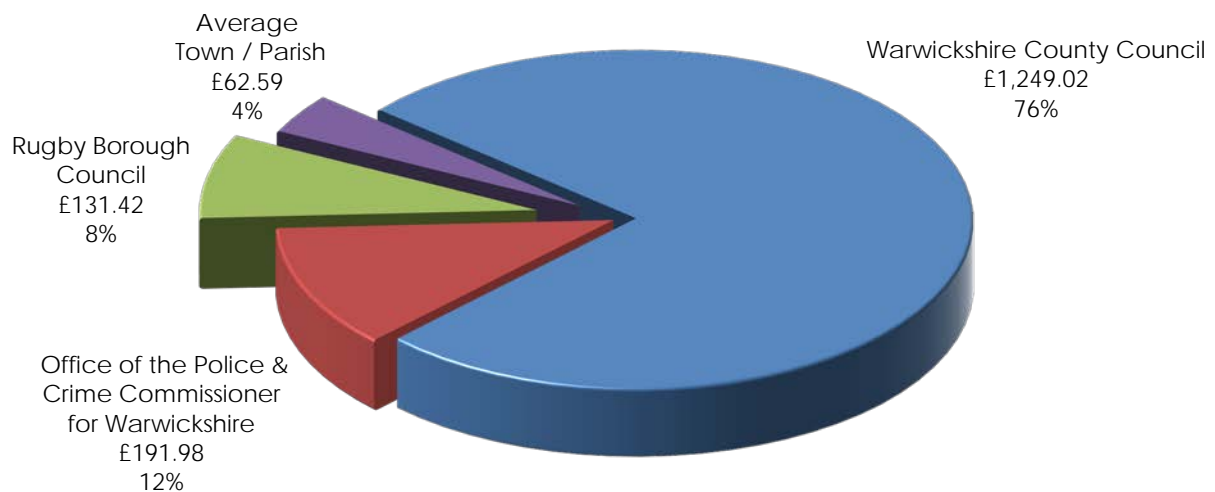


2015/16 Total £'000		2016/17 Business Rates £'000	2016/17 Council Tax £'000	2016/17 Total £'000
	INCOME			
(54,866)	Council Tax Receivable	-	(57,882)	(57,882)
(45,321)	Business Rates Receivable	(49,351)	-	(49,351)
-	Transitional Protection Payments Receivable	-	-	-
(100,187)		(49,351)	(57,882)	(107,233)
	Contribution to Previous Year Estimated Deficit			
-	Central Government	(1,853)	-	(1,853)
-	Warwickshire County Council	(370)	-	(370)
-	Rugby Borough Council	(1,482)	-	(1,482)
-	Office of the Police and Crime Commissioner for Warwickshire	-	-	-
-		(3,705)	-	(3,705)
(100,187)	Total Income	(53,056)	(57,882)	(110,938)
	EXPENDITURE			
224	Transitional Protection Payments	3	-	3
	Distribution of Previous Year Estimated Surplus			
104	Central Government	-	-	-
607	Warwickshire County Council	-	748	748
177	Rugby Borough Council	-	118	118
92	Office of the Police and Crime Commissioner for Warwickshire	-	117	117
980		-	983	983
	Precepts, Demands and Shares			
23,193	Central Government	23,720	-	23,720
45,649	Warwickshire County Council	4,744	43,431	48,175
24,983	Rugby Borough Council	18,976	6,746	25,722
6,427	Office of the Police and Crime Commissioner for Warwickshire	-	6,675	6,675
100,252		47,440	56,852	104,292
	Charges to Collection Fund			
437	Less: write offs of uncollectable amounts	55	144	199
(6)	Less: Increase / Decrease (-) in Bad Debt Provision	(8)	8	-
1,383	Less: Increase / Decrease (-) in Provision for Appeals	1,358	-	1,358
137	Less: Cost of Collection	137	-	137
1,951		1,542	152	1,694
103,407	Total Expenditure	48,985	57,987	106,972
	Movement on Fund			
3,220	Surplus (-) / Deficit arising during the year	(4,071)	105	(3,966)
(300)	Surplus (-) / Deficit arising at 1 st April	3,862	(942)	2,920
2,920	Surplus (-) / Deficit arising at 31 st March	(209)	(837)	(1,046)

Notes to the Collection Fund Statement

Note 1. Council Tax

The Council is required to calculate a tax base each year and this is divided into the total precept requirement for Warwickshire County Council, Office of the Police and Crime Commissioner for Warwickshire and the Borough Council to produce the band D council tax figure of **£1,635.01** for 2016/17.



The tax base is calculated by estimating the number of chargeable dwellings in each valuation band, taking into account an estimate of additions and deletions during the year, and adjusted for the effects of various reliefs, exemptions and discounts, where applicable.

This is converted to an equivalent number of band D dwellings. Finally, an adjustment is made to cover non-collection of arrears. A summary of the calculation is shown below.

Band	No. of Chargeable Dwellings	Ratio	Band D Equivalent
A-	7.69	5/9	4.27
A	5,448.39	6/9	3,628.63
B	8,586.06	7/9	6,671.37
C	9,218.20	8/9	8,185.76
D	5,363.69	9/9	5,363.69
E	4,070.44	11/9	4,974.08
F	2,579.00	13/9	3,724.07
G	1,471.49	15/9	2,451.50
H	65.56	18/9	131.12
			35,134.49
		Less allowance for non-collection	(491.88)
		Contributions in lieu (MOD properties)	129.10
		COUNCIL TAX BASE 2016/17	34,771.71

(Band A- relates to a reduction for persons with disabilities on Band A)

The tax base multiplied by the average band D council tax of £1,635.01 provided an original estimate of income, including council tax benefit, of £56,852,126 for 2016/17. The actual income for 2016/17 was £57,882,624 thus exceeding expectations by 1.8%

Note 2. Business Rates (National Non-Domestic Rates)

The Business Rates Retention scheme provides for non-domestic rates collected by a billing authority to be shared between it, its major precepting authority and central government.

The Council collects non-domestic rates for its area, based on local rateable values multiplied by a national rate. The total rateable value for the Rugby Borough area was £114,162,057 at 31st March 2017 (£111,262,579 in 2015/16). The non-domestic rating multiplier for 2016/17 was 49.7p (49.3p in 2015/16) and the small business non-domestic rating multiplier was 48.4p (48.0p in 2015/16).

Note 3. Collection Fund Balance Apportionment

The Collection Fund balance as at 31st March 2017 will be split between the authorities and recovered in 2018/19 in the following proportions:

2015/16 Total £'000		Council Tax 2016/17 £'000	Business Rates 2016/17 £'000
1,931	Central Government	-	(104)
(331)	Warwickshire County Council	(639)	(21)
(113)	Office of the Police and Crime Commissioner for Warwickshire	(99)	-
1,433	Rugby Borough Council	(99)	(84)
2,920		(837)	(209)

The Balance Sheet as at 31st March 2017 will include a net debtor for each of the precepting authorities' share of the Collection Fund surplus.

The Council's share of the overall surplus on the Collection Fund of £183,000 is recognised in the Comprehensive Income and Expenditure Statement in 2016/17, but reversed out to the Collection Fund Adjustment Account in the Movement in Reserves Statement.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of income from council tax and business rates in the Comprehensive Income and Expenditure Statement as it falls due compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Total		Council Tax	Business Rates	Total
2015/16		2016/17	2016/17	2016/17
£'000		£'000	£'000	£'000
136	Balance at 1 st April	(112)	1,545	1,433
1,297	Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements.	13	(1,629)	(1,616)
1,433	Balance at 31 st March	(99)	(84)	(183)



INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Members of Rugby Borough Council

We have audited the financial statements of Rugby Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes (which include the Expenditure and Funding Analysis). The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Corporate Resources and Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Head of Corporate Resources and Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Corporate Resources and Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Grant Patterson

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
Colmore Plaza
Birmingham
B4 6AT

29 September 2017

ANNUAL GOVERNANCE STATEMENT 2016/17

1. SCOPE OF RESPONSIBILITY

- 1.1 Rugby Borough Council is responsible for ensuring that it conducts its business in accordance with the law and proper standards. Public money must be used economically, efficiently and effectively, safeguarded and properly accounted for. The Council must have in place proper governance arrangements and carry out its functions effectively, including suitable risk management arrangements.
- 1.2 The Council must conduct a review, at least once a year, of the effectiveness of its system of internal control and report the findings in an annual governance statement. The statement must be prepared in accordance with proper practices and be reported to a Committee of Councillors. This document comprises the Council's annual governance statement for 2016/17.

2. WHO IS RESPONSIBLE FOR ENSURING GOOD GOVERNANCE?

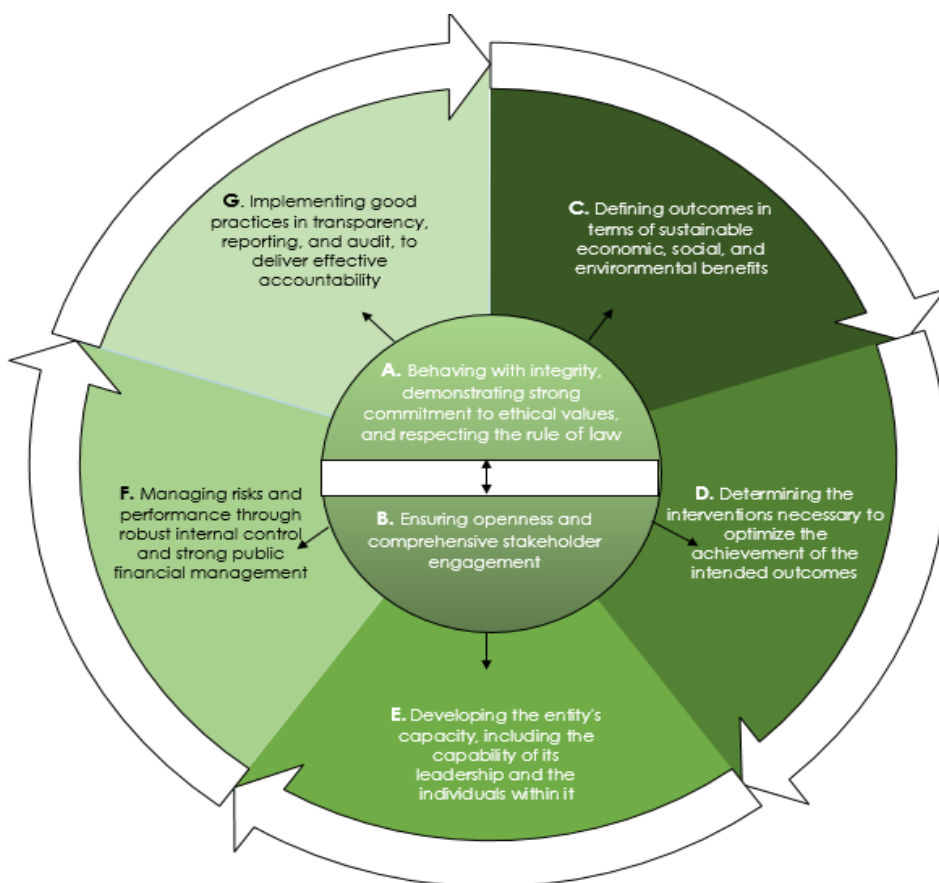
- 2.1 The Council's governance arrangements are overseen by the Audit & Ethics Committee. The Executive Director has overall responsibility for ensuring that effective controls and processes are implemented across the Council and these are regularly reviewed and updated. Regular reports are submitted to the Audit & Ethics Committee highlighting any identified enhancements. The Head of Corporate Resources and Chief Finance Officer (s151 Officer) is responsible for ensuring that effective financial controls are in place, for the maintenance of an effective internal audit function and for reviewing the overall effectiveness of the governance framework. The overview and co-ordination of this process is undertaken by the Corporate Assurance and Improvement Manager.

3. WHAT THIS STATEMENT TELLS YOU

- 3.1 This Statement provides a summarised account of how the Council's management arrangements are set up to meet the principles of good governance set out in the Constitution and how assurance is obtained that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year, how effective that framework has been in enabling the Council to achieve its intended outcomes, and to identify any improvements made and any weaknesses or gaps in arrangements that need to be addressed. Its main aim is to provide the reader with confidence that the Council is managed effectively and efficiently; that services are delivered in accordance with current legislation, the corporate strategy and in a way that optimises value for money.

4. THE PRINCIPLES OF GOOD GOVERNANCE

- 4.1 The principles of good governance are set out in the new CIPFA Framework for Delivering Good Governance in Local Government 2016. The new framework is different in a number of ways, in particular the positioning of the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. This statement explains how the Council has complied with the new framework and also meets the requirements of the Accounts and Audit Regulations 2015 (England).
- 4.2 Good governance is dynamic, and the Council is committed to improving its governance on a continuing basis through a process of evaluation and review. The diagram below, taken from the International Framework for Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.



Principles A and B permeate implementation of principles C to G

5. THE GOVERNANCE FRAMEWORK

- 5.1 The governance framework comprises the policies, plans, systems, processes, culture and values (the system of 'internal control') that the Council has in place to ensure its intended outcomes for stakeholders and the community are defined and delivered. To deliver good governance objectives must be achieved whilst also acting in the public interest. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 5.2 The governance arrangements are designed to ensure that an appropriate and proportionate approach is taken to managing risk whilst ensuring that objectives are achieved. The governance framework has been in place for the year to the date of approval of this annual governance statement. The arrangements are not designed to eliminate all risks but rather provide a reasonable degree of assurance of effectiveness.
- 5.3 The governance framework and an assessment of its effectiveness are set out on the following ten pages.

PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Arrangements in place

- Member and officer codes of conduct
- Confidential Reporting Code
- Counter Fraud, Bribery and Corruption Strategy
- Fraud Response Plan
- Contract Standing Orders
- Declaration of interests procedure
- Register of interests
- Register of gifts and hospitality
- Customer feedback and complaints procedure
- Equalities & Diversity policy statement
- Information security policies and a Chief Information Officer in post
- Newly updated corporate values which all employees are expected to act in accordance with
- Recruitment/ selection procedures aligned with corporate values
- A new standard template has been developed for 1 to 1 meetings between managers and staff, ensuring that corporate values are embedded and adhered to
- An internal audit review has been scheduled in 2017/18 to provide assurance that corporate values are embedded across the organisation
- The Council participates in the National Fraud Initiative
- Delivery of fraud and corruption awareness training
- Any planning applications submitted by staff are reviewed in public
- Agenda management sheets of Council reports include a requirement to highlight the legal implications of decisions
- Records of regulatory training required and undertaken are retained on the Council's HR system

Effectiveness and future developments

A revised Counter Fraud Strategy and Fraud Response Plan were implemented during 2016/17 which has led to a more consistent approach to investigation of irregularities across the Council and improved awareness amongst staff. Furthermore, dedicated time has been set aside within the internal audit work plan to ensure that resources are available to thoroughly investigate any allegations and to enable proactive risk based testing to be conducted during the year.

New corporate values were developed in full consultation with almost 200 employees involved in their development. There is a high commitment to embedding the values across the organisation. A behaviours document will be issued to all officers and compliance will be mandatory. Rolling licensing committee training has been provided to members leading to a clearer evaluation of prosecution cases. Regulatory training has been provided to planning committee members leading to a greater awareness and understanding when making decisions, leading to a reduction in appeals.

The feedback and complaints procedure is robust, however at present there is formal analysis of feedback undertaken to identify common themes or issues for which lessons may need to be learnt across the organisation. Furthermore, positive feedback is not always celebrated and recognised in a consistent manner.

See Action 1.

The Council's information security procedures are comprehensive but the new General Data Protection Regulations take effect in May 2018 and steps need to be taken to implement and embed the regulations across the Council. **See Action 2.**

The Council's voluntary and community grants working party has issued approximately £250,000 in funds to benefit our citizens and communities. Applications are subject to a consistent evaluation process. Outcomes are clearly defined in Service Level Agreements and delivery is monitored.

PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement

Arrangements in place

- The Council publishes a range of information including meeting agendas and reports, financial and procurement data, invitations to tender, senior officer salaries, the contracts register, annual governance statement and financial statements, corporate performance information, planning applications and decisions and section 106 agreements.
- The strategic risk register is scrutinised by the Audit & Ethics Committee with open reporting to Cabinet.
- The Council consults widely and comprehensively with stakeholders on its proposals. Wider engagement takes place via the West Midlands Combined Authority and the Local Enterprise Partnership.
- There is a Scrutiny Committee work programme in place, with members of the public invited to recommend topics and attend annual work planning meetings.
- A Forward Plan is in place setting out what consultation will be undertaken in advance of decisions being made, and with whom.
- The Council has retained its Equality & Diversity "excellent" accreditation and Equality Impact Assessments are completed for Council decisions.
- Communications strategy in place
- Customer feedback and complaints procedure
- Active engagement with employees takes place in a number of ways including through a bi-annual survey, regular employee briefings, core briefs, and the corporate management forum and through the Joint Union Consultation Forum.

Effectiveness and future developments

On May 24th 2017 the Council was reaccredited as "excellent" under the equalities framework for local government, the first and only district Council to have achieved the reaccreditation.

The Council uses a range of approaches to engage with communities including through associations, forums, leafletting, parish councils, drop in events, Facebook, our website, surveys, and face to face. There is a contract with language line to support any face to face communication issues and the Council accesses the Warwickshire County Council interpretation and translation service to translate written documents.

The Council is a partner of Warwickshire Observatory, which provides information and intelligence about Warwickshire and its people. The information provided was used to inform the Council's vision for Rugby Town Centre and to inform the development of the Corporate Strategy for 2017-20. The information is also used by staff when completing Equality Impact Assessments, which helps to ensure that decisions are taken after due consideration of the impacts across the community.

There is an annual 'Our Rugby, Our Future' event which enables voluntary and community sector and statutory partners to contribute their views on progress on the Regeneration Strategy priorities and amend them as appropriate. This informs the work which is undertaken with community partners.

Consultation is also undertaken with staff and trade unions in developing employment policies. During 2016/17 there was consultation on proposed changes to staff terms and conditions; staff were kept informed of progress and amendments were made to the proposals as a result.

Cross party working parties are operated as an additional measure which ensures engagement with all members on key Council decisions.

As part of the strategy of ensuring the Council is fit for the future, residents helped shape changes to the way the housing warden service is delivered. This resulted in improved service resilience and consistency of service quality whilst delivering greater efficiency and value for money. Furthermore, the residents' panel and housing association champions provide greater community involvement and shaping of decisions which concern them.

In Brownsover, funding has enabled the delivery of a job club – the Brownsover Buddy Club – in partnership with Christ Church, Benn Partnership Centre and Boughton Leigh Children's Centre. The Club delivers 2 sessions per week with activities including training in the use of computers and on-line adult learning. Over 150 local residents have been supported, the majority of whom have found employment as a result.

PRINCIPLE C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Arrangements in place

- A new Corporate Strategy was approved which was subject to a public consultation exercise
- Medium Term Financial Plan is regularly reviewed and updated
- Cabinet and Committee reports set out the impact of changes on stakeholders
- Strategic and operational risk registers are in place, and a register of corporate risks will be developed in 2017.
- A "clean" Value for Money opinion was received from the external auditors in 2016.
- As part of plans to ensure the Council is fit for the future, decisions are being taken for the long term including implementation of green waste charges, digitalisation of services and internal processes, a forward plan for the Rugby Art Gallery and Museum, and through the commercialisation agenda.
- The Council consults widely on its proposals considering the economic, social and environmental impacts of plans, policies and decisions.
- There is a clear vision for Rugby Town Centre including an action plan and marketing plan.

Effectiveness and future developments

It was a successful year for the borough's parks and open spaces; Rugby gained a gold award in both the regional Heart of England in Bloom and the National Britain in Bloom campaigns. The Council received 5 Green Flag awards including Caldecott Park and Centenary Park, with the latter being recognised as the most improved park in the country by the Fields in Trust. Funding was secured from the Woodland Trust to plant over 28,000 trees and the Council supported over 8,000 hours of volunteer activity on its green spaces.

As an indicator of its success the Play Team resources have been significantly increased in order to accommodate demand. The service helps local schools to deliver their healthy schools agenda by running breakfast clubs where healthy eating and physical activity are encouraged. Park sessions are run with families to encourage them to use the green spaces in the local area and young people are stakeholders in the design of play facilities. The service also runs youth clubs for children.

In the Benn Ward area local residents were educated to take responsibility for their own waste; residents are now taking the lead in ensuring the area is kept clean. In March 2017 the Council launched a new campaign to crackdown on fly tipping and in 2016 more than 1,400 fly tipping incidents were dealt with.

The Council delivered a number of improvements to enhance the public realm of the Town Centre including replacement and refurbishment of timber benches, improvements to car park lighting, and replacement of town centre car park pay and display machines.

Through the Council's on-going crime and disorder initiatives serious violent crime was reduced by 7.5%, domestic burglary was reduced by 9% and every Council supported victim of anti-social behaviour saw a reduction in their vulnerability.

In January 2017 work commenced to improve a flood-prone stretch of the Great Central Way footpath and cycle way between the Clifton Road bridge and Hillmorton's Pytchley Road.

The Rugby Multilink project was also launched, offering free advice and support to the Polish speaking community. The project links established Polish speaking residents with new residents in need of help and support.

PRINCIPLE D: Determining the interventions necessary to optimise the achievement of intended outcomes

Arrangements in place

- We manage performance through local and management performance indicators; this enables intervention to be targeted where it is needed.
- The service planning process is designed to ensure that we target the actions necessary to deliver our Corporate Strategy.
- The corporate performance management system (RPMS) is used to monitor the delivery of action plans.
- Following a restructure of the senior management team in 2016 there are now four distinct service areas and a dedicated member portfolio holder for each service.
- Committee and Cabinet reports set out the risks and options associated with decisions.

- A "clean" Value for Money opinion was received from the external auditors in 2016 and the Contract Standing Orders and financial instructions are designed to ensure best value.
- Quarterly finance and performance reports are submitted to and reviewed by Cabinet.
- An annual budget report is submitted and there is an established budget setting process.
- The Medium Term Financial Plan is regularly reviewed and updated.
- The Council consults widely on its proposals considering the economic, social and environmental impacts of plans, policies and decisions.
- There is a Forward Plan of key decisions and a scrutiny committee arrangement in place.
- A customer feedback and complaints procedure is in place.

Effectiveness and future developments

Together with the Newbold-on-Avon Community Partnership the Council transformed a former allotment site on Parkfield Road into a flagship green space with a sensory garden, wildlife zones, a butterfly bank, picnic area and nature trail.

The Council led a partnership bid from the Warwickshire Together Homelessness Early Intervention Project to secure a £855,000 grant from the Department for Communities and Local Government's Homelessness Prevention Trailblazers fund.

As part of the corporate strategy the Council continued to facilitate investment and growth in Rugby. This is evidenced by the commencement of a new community development at the site of the old Rugby Radio Station, the granting of planning permission for phase 2 of the Elliott's Field retail park and the launch of new promotional branding for the town centre. The Council received the best 'Small Business Friendly' award at the Federation of Small Business' annual Local Authority awards.

Difficult decisions were taken during 2016/17 to ensure that the Council is financially fit for the future, including the introduction of green waste collection charges. These decisions enabled the Council to continue presenting a sustainable balanced budget and will enable highly valued local services to be preserved whilst delivering the outcomes set out in the corporate strategy.

Whilst service planning is embedded in the Council's approach to achieving its corporate strategy, delivery of associated action plans is not closely monitored and there is scope to directly link our key performance measures back to the outcomes set out in the strategy. **See Action 3.**

The Council continued to implement systems thinking reviews. These reviews involve challenging existing internal processes and are focussed on improving the customer experience. An example of a successful outcome was the housing review which led to a reduction in the number of customer complaints and an increase in the number of compliments.

The Council brokered agreements with key community groups in the five most deprived neighbourhoods in the Borough. This enabled the provision of core funding towards the running of community centres and delivery of other community priorities.

PRINCIPLE E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Arrangements in place

- Each member of the senior management team undertakes professional development appropriate to their role.
- The respective roles of the Executive Director and Leader are clearly defined.
- The senior management team meets formally every two weeks and informally every week and Cabinet meets on a regular basis.
- Section 151 (Chief Finance) and Monitoring Officers are in post.
- The Constitution sets out roles and responsibilities and the Council's decision making process. An approved scheme of delegation is in place. Contract Standing Orders and associated toolkits are designed to ensure procurement activity is cost effective and ethical.
- Registers of gifts, hospitality and conflicts of interest in place.
- Protocol in place setting out the relationship between and roles of members and officers.
- Member training and development programme in place including dedicated training for planning and licensing committee members.
- Thorough induction processes are in place for all new employees and members, linked to the corporate values.
- Job profiles clearly set out the responsibilities of officers throughout the organisation.
- Learning and Development Strategy and Corporate Learning Group in place.
- There is a system of regular team meetings and one to one meetings between managers and staff.
- Employee health and wellbeing days are arranged and confidential employee counselling support is available at all times.
- A comprehensive suite of training and development courses is offered to all employees.
- All managers are expected to complete the "Way We Manage" training programme.
- Corporate Management Forum in place.
- The Council has a comprehensive suite of HR policies covering employee capability, disciplinary, recruitment and selection, disciplinary and grievance, and flexible working.
- An established Corporate Apprenticeship Scheme.

Effectiveness and future developments

Due to the challenging financial climate, there was a restructure of the senior management team in 2016. As a result the Council now has four portfolio holders who form the Cabinet along with the Leader. Following the restructure the Council now has one Executive Director and four Heads of Service aligned with the portfolios. The restructure provided savings of circa £200,000 per year.

The Council has a Corporate Apprenticeship scheme and there have been 24 apprentices since the scheme started. The apprentices provide a range of valuable support to various Council services whilst undergoing a structured programme of self-development.

Over 100 managers have completed the Council's "Way We Manage" corporate training programme. This is a significant investment in the workforce. The training includes governance issues such as financial management, performance management, health and safety and procurement procedures.

A more consistent format has been developed for one to one meetings between managers and staff. A standard formal agenda will be issued which will enable staff development needs to be identified and addressed throughout the year rather than at six monthly intervals.

As part of a wider review of the Constitution and given that there is no longer a Standards Board, in 2017 the Council will review, update and communicate our protocol for member/ officer relations. **See Action 4.**

An employee health and wellbeing day was held in March 2017 at which staff were offered free mini health checks including blood pressure and cholesterol, taster massage and reflexology sessions, financial advice and access to a wealth of health information. This event is run annually.

PRINCIPLE F: Managing risks and performance through robust internal control and strong public financial management

Arrangements in place

- The Council has a risk management strategy in place which is reviewed and refreshed annually. Strategic and operational risk registers are in place. Senior management, Audit & Ethics Committee, Cabinet, Strategic Risk Management Group, and the Health & Safety Members Working Party, all oversee the risk management arrangements.
- A regular risk assessment of the Council's financial reserves and balances is conducted. Key risks are identified and the financial impacts are quantified. Reserves are reviewed annually in the context of the risk assessments.
- Financial information is published on a regular basis and established and embedded budget setting and monitoring procedures are in place.
- Cabinet and Committee system in place including two scrutiny committees and an Audit & Ethics Committee with independent Chair and Vice Chairs.
- Counter fraud strategy, fraud response plan and confidential reporting code in place.
- The internal audit service provides an independent and objective annual report and opinion.
- In 2017 work will be completed to align service planning and KPIs to the new Corporate Strategy.
- A corporate system is used to monitor, manage and report performance and conduct verification checks on the quality of our data. Performance data is reported quarterly to Cabinet and is reviewed by a scrutiny committee.
- Data sharing protocols are in place covering, for example, the HEART service, Trailblazer and the County Counter Fraud Initiative.

Effectiveness and future developments

The Council realised a General Fund underspend of £403,010 for the year. A further £5 million was invested in the borough's housing stock by replacing windows and doors in over 1,350 properties, replacing 126 gas central heating systems and 123 kitchens. The time taken to fill an empty housing property was reduced from 39 days to 26. This reduction equated to increased rental income of circa £50,000.

The annual report of the Corporate Assurance and Improvement Manager provides a Substantial level of assurance that the Council has an adequate and effective control environment in place. An internal audit review of corporate Health & Safety, however, resulted in only Limited assurance. A full action plan was agreed with management and delivery is being monitored by internal audit, senior management, and the health & safety members' working party and by the Audit & Ethics Committee.

An internal audit service improvement plan was delivered during 2016/17. This included full implementation of Risk Based Internal Auditing (RBIA) which is recognised as best practice. The work of internal audit has been aligned more closely with the aims and risk profile of the organisation and the service is responsive to emerging issues and risks. Linkages between the results of internal audits, the associated risks and actions have been enhanced.

A full review and update of corporate performance indicators was completed during the year to ensure that measures are relevant to the needs and objectives of the organisation.

Cabinet approved a new Anti-Fraud, Bribery and Corruption Strategy in 2016/17 in addition to a Fraud Response Plan. Training was provided to managers in April 2017 and in support of the strategy fraud risks were assessed by internal audit with actions put in place where necessary.

A review of operational risk registers highlighted a number of risks which cut across service areas and which need to be considered at a corporate level. Officers will develop a corporate risk register in 2017 to ensure these risks are effectively managed through our Strategic Risk Management Group. **See Action 5.**

PRINCIPLE G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Arrangements in place

- A range of information is published including an annual report of internal audit, the financial statements, the annual report of external auditor and this annual governance statement, which contains an action plan demonstrating a commitment to continuous improvement.
- All reports are subject to a robust internal review process to ensure they are presented in an understandable style.
- The performance information set out in the financial statements is prepared in consideration of the presentational approach adopted by other similar authorities.
- There is an open data section on the Council's website.
- Implementation of external audit recommendations is monitored by the Financial Services Manager and Deputy Section 151 officer.
- Implementation of internal audit recommendations is monitored by the Corporate Assurance and Improvement Manager and reported to senior management and the Audit & Ethics Committee.
- The Corporate Assurance and Improvement Manager is provided with direct unfettered access to the Chair and Vice Chairs of the Audit & Ethics Committee.
- The Council submits itself to external peer reviews including by the Local Government Association, and in May 2017 welcomed an equalities and diversity peer review and challenge. Action plans arising from these reviews are monitored by the senior management team.

- An internal audit review of governance arrangements for jointly managed organisations and partnerships is scheduled for 2017.
- Invitations to tender are published.

Effectiveness and future developments

As outlined in the action plan arising from last year's annual governance statement, the contracts register was updated and published. Details of senior officer salaries were also published.

The Annual Audit Letter for 2015/16 provided assurance over the Council's financial control and overall governance arrangements.

The presentation of the Council's financial statements was redesigned for 2016/17 to make them easier to read and for stakeholders to understand. The design of this annual governance statement has also been updated to make it easier to read, and it has been prepared in line with good practice guidelines published by the Chartered Institute of Public Finance & Accountability (CIPFA). Furthermore, the draft financial statements and annual governance statement are being published one month earlier than previous years; this provides stakeholders with more timely information and new publication timetables have been met a year ahead of schedule.

In May 2017 the Council welcomed an external review which resulted in it being the first and only district authority to be reaccruited as "excellent" under the equalities framework for local government.

An internal audit review of the Council's governance arrangements for jointly managed organisations and partnerships has been scheduled for 2017. In line with recommended practice the results of this review will be published. **See Action 6.**

Whilst the Council's corporate performance information is published within Cabinet and scrutiny committee reports and in the financial statements, in 2017 this information will be made easier for stakeholders to access because it will be added to the open data section of the website. **See Action 7.**

In September 2017 the internal audit service will partake in an independent external quality assessment. The results will be reported to senior management and the Audit & Ethics Committee and the service improvement plan will be updated to reflect the results of the review. **See Action 8.**

6. PROGRESS ON DELIVERY OF LAST YEAR'S ACTION PLAN

	Improvement Action	Assessment of Progress
1	Production of the detailed Medium Term Financial Plan (MTFP) for 2017-21	Completed The MTFP was presented alongside the proposed budget for 2017/18.
2	Development of Business Continuity Plans for critical services	Not completed This action has been on hold pending a review of the structure of corporate health and safety and resilience service. Expected completion December 2017. See Action 9
3	Completion of self-assessment against the Equalities Framework for Local Government	Completed Following an external review the Council was reaccredited as "excellent" under the framework.
4	Review and update of the Constitution to reflect the restructure of the Council's senior management team	In progress This has now formed part of a wider review and update of the Constitution expected to be complete by November 2017. See Action 10
5	Introduction of a dedicated governance forum	In progress The format of the forum was discussed at the Strategic Risk Management Group in April 2017 and following consideration by senior management it will be introduced by December 2017. See Action 11
6	Review and update of the Code of Conduct for Officers	In progress This is being aligned with the review and update of the Constitution. See Action 10
7	Fully implement and embed the new Anti-Fraud, Bribery and Corruption Strategy	In progress Significant progress has been made. Risk exposures have been assessed, a response plan has been developed and training provided to managers. Further training will be provided to members and individual teams. See Action 12
8	Review, update and publication of the Confidential Reporting Code	Completed Will be published alongside the updated Constitution.
9	Complete the review, update and publication of the Contracts Register	Completed Updated register published in February 2017.
10	Update the published details of senior officer salaries on the Council's website	Completed Updated details published in December 2016.
11	Fully implement the Internal Audit service improvement plan, including Risk Based Internal Auditing (RBIA)	Completed Progress was regularly reported to the Head of Corporate Resources and Chief Finance Officer, and Audit & Ethics Committee during 2016.
12	Complete the review and streamlining of the Council's suite of performance indicators	Completed Review completed in March 2017. Further work planned in 2017 to align key performance measures with the new corporate strategy.

7. UPDATED ACTION PLAN

	Action	Lead officer	Target completion date
1	Update the feedback and complaints procedure, ensuring that: <ul style="list-style-type: none"> • Common themes are identified for which lessons may need to be applied across the Council; and • There is a common approach to recognising and celebrating positive feedback from customers. 	Executive Director	December 2017
2	Implement and embed compliance with the new General Data Protection Regulations.	Executive Director	May 2018
3	Review and update the service planning process, ensuring that delivery of action plans is monitored and that there are clear linkages between key performance measures and the outcomes envisaged in the corporate strategy.	Head of Corporate Resources and s151 Officer	September 2017
4	Review, update and communicate the protocol for member/ officer relations	Executive Director	November 2017
5	Develop a corporate risk register; ensuring risks are effectively managed through the Strategic Risk Management Group.	Head of Corporate Resources and s151 Officer	December 2017
6	Complete and publish the review of governance arrangements for jointly managed organisations and partnerships.	Head of Corporate Resources and s151 Officer	March 2018
7	Add corporate performance information to the open data section of the Council website	Head of Corporate Resources and s151 Officer	December 2017
8	Report the results of the internal audit external quality assessment to the Audit & Ethics Committee and update the service improvement plan to reflect the results of the assessment.	Head of Corporate Resources and s151 Officer	November 2017
9	Develop Business Continuity Plans for critical services	Executive Director	December 2017
10	Review and update of the Constitution, including the Code of Conduct for Officers	Executive Director	November 2017
11	Introduce a dedicated governance forum, ensuring that any emerging governance issues are reviewed and addressed during the year.	Executive Director	December 2017
12	Fully implement and embed the new Anti-Fraud, Bribery and Corruption Strategy, including provision of further training to members and individual teams	Head of Corporate Resources and s151 Officer	March 2018

8. SUMMARY, CONCLUSION AND CERTIFICATION

- 8.1 Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people in the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance the Council will struggle to deliver the outcomes set out in the corporate strategy.
- 8.2 This statement has been considered by the Audit & Ethics Committee, which was satisfied that it is an accurate reflection of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A number of future developments have been highlighted and these are specifically addressed within the Action Plan.
- 8.3 The Council is satisfied that its overall governance framework provides a substantial level of assurance of effectiveness, although a number of further development areas have been highlighted. Delivery of the Action Plan will be monitored during 2017/18.
- 8.4 Our overall assessment is that the Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the Council to ensure an effective internal control environment is maintained. We are also satisfied that there are appropriate plans in place to address any significant governance issues and will monitor their implementation and operations.

Adam Norburn - Executive Director

Date:

Councillor M Stokes - Leader of Rugby Borough Council

Date:



GLOSSARY OF TERMS

Accruals Basis

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

Appointed Auditors

From 1st April 2015 the appointment of External Auditors to Local Authorities is undertaken by Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. This role was previously undertaken by The Audit Commission. Grant Thornton is the Council's appointed Auditor.

Balances

The balances of the Council represent the accumulated surplus of income over expenditure on any of the Funds.

Capital Expenditure

This is expenditure on the acquisition of a fixed asset, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

Capital Receipts

Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

Carrying Amount

The Balance Sheet value recorded of either an asset or a liability.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

Collection Fund

The Council as a billing authority has a statutory obligation to maintain a separate Collection Fund. This shows the transactions of the Council in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR) and its distribution to local government bodies and the Government.

Community Assets

These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.

Contingent Liabilities or Assets

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's Accounts.



Creditors

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Current Value

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

Debtors

These are sums of money due to the Council that have not been received at the date of the Balance Sheet

Defined Benefit Scheme

This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Department for Communities and Local Government (DCLG)

DCLG is a Central Government department with the overriding responsibility for determining the allocation of general resources to Local Authorities.

Depreciation

This is the measure of the wearing out, consumption, or other reduction in the useful economic life of property plant and equipment assets.

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Earmarked Reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the Accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

Fair Value

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease

A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

Financial Regulations

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

General Fund

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government grants.

Heritage Asset

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Housing Benefit

This is an allowance to persons receiving little or no income to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Council's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

Housing Revenue Account (HRA)

Local Authorities are required to maintain a separate account - the Housing Revenue Account - which sets out the expenditure and income arising from the provision of council housing. Other services are charged to the General Fund.

Impairment

A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

Infrastructure Assets

Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

Intangible Assets

These are assets that do not have physical substance but are identifiable and controlled by the Council. Examples include software, licenses and patent



International Financial Reporting Standard (IFRS)

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Inventories

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

Investment Properties

Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.

Liabilities

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

Materiality

Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

Medium Term Financial Strategy (MTFS)

This is a financial planning document that sets out the future years' financial forecasts for the Council. It considers local and national policy influences and projects their impact on the general fund revenue budget, capital programme and HRA.

Minimum Revenue Provision (MRP)

MRP is the minimum amount which must be charged to a Council's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

Non Domestic Rate (NDR) (also known as Business Rates)

NDR is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines national rate poundage each year which is applicable to all Local Authorities.

Net Book Value (NBV)

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Debt

Net debt is the Council's borrowings less cash and liquid resources.

Net Realisable Value (NRV)

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Operating Lease

This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Prior Period Adjustments

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

Property, Plant and Equipment (PPE)

PPE are tangible assets (i.e. assets that have physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

Provisions

Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs are uncertain.

Related Parties

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

Reporting Standards

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

Reserves

Amounts set aside to help manage future risks, to provide working balances or that are earmarked for specific future expenditure priorities.

Revaluation Reserve

The Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).



Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES.

Section 106 (Developer) Contributions

Planning obligations are legal contracts made under section 106 of the 1990 Town and Country Planning Act. They are generally entered into by agreement between councils and landowners.

Treasury Management

This is the process by which the Council controls its cash flow and its borrowing and lending activities.

Treasury Management Strategy (TMS)

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

Unsupported (Prudential) Borrowing

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

Useful Life

The period over which the Council will derive benefits from the use of a non-current asset.

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	21 September 2017
<i>Report Title</i>	Annual Fraud Report 2016/17
<i>Portfolio</i>	Corporate Resources
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	Head of Corporate Resources and Chief Finance Officer
<i>Contact Officer</i>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because the Committee has specific responsibility to oversee the effectiveness of the Council's counter fraud arrangements.
<i>Statutory/Policy Background</i>	<ol style="list-style-type: none">1. Anti-Fraud, Bribery and Corruption Strategy2. Fraud Response Plan
<i>Summary</i>	<p>The report sets out the work which has been carried out internally during the last year, under the three key principles of:</p> <ol style="list-style-type: none">a) Acknowledging and understanding fraud risks;b) Preventing and detecting fraud; andc) Pursue – being stronger in punishing fraud and recovering losses.
<i>Risk Management Implications</i>	There are no risk management implications arising directly from this report.
<i>Financial Implications</i>	There are no financial implications arising directly from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity</i>	There are no Equality and Diversity implications arising from this report.

Legal Implications

There are no legal implications arising from this report.

Recommendations

That the report be considered and noted.

Reasons for Recommendation

To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee – 21 September 2017

Annual Fraud Report 2016/17

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendation

That the report be considered and noted.

1. Report

- 1.1 The Committee is responsible for oversight of the effectiveness of the Council's counter fraud activity. To assist the Committee in the discharge of these responsibilities an annual report has been produced setting out the work which has been carried out internally during the last year, under the three key principles of:
- a) Acknowledging and understanding fraud risks;
 - b) Preventing and detecting fraud; and
 - c) Pursue – being stronger in punishing fraud and recovering losses.
- 1.2 Significant progress has been made in the last year. Specifically:
- A new Anti-Fraud, Bribery and Corruption Strategy has been approved by the Council;
 - A detailed Fraud, Bribery and Corruption Response Plan has been developed and approved by the Council;
 - Training on the Response Plan has been provided to managers; and
 - A detailed review of operational fraud risks has been completed.
- 1.3 Further work will take place during the remainder of 2017/18 to ensure successful implementation of the Counter Fraud, Bribery and Corruption Strategy. This work will include:
- A review of the level of skilled resources required to deliver effective investigations into internal allegations of fraud or financial misconduct.
 - A programme of targeted fraud, bribery and corruption awareness workshops will be delivered to officers and members.
 - The Corporate Assurance and Improvement Team will continue to monitor the delivery of actions identified during the review of corporate fraud risks completed in 2016/17.
 - The Corporate Assurance and Improvement Team will as part of the agreed programme of internal audit work deliver dedicated reviews involving the identification and testing of anti-fraud controls, in order to assess their effectiveness.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 21 September 2017
Subject Matter: Annual Fraud Report 2016/17
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	21/09/2017	Annual Fraud Report		

RUGBY BOROUGH COUNCIL

ANNUAL FRAUD REPORT

2016/17

Date: 21 September 2017

Annual Fraud Report 2016/17

1. BACKGROUND

- 1.1 In November 2015, responsibility for Housing Benefit fraud investigation transferred to the Department for Work and Pensions (DWP). Other corporate fraud investigation remains the responsibility of the Council.
- 1.2 This report highlights the work which has been carried out internally under the three key principles of:
- Acknowledging and understanding fraud risks;
 - Preventing and detecting fraud; and
 - Pursue – being stronger in punishing fraud and recovering losses

2. ACKNOWLEDGING AND UNDERSTANDING FRAUD RISKS

- 2.1 All public bodies are at risk from fraud in one form or another. Acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputational or another consequence) to enable them to develop an appropriate risk based response.
- 2.2 Key to this is an effective counter fraud culture that reinforces the Council's zero tolerance towards fraud. This culture should enable individuals to identify potential fraud and empower them to report their concerns in a safe and secure manner to the appropriate people at the right time.
- 2.3 During 2016/17, work completed to acknowledge and understand fraud risk included:
- Development of a new Counter Fraud, Bribery and Corruption Strategy which was endorsed by the Audit and Ethics Committee and approved in September 2016. The previous strategy, which was developed in 2007, was focused primarily on how the Council tackled benefit fraud, whilst the new strategy sets out the Council's approach to managing the risk of fraud, bribery and corruption at the corporate level.
 - Development and monitoring of an action plan to ensure that the necessary steps are being taken to implement the new Strategy. The

action plan was reported to and considered by the Audit and Ethics Committee in February 2017.

- Completion of a detailed review of the Council's fraud risks during the summer of 2016. This involved working with service managers to identify and assess their fraud risks, identify and document the key controls in place to mitigate those risks, and where necessary to document the action required to address any gaps in controls. Departmental operational risk registers were updated to reflect the risk assessments carried out, and delivery of the actions identified is being monitored by the Corporate Assurance and Improvement Team. The results of the review were reported to the Audit and Ethics Committee and the Strategic Risk Management Group in September 2016.

3. PREVENTING AND DETECTING FRAUD

- 3.1 Although the detection and recovery of fraudulently obtained finance and assets is important, it is also costly and there is no guarantee that lost monies will be recovered. Therefore it is imperative that the Council takes all reasonable steps to prevent fraud from entering its systems in the first place.
- 3.2 The protection of assets is one of the five key items of an effective control environment, and thus plays a critical role in the work of internal audit. When determining the annual audit plan, as well as scoping the work programmes for individual assignments, the Corporate Assurance and Improvement Team considers those areas at risk of fraud. Internal Audit testing is designed to ensure that sufficient coverage is given to the identification and testing of anti-fraud controls within the areas being reviewed, in order to assess their effectiveness and where appropriate recommend improvements.
- 3.3 A Fraud Response Plan was developed, which reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud, bribery or corruption. It also outlines how the Council will deal with such allegations. The Fraud Response Plan was endorsed by the Audit and Ethics Committee and approved in April 2017. Training on the Fraud Response Plan was provided to the Corporate Management Forum in April 2017.
- 3.4 During 2016/17 work to prevent and detect fraud included the following:

2014-16 NFI Outcomes

- The Council participates in the National Fraud Initiative (NFI). The NFI is a Cabinet Office initiative matching data from a number of public and private organisations to identify potential fraud. The Council has taken the following action in relation to the 2014-16 exercise:

234	Number of matches reviewed
0	Number of frauds identified
3	Number of errors identified
£615.73	Amount of Housing Benefit overpayments identified
£1,906.67	Amount of supplier overpayments identified

- The Housing Benefit overpayments were caused by a customer error. The customer's tax code had changed which resulted in an increase in net income. The overpayment was fully recovered.
- There were two overpayments to suppliers identified. These cases were identified by comparing invoice numbers and amounts paid with different creditor reference numbers, invoice numbers and dates. The overpayments were made in error and have been recovered in full.

Internal Investigations 2016/17

- There were three internal allegations reported during 2016/17. Investigations have been conducted by the Corporate Assurance and Improvement Manager in partnership with Human Resources and the relevant service areas where appropriate.

3	Number of allegations of fraud/ financial misconduct reported
3	Number of investigations completed
2	Number of resignations/ dismissals arising from investigations
1	Number of cases where other action was taken (including management advice and/ or warnings)
0	Number of cases where no issue was identified

4. PURSUE: BEING STRONGER IN PUNISHING FRAUD AND RECOVERING LOSSES

4.1 Where fraud is discovered the full range of sanctions will be used by the Council including civil, disciplinary and criminal action.

4.2 During 2016/17 action has included:

- Internal investigations resulting in the resignation of two officers.
- As a matter of routine, all overpaid monies are considered for recovery where appropriate. Increases in Council Tax liability due to the removal of single person discounts are pursued through increases to the individual Council Tax bill and collected as part of normal Council Tax collection processes.

5. FUTURE DEVELOPMENTS AND ACTION PLAN

5.1 Further work will take place during 2017/18 to ensure successful implementation of the Counter Fraud, Bribery and Corruption Strategy. Specifically:

- There will be a full corporate review of the skilled resources required to deliver effective investigations into internal allegations of fraud or financial misconduct. At the time of writing this report, the preliminary assessment had been completed. Whilst the Council at present has only 1 accredited fraud investigator, an additional 6 officers have expressed an interest in receiving further training which would equip them to support investigations in the future. This would increase resilience in this area whilst providing support to the accredited investigator.
- A programme of targeted fraud, bribery and corruption awareness workshops will be delivered to officers and members.
- The Corporate Assurance and Improvement Team will continue to monitor the delivery of actions identified during the review of corporate fraud risks completed in 2016/17.
- As part of the agreed annual plan of Internal Audit work, the Corporate Assurance and Improvement Team will deliver dedicated reviews involving the identification and testing of anti-fraud controls, in order to assess their effectiveness and where appropriate recommend improvements. The areas selected for review in 2017/18 are:

- Local Taxes (arrangements to prevent and detect Council Tax and NDR fraud); and
- Corporate Credit Cards.

	Action	Lead officer	Target completion date
1	Deliver training to enable additional officers to support delivery of internal fraud investigations.	Corporate Assurance and Improvement Manager	December 2017
2	Deliver annual programme of targeted fraud, bribery and corruption awareness workshops to officers and members.	Corporate Assurance and Improvement Manager	March 2018
3	Monitor delivery of the actions arising from the corporate fraud risk reviews.	Corporate Assurance and Improvement Manager	March 2018 (ongoing)
4	Deliver the Internal Audit counter fraud reviews of Local Taxes and Corporate Credit Cards.	Corporate Assurance and Improvement Manager	December 2017

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	21 September 2017
<i>Report Title</i>	2017/18 Internal Audit Plan – Progress Update
<i>Portfolio</i>	Corporate Resources
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	Head of Corporate Resources and Chief Finance Officer
<i>Contact Officer</i>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because the Committee has specific responsibility to review the work of the internal audit function and the framework of policies and standards within which it operates.
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards (PSIAS)
<i>Summary</i>	The report sets out progress against delivery of the Internal Audit Plan for 2017/18.
<i>Risk Management Implications</i>	There are no risk management implications arising directly from this report.
<i>Financial Implications</i>	There are no financial implications arising directly from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity</i>	There are no Equality and Diversity implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report.
<i>Recommendations</i>	<ol style="list-style-type: none">1. That the report be considered and noted.2. That the decision to carry out a cyber-security review be approved.

Reasons for Recommendation To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee – 21 September 2017

2017/18 Internal Audit Plan – Progress Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendation

1. That the report be considered and noted.
2. That the decision to carry out a cyber-security review be approved.

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2017/18.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded;
- Reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

- 2.1 The Internal Audit plan for 2017/18 was approved by the Audit and Ethics Committee on 4 April 2017. Progress against delivery of that plan is set out at Appendix A.
- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit for 2016/17 and the current financial year.

3. Revisions to the 2017/18 Audit Plan

- 3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. The Corporate Assurance and Improvement Manager will therefore hold meetings with each member of the Senior Management Team during October 2017 to review the audit plan for the current year in the context of any

emerging risks and issues. This process may result in changes to the audit plan, which will then be submitted for formal review and approval at the next Committee meeting in November 2017.

- 3.2 Since the audit plan was approved there have been a number of cyber-attacks, both nationally and internationally. Given the prominence of this issue it was deemed appropriate to meet with the Head of Communities and Homes and the Corporate ICT Manager to discuss the level of risk to the Council and the benefits of an internal audit review. It was confirmed that the Council's IT network has been independently accredited as having satisfactory defences against cyber-attack. Given that all officers and members have a role to play in reducing the risk of a successful cyber-attack, it was agreed that an internal audit review was necessary to establish the level of staff awareness of cyber risks and to assess the level of understanding of the working practices which should be followed to minimise the risk of a successful attack. This review is being conducted by the Council's ICT auditors, TIAA, within the existing agreed budget for the year. There is no additional resourcing or cost associated with this work. Members are asked to approve the decision to undertake this additional work.

4. Delivery of Internal Audit Quality Assurance and Improvement Plan

- 4.1 Progress on delivery of the quality assurance and improvement plan is set out at Appendix B. The plan will be updated to reflect the results of the external quality assessment, and will be resubmitted to the Committee for consideration and approval at the next meeting in November 2017.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 21 September 2017
Subject Matter: 2017/18 Internal Audit Plan – Progress Update
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	21/09/2017	Internal Audit Progress Update		
Appendix B	21/09/2017	Internal Audit Quality Assurance and Improvement Plan Update		



**INTERNAL AUDIT PROGRESS UPDATE
SEPTEMBER 2017**

Date: 21 September 2017

Introduction

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 2 assignments have been completed;
- 2 assignments are at draft report stage; and
- 6 assignments are in progress.

Progress on delivery of the internal audit plan is slightly behind due to the delay in successfully recruiting to the vacant Corporate Assurance Officer position. An appointment has now been made and the new officer is expected to be in post before the date of this Committee meeting. Savings achieved by not appointing to the vacant position earlier in the year have been used to commission TIAA to deliver 2 audit assignments. These assignments are in progress. The resources required to deliver the remainder of the audit plan were reviewed in detail on 29th August 2017. There are sufficient resources in place to deliver the audit plan and to achieve the internal target of issuing 90% of reports in draft by 31st March 2018.

Progress on individual assignments is shown at pages 5 to 7 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, 77% of management actions have been implemented by the agreed implementation date. A summary analysis of progress on implementation of audit recommendations is shown at page 8. At the time of

reporting there are 10 agreed management actions for which implementation is overdue. The details of these actions, along with a summary of the latest position, are set out at pages 9 to 11 of this report. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee in May 2016:

<u>Theme</u>	<u>Title of Performance Indicator</u>	<u>Current Performance</u>
Delivery	Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017	Annual measure
Adding Value	Customer Satisfaction – Average Rating	Insufficient data available
Timeliness	Timeliness of Reporting – Percentage of draft reports issued within 10 working days of assignment fieldwork completion	100% - all four reports were issued within 10 working days of fieldwork completion.
Effectiveness	Implementation of Agreed Actions – Percentage either fully or partially implemented on time	77% - at the time of reporting there are 10 recommendations which are past their agreed implementation date. Refer to pages 9 to 11

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

Assignment	Budget	Time Spent	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks										
Creditors	20		✓							Planned for Q4
Green Waste	12		✓							Start planned by 30/09/17
Counter Fraud										
Fraud Awareness	8	2		✓						A range of training sessions to be delivered by 31/03/18
Council Tax and NDR Fraud	12		✓							Start planned by 30/09/17
Corporate Credit Card	10	7					✓			
ICT										
Disaster Recovery and Backup	6	To be delivered within planned annual budget			✓					Being delivered by TIAA
CCTV – Compliance with Code of Operations	10				✓					Being delivered by TIAA
Cyber Security	8			✓						Being delivered by TIAA
Corporate Risks										
Health and Safety Follow Up	15		✓							Planned for Q4
Change Management - Digitalisation	15		✓							
Agency Staff	15		✓							Planned for Q4
Partnership Governance	15	2			✓					Being delivered by TIAA
Values and Behaviours	15		✓							Planned for Q4
Risk Management	10		✓							Planned for Q3

Assignment	Budget	Time Spent	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Operational Risks										
Tenant Recharges	12		✓							Planned for Q4
Housing Repairs	20		✓							Planned for Q3
Benn Hall and the Tool Shed Cafe	20		✓							Planned for Q3
Housing Repairs Stock Control	15		✓							Planned for Q3
RAGM Income	12	3			✓					
Play Service and On Track	20	20					✓			
Residential – Landlord Health and Safety Responsibilities	15		✓							Planned for Q3
Car Parking Advisory Review	10		✓							Planned for Q4
Fleet Management	20	2			✓					Being delivered by TIAA
Additional Support										
Annual Governance Statement	15	9						✓	Substantial	Statement endorsed by Audit and Ethics Committee in June 2017
National Fraud Initiative	8	2			✓					Officers are reviewing and investigating “matches” where appropriate. This work is continuing during 2017/18
Corporate Investigation Work	35	13						✓		One corporate investigation has been completed with a report issued.

Summary: Implementation of Audit Recommendations Made in 2016/17

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected Medium or High Risk Actions
Stocks and Stationary	3	3	0	0	0	0
ICT Service Desk	4	0	0	4	0	0
Corporate Health and Safety	15	10	0	0	5	0
Financial System Key Controls	10	1	0	9	0	0
Fees and Charges	8	5	0	3	0	0
ICT Infrastructure Resilience	5	0	0	0	5	0
Payment Card Industry Data Security Standards	7	1	0	6	0	0
Business Continuity and Emergency Planning	8	3	0	5	0	0
Annual Governance Statement	12	0	0	12	0	0
Benn Hall Investigation	8	7	0	1	0	0
Discretionary and Consultant Expenditure	7	0	0	7	0	0
ICT Systems Administration	7	6	1	0	0	0
Due for Completion	47	36 (77%)	1 (2%)	-	10 (21%)	0
Totals	94	36	1	47	10	0

Details of Overdue Audit Recommendations

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
Health and Safety	<p>Review the level of Health and Safety Advisor support across the Council.</p> <p>Ensure that there is appropriate advisory support in place so that high risk operational activities are undertaken safely.</p>	31/03/2017	Action in progress. The Senior Management Team has reviewed resources and a report has been submitted to Cabinet requesting approval for additional resources. Cabinet approved the structure of a new Corporate Safety and Resilience team on 4 th September and appointments will now be made to the team.	31/12/2017
Health and Safety	<p>Ensure that all temporary and agency staff receive appropriate induction training covering safe working practices, including DSE assessments where applicable.</p>	31/03/2017	The original agency worker checklist has been reviewed and the procedure updated. A health and safety video will be developed which must be watched by all such staff before they commence work with the Council. The staff will be required to confirm that they have watched and understood the contents of the video. The Council's agency worker supplier will administer this on behalf of the Council.	31/12/2017
Health and Safety	<p>Consider requiring staff to attend health and safety refresher training on a programmed, targeted basis</p>	30/06/2017	Timing is linked to appointing the new Corporate Safety and Resilience team. A key element of the Senior Health and Safety Officer role will be staff training.	31/12/2017
Health and Safety	<p>Publish the list and authors of risk assessments on the Extranet, and ensure that significant risks are communicated to the relevant staff and stakeholders.</p>	31/03/2017	A programme of work for risk assessments has been planned for implementation once additional Safety Team resources are in place.	31/12/2017

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
	<p>Ensure that risk assessments are periodically reviewed and updated, with any further training needs highlighted and communicated.</p> <p>Ensure that accident reports include a statement to demonstrate exactly how the risk assessment has changed as a result.</p> <p>Undertake periodic management monitoring checks to provide assurance that health and safety risk assessments have been completed and/or updated for all areas of significant risk.</p>			
Health and Safety	<p>Ensure ITrent (the HR system) contains all the information required to trigger DSE review assessments at the appropriate time.</p> <p>Remind managers to ensure that DSE assessments are completed for staff at the correct intervals, and to update ITrent to reflect the completed assessments.</p>	31/03/2017	TBC by HR Manager	TBC by HR Manager
ICT Infrastructure Resilience	A countersigned copy of the Project Initiation Document (PID) should be obtained from the implementation partner (HSO).	30/06/2017	<p><u>Background and Context</u></p> <p>A project has been initiated to make the technical infrastructure fit for business continuity planning purposes and to make the recovery time negligible. Resilience constraints in the current network</p>	31/10/2017
ICT Infrastructure Resilience	The Council's access arrangements to the managed firewall should be tested. The outbound ruleset should be	30/06/2017		

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
	compared to the previous approved ruleset on a quarterly basis.		infrastructure provide a single point of failure as all Internet traffic is being routed through the Town Hall. The Council's current backup solution is traditional disk to offsite replication; the new infrastructure will include a hot backup to virtual servers being located at the Crematorium and critical services replication to Azure servers "in the Cloud". Since the audit review was completed the project has had to be extended due to the planned in-housing of CCTV at the Control Centre. The actions are now expected to be implemented by 31/10/2017. The delay in implementation does not substantially increase the level of risk.	
ICT Infrastructure Resilience	The Security and Compliance Lead Officer to discuss patching with the HSO project lead and obtain a documented response.	30/06/2017		
ICT Infrastructure Resilience	The Security and Compliance Lead Officer should document the differential backup process to define an interval between the differential base backups.	30/06/2017		
ICT Infrastructure Resilience	IT should ensure that the provisions of Schedule 8 to the call off terms are complete in the signed contract and considered satisfactory.	30/06/2017		

APPENDIX B - INTERNAL AUDIT SERVICE QUALITY ASSURANCE AND IMPROVEMENT PLAN UPDATE

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Issue</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Evidence of Delivery</u>
1	1000	The internal audit charter must describe the safeguards in place to limit impairments of independence or objectivity if internal audit or the Chief Audit Executive (CAE) undertakes non-audit activities.	Review and update the internal audit charter to reflect the additional requirements of the PSIAS. Submit the updated charter for approval by the Audit and Ethics Committee.	30/11/2017	LOW	To be evidenced by Committee report and minutes. Not yet completed, will be submitted to the next Committee meeting in November.
2	2050	Reliance is currently placed upon IT audit work carried out by TIAA. In 2016/17 the company was also commissioned to undertake four “non IT” audits. TIAA are a well-established organisation providing a range of assurance activities across the country. The services are provided under a framework agreement which is in place until April 2018. There is an annual meeting of all parties to the framework at which the competency and due professional care of TIAA is considered. In the opinion of the Corporate Assurance and Improvement Manager (CAIM) there was no evidence to indicate that TIAA	Obtain confirmation of the TIAA quality assurance arrangements. Review the arrangements and conclude on whether reliance can be placed on those arrangements.	31/08/2017	HIGH	Review of documents submitted by TIAA. Evidence requested but not received at the time of reporting. The contract for delivery of IT audit work is currently being retendered and amended quality assurance requirements have been incorporated within the service specification.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Issue</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Evidence of Delivery</u>
		were not objective in carrying out their work during 2016/17. The CAIM is, however, seeking evidenced confirmation of TIAA's quality assurance arrangements.				
3	1220 and 2210	<p>Audit staff exercise due professional care when undertaking assignments. All assurance assignments incorporate a risk based evaluation of both the design and effectiveness of control processes. Where applicable assignments include consideration of the risk of fraud, failure to effectively manage performance, and failure to demonstrate value for money. Such considerations are not, however, consistently set out within the documented Terms of Reference (TOR) for assignments.</p> <p>Assignments are risk based and the risks are documented in the TOR. Assignment objectives reflect the risks identified. The preliminary risk scores are not, however, presently documented on the TOR.</p>	<p>Update the Terms of Reference template to include:</p> <ul style="list-style-type: none"> • Specific reference to the consideration of fraud, performance management, efficiency and value for money risks – documenting specifically the assurance work that will be carried out in these areas for each audit assignment. • An assessment of the likelihood and impact of each risk occurring, for those risks identified during the planning for each audit assignment. 	31/08/2017	HIGH	<p>Updated Terms of Reference document.</p> <p>Feedback from stakeholders on the effectiveness of the improvements.</p> <p>Action completed – Terms of Reference document updated although as yet there is no feedback from stakeholders.</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Issue</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Evidence of Delivery</u>
4	2230	Audit TORs state the number of days allocated to each assignment; this is aligned with a consideration of assignment scope, nature and complexity. There is scope to improve the evaluation of the resources utilised on each audit assignment through a formal debrief, and to provide more detailed reporting to the Committee on the resources utilised.	<p>Complete a formal debrief for each audit assignment, evaluating the effectiveness and efficiency of the resources used.</p> <p>Expand the internal audit progress report to Committee, to include information on time spent on assignments.</p>	30/09/2017	MEDIUM	<p>Completed debrief forms.</p> <p>Updated development plans where appropriate.</p> <p>Reporting to and feedback from Audit and Ethics Committee.</p> <p>Action in progress. The progress report content has been updated. Formal debriefs will be completed for the current tranche of audits and the process will be embedded thereafter.</p>